

Financial Performance Analysis at Microfinance Institutions: Case Study at Regional Business Entities Bogor Regency

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Abstract

Regionally Business Entities (BUMD) are business entities whose capital is wholly or largely owned by the regional government, consisting of regional public companies and regional limited liability companies. Bogor Regency has several Regional Business Entities (BUMD) operating in various sectors, both strategic sectors that require regulation by the government, as well as commercial sectors that are not specifically regulated. Microfinance Institutions (LKM) are financial institutions established to provide business development and community empowerment services, either through loans or financing in micro-scale businesses to members and the community. PT Microfinance Institution (PT LKM) Bogor is a company originating from the Bogor District Credit Union (PD. PK), in accordance with applicable regulations and its legal form it has become PT LKM Bogor. PT LKM Bogor is located at Jalan KSR Dadi Kusmayadi No. 6B Ruko Citra Nusa, Kel. Tengah, Kec. Cibinong, Bogor Regency. The aim of this research is knowing the development of PT LKM's performance and the problems it is facing. The method for evaluating the performance of BUMD PT LKM Bogor was carried out based on the assessment of the health aspects of DIR Decree Number 30/SK/KEP/DIR dated 30 April 1997 concerning Procedures for Assessing the Health Level of Rural Banks and was guided by the Decree of the Minister of Finance of the Republic of Indonesia No. 826/KMK.013/1992. The aspects assessed in determining the level of company health include capital aspects, productive asset quality aspects, management aspects, profitability aspects and liquidity aspects. Based on the results and discussion above, the conclusions of this research are as follows: PT LKM's performance from 2018-2022 shows UNHEALTHY conditions. One of the reasons why PT LKM's health value is so small is because the quality of its productive assets, which have the greatest weight in determining the company's health level, has very little value.

Keywords: financial; performance; regionally; business; entities;lkm

1. Introduction

Bogor Regency has several Regional Business Entities (BUMD) operating in various sectors, both strategic sectors that require regulation by the government, as well as commercial sectors that are not specifically regulated. For strategic sectors, Bogor Regency has the Regional Drinking Water Company (PDAM) Tirta Kahuripan which functions to manage and serve the drinking water needs of the community in the Bogor regency area, PT Bank Pembayaran Rakyat Syariah Bogor Tegar Beriman (PT BPRS BTB) which operates in the field of community financing services using the Sharia system, and the Tohaga Market Regional Company (PD Pasar Tohaga) which operates in the field of market management in the Bogor Regency area.

For the commercial sector, Bogor Regency has PT Prayoga Percepatan dan Energi (PPE) which operates in the mining and energy sector, PT Sayaga Wisata which functions to develop tourism

business potential in the Bogor Regency area, and the Ciampea District Credit Institution (LPK Ciampea). Bogor Regency has full control and control of all BUMDs. Apart from that, Bogor Regency also has partial ownership in several business entities, both in the form of a majority, namely in PT Bogor Microfinance Institution (LKM Bogor), PD BPR LPK Parung Panjang, PD BPR LPK Leuwiliang, PD BPR LPK Sawangan, as well as those in the form of minority, namely PT West Java and Banten Regional Development Bank (PT BJB).

In order to determine the development of BUMDs, the Bogor Regency Government conducted an evaluation to facilitate problem solving efforts for each BUMD. This BUMD Evaluation activity was carried out based on Government Regulation of the Republic of Indonesia Number 54 of 2017 and Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 118 of 2018 concerning Business Plans, Work Plans and Budgets, Cooperation, Reporting and Evaluation of Regional Owned Enterprises. BUMD evaluation is carried out by comparing targets and realization. BUMD evaluations carried out at least include: performance assessment, health level assessment, and service assessment. PT Microfinance Institution (PT LKM) Bogor is a company originating from the Bogor District Credit Union (PD. PK), in accordance with applicable regulations and its legal form it has become PT LKM Bogor. PT LKM Bogor is located at Jalan KSR Dadi Kusmayadi No. 6B Ruko Citra Nusa, Kel. Tengah, Kec. Cibinong, Bogor Regency. PT LKM Bogor is the result of the consolidation or merger of several District Credit Companies (PD.PK) in the Bogor Regency area. It is hoped that the evaluation of BUMD PT LKM will be a means of knowing the development of PT LKM's performance and the problems it is facing. Thus, it is hoped that the results of this performance evaluation can be used as material for leadership decision making in an effort to improve the quality of the company, so that PT LKM can achieve the main objective of its establishment, namely as one of the contributors to Bogor Regency's PAD, to encourage the economic growth rate of Bogor Regency, and to increase welfare of the surrounding community. Thus, the general objective of this evaluation activity is to analyze the performance of BUMD PT LKM and provide considerations and recommendations to the Bogor Regency Government in order to improve the performance of PT LKM.

2. Literature Review

Regional Business Entities (BUMD). Regionally Business Entities (BUMD) are business entities whose capital is wholly or largely owned by the regional government, consisting of regional public companies and regional limited liability companies. The aim of establishing BUMD is to carry out regional development through services to the community, providing public benefits and increasing regional income. Some of the functions and roles of BUMDs in increasing regional income include: implementing regional government policies in the economic and development sectors, generating funds for development financing, encouraging community participation in the business sector, and providing goods and services for the benefit of the community.

Microfinance Institutions (LKM). Microfinance Institutions (LKM) are financial institutions established to provide business development and community empowerment services, either

through loans or financing in micro-scale businesses to members and the community. Apart from that, LKM also manages savings and provides business development consulting services to help increase economic empowerment and community productivity. This effort is made so that LKM can help increase the income and welfare of the community, especially poor or low-income communities. There are a number of LKM in Indonesia spread throughout Indonesia. However, only a small number of LKM have registered and obtained permits from the OJK, namely 277 LKM. The registered LKM show quite good performance in terms of several indicators, namely assets, number of customers, number of loans and number of savings. Judging from the form of legal entity, LKM with the legal entity form of PT have better performance with average assets, average loan amounts and average savings amounts greater than Cooperative LKM. Meanwhile, Cooperative LKM had better growth seen from these indicators during the 2016-2020 observation period. The existence of LKM is a bridge to reduce the gap in banking financial services because LKM provide services to low-income communities and micro-entrepreneurs. To provide a legal basis for the existence and activities of LKM, Law Number 1 of 2013 concerning Microfinance Institutions has been promulgated. Law Number 1 of 2013 contains, among other things, the definition, principles and objectives of LKM, and is equipped with more technical regulations such as establishment, ownership and licensing, business activities and territorial coverage, merger, consolidation and dissolution, protection of service users LKM, as well as coaching, regulation and supervision. By having a clear legal basis, it is hoped that MFI players can be calmer and more flexible in developing their business, easier to collaborate with other parties such as banks, and easier to attract investors. However, in its implementation, LKM are faced with challenges that are not easy, such as issues of licensing, ownership, supervision, financial health assessment, and others. These things are felt to influence the performance of LKM in providing benefits to society.

3. Research Method

The method for evaluating the performance of BUMD PT LKM Bogor was carried out based on the assessment of the health aspects of DIR Decree Number 30/SK/KEP/DIR dated 30 April 1997 concerning Procedures for Assessing the Health Level of Rural Banks and was guided by the Decree of the Minister of Finance of the Republic of Indonesia No. 826/KMK.013/1992. The aspects assessed in determining the level of company health include capital aspects, productive asset quality aspects, management aspects, profitability aspects and liquidity aspects.

Table 1. Aspects assessed and their weights

Aspects of Performance Assessment	Performance Indicator	Assessment Weight (%)
Capital	Risk-weighted capital to assets ratio	20
Quality of Productive Assets	a. The ratio of classified productive assets to productive assets b. The ratio of the provision for possible losses on productive assets to the	30

	provision/write-off on productive assets that must be established	
Management	a. General Management b. Risk Management	30
Rentability	a. Ratio of profit to total assets b. The ratio of operating costs to operating income	10
Liquidity	a. The ratio of liquid assets to current debt b. Ratio of credit to funds received	10

All these aspects are added up to get the performance value of the company PT LKM Bogor. The results of the sum of the performance scores that have been obtained are then compared with the assessment standards made by Bank Indonesia. From these assessment standards, the predicate of the performance condition of the PT LKM Bogor company will be known.

Table 2. Classification of Performance Levels

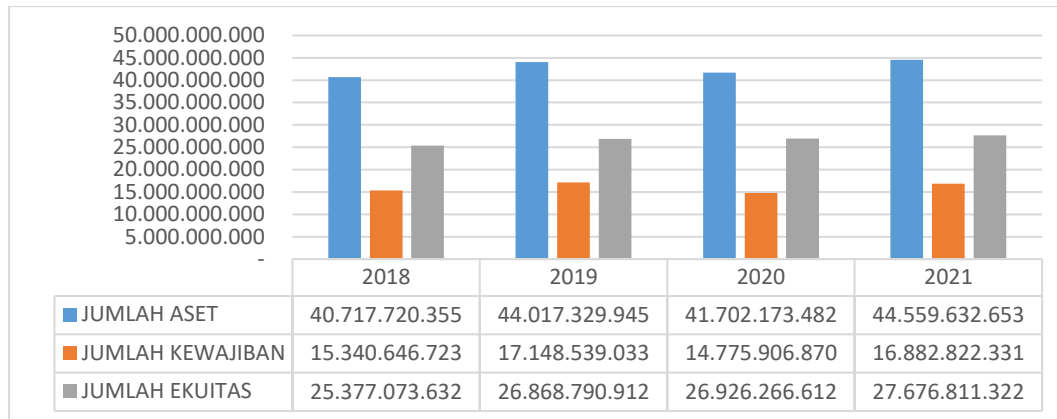
No.	Predicate	Score
1	Healthy	81-100
2	Quite Healthy	66 < 81
3	Unwell Healthy	51 < 66
4	Unhealthy	0-51

Sources: SK DIR. BI Nomor 30/12/KEP/DIR tanggal 30 April 1997

4. Finding and Discussion

To evaluate the performance and describe the financial condition of PT LKM Bogor, a financial report consisting of a Balance Sheet and Profit and Loss Report for the last five years (from 2018-2022) is required. Chart 1 and 2 present the Balance Sheet and Profit and Loss Report of PT LKM Bogor from 2018-2022. In general, the development of assets and liabilities fluctuates. Total assets and liabilities decreased in 2020 due to the impact of the Covid-19 pandemic, but then increased again in 2021. In contrast to total assets and liabilities, PT LKM's total equity tends to always increase every year, regardless of the Covid-19 pandemic happened in 2020.

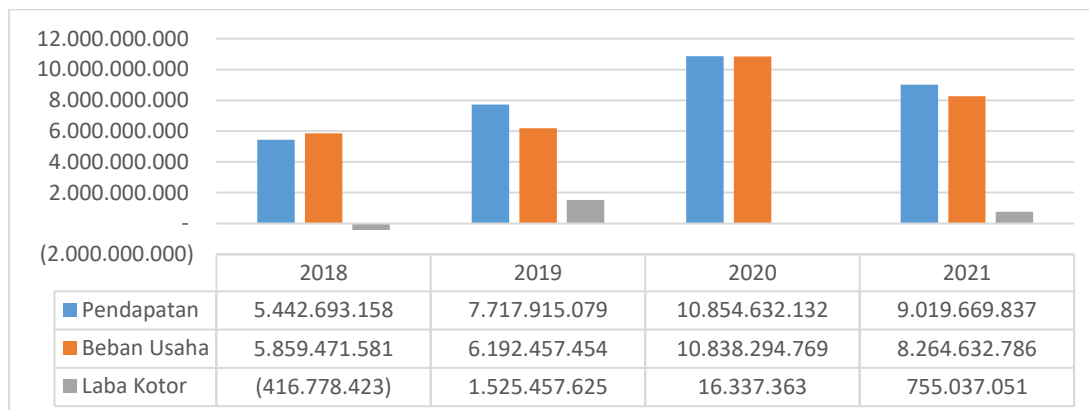
Chart 1. Development of Total Assets, Liabilities and Equity



Sources : PT. LKM Bogor (2023)

Furthermore, the profit movement of BUMD PT LKM Bogor has an increasing graphic trend. Even though it experienced a loss of 416,778 million in 2018, PT LKM slowly started to return to profit in 2019. This was due to a significant increase in revenue.

Chart 2. Data of Revenue, Operating Expenses and Gross Profit



Efficiency Analysis. Indicators measuring efficiency can be seen from BOPO. BOPO is a comparison between operational costs and operational income. The more efficient a company's operational performance, the greater the profits obtained. In this case, even though operating expenses are not higher than the company's total net income, the BOPO ratio is close to 100%, which means that the company's efficiency performance is still low. In fact, in 2018, the BOPO ratio exceeded 100%, which means that the business expenses borne were greater than the income received.

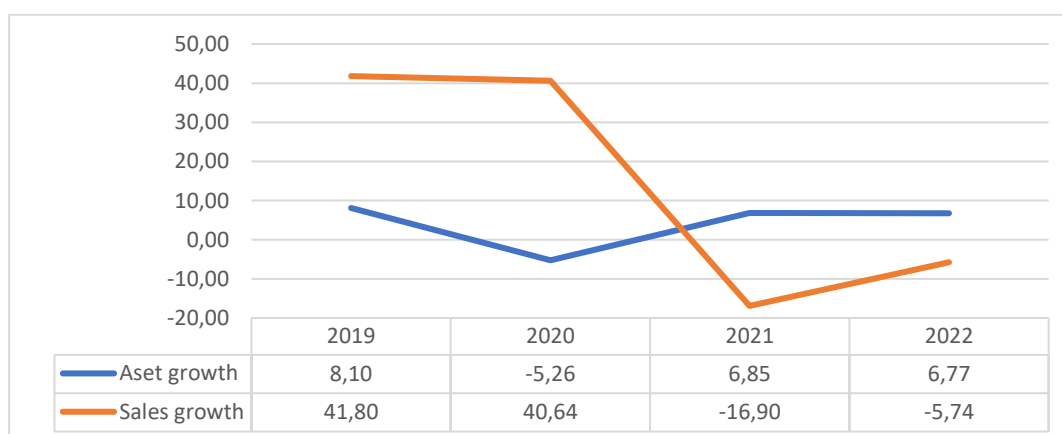
Table 3. BOPO Ratio Analysis

ASPEK	2022	2021	2020	2019	2018
Beban Usaha	7,894,633,380	8,264,632,786	10,838,294,769	6,192,457,454	5,859,471,581
Pendapatan dari penjualan	8,501,557,378	9,019,669,837	10,854,632,132	7,717,915,079	5,442,693,158
Rasio BOPO	92.86	91.63	99.85	80.23	107.66
Nilai kesehatan BOPO 5%	4.64	4.58	4.99	4.01	5.38

Sources : PT LKM Bogor (2023)

Growth Analysis. The graph below shows asset growth and sales growth. From the graph, it can be seen that asset growth has decreased except in 2021. In fact, the decline that occurred in 2020 touched a negative number. This could be a result of the Covid-19 pandemic that occurred that year. Sales tend to have a downward trend, with a drastic decline occurring in 2021 of -16.90%. From the two analyzes above, it can be concluded that PT LKM has a poor BOPO ratio and growth rate.

Chart 3. Growth Analysis



Sources : PT. LKM Bogor (2023)

Data analysis. After doing calculations and weighting. All credit scores from each factor are added up and assessed based on the company's health predicate. The performance assessment results of PT LKM Bogor can be seen in table 9. In general, PT LKM's performance from 2018-2022 shows an UNHEALTHY condition. One of the reasons why PT LKM's health value is so small is because the quality of its productive assets, which has the greatest weight in determining the company's health level, has very little value. Thus, there is a need to improve the quality of PT LKM's productive assets.

Table 3. Performance evaluation results/health level of PT LKM Bogor

Aspects of Performance Assessment	Score	Predicate
<u>2018</u>		
Capital	18.70	Unhealthy
Quality of Productive Assets	2.08	
Management	0.20	
Rentability	5.32	
Liquidity	16.30	
Score	40	
<u>2019</u>		
Capital	18.31	Unhealthy
Quality of Productive Assets	1.52	
Management	0.20	
Rentability	4.19	
Liquidity	17.14	
Score	42	
<u>2020</u>		
Capital	19.37	Unhealthy
Quality of Productive Assets	1.67	
Management	0.20	
Rentability	5.00	
Liquidity	18.18	
Score	44	
<u>2021</u>		
Capital	18.63	Unhealthy
Quality of Productive Assets	1.54	
Management	0.20	
Rentability	4.67	
Liquidity	17.04	
Score	41	
<u>2022</u>		
Capital	17.99	Unhealthy
Quality of Productive Assets	0.77	
Management	0.20	
Rentability	4.73	
Liquidity	16.08	
Score	43	

Sources : Data processed by the author (2023)

5. Conclusion

Based on the results and discussion above, the conclusions of this research are as follows: (1) The development of PT LKM's assets and liabilities has fluctuated. Total assets and liabilities decreased in 2020 due to the impact of the Covid-19 pandemic, but then increased again in 2021; (2) PT LKM's total equity tends to increase every year, regardless of the Covid-19 pandemic that occurred in 2020; (3) PT LKM Bogor's profits have an increasing graphic trend.

Even though it experienced a loss of 416,778 million in 2018, PT LKM slowly started to return to profit in 2019. This was due to a significant increase in revenue; (4) PT LKM's performance from 2018-2022 shows UNHEALTHY conditions. One of the reasons why PT LKM's health value is so small is because the quality of its productive assets, which have the greatest weight in determining the company's health level, has very little value; (5) Provision for credit losses/bad credit decreases every year and is accompanied by an increase in assets, this is due to the write-off of reserves for receivables which are quite large each year; (6) Management control over collectability is very low as evidenced by the very high number of bad loans every year; (7) Indicators measuring efficiency can be seen from BOPO (Operating Costs per Operating Income). BOPO is a comparison between operational costs and operational income. The more efficient a company's operational performance, the greater the profits obtained. In this case, even though operating expenses are not higher than the company's total net income, the BOPO ratio is close to 100%, which means that the company's efficiency performance is still low.

The suggestions that can be given to PT LKM based on the findings from the performance evaluation analysis are as follows: (1) There needs to be improvement in the quality of productive assets of PT LKM Bogor; (2) Management must reduce reserves for writing off receivables and increase receipts from bad debts; (3) Management must supervise assets through the preparation and implementation of established procedures; (4) Management must increase efficiency by increasing revenue and reducing operational costs so that the BOPO ratio becomes good; (5) PT LKM Bogor must immediately improve its finances by increasing income; (6) PT LKM Bogor must increase the number of customers other than State Civil Apparatus (ASN); (7) Using APBD funds previously allocated to other posts to increase the number of service coverage in the community; (8) Increase the fulfillment of basic capital to avoid financial difficulties so that we can continue to compete with other financial institutions; (9) Develop a digital/online service information system to improve service to customers.

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