

The Determinants of Profitability in Village Credit Institution

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ABSTRACT

This study aimed to determine the effect of the growth of saving deposit, time deposit, and credit on profitability in village credit institution. 15 village credit institutions were taken as samples, and later tested statistically by using the multiple linear regression analysis. The results suggested that the growth of saving deposit and credit had no effect on profitability, while the growth of time deposit had positive effect on profitability. This study is expected to add insight into profitability, especially regarding the determinants of profitability.

Keywords: credit, saving deposit, time deposit, profitability, village credit institution

INTRODUCTION

The regional regulation of Bali Province Number 8 of 2002 stated that the purpose of village credit institution, known as Lembaga Prekreditasi Desa (LPD), establishment in each traditional village, known as desa adat, in Bali is to support the village economic development through the enhancement of saving habits of people in traditional village and to provide credits for small scaled businesses. The existence of village credit institution is expected to eliminate the forms of exploitation in credit relations, to create equal opportunities for business activities at village level, and to increase the level of monetization in rural areas. Thus, the village credit institution takes an important role in economic development. The business activity that is run by the village credit institution is quite similar to another financial institutions, those are accepting deposit from people in the village in the form of saving deposit and time deposit, and making loan in the form of credit to generate profit. The level of health of the village credit institution could be seen from the amount of profit that is generated by the institution itself within a certain period. The higher gain means the better, because the prosperity of the owner of the company with increasing profitability (Niar, 2019). The higher the ability to generate profit, shown that the village credit institution has got a level of success or in a good health, and it indicates that the institution would be able to survive in all economic needs. To achieve this consideration, the village credit institution is required to be able to manage and maintain the growth of all productive assets and third-party funds, in this case the growth of saving deposit, time deposit and credit.

According to Kasmir (2014), profitability is the company's ability to generate profits for a certain period. The profitability of the village credit institution is important. If the village credit institution could increase its profitability, it would affect the external and internal environment of the institution itself. The profitability ratios are commonly used in measuring the profit level of a company (Kasmir, 2012). In this study, the Return On Assets (ROA) ratio was used to measure the village credit

institutions' ability to generate profit. ROA shows the company's ability to generate profits from assets used (Tumiwa and Mamuaya, 2019).

According to Act of The Republic of Indonesia Number 7 of 1992 Concerning Banking as Amended by Act Number 10 of 1998, saving deposit is a deposit which can only be withdrawn according to certain agreed conditions, but which shall not be withdrawn by means of a cheque, 'bilyet giro', and/or other equivalent instruments. The greater the amount of saving deposit that is deposited by customers into the village credit institution is assumed that the funds allocated for making loan (creating credit) would also be increased. Thereby, by increasing the institution's income, it would increase the profitability itself. The studies that were conducted by Erawati dan Badera (2015); Prajogo (2016); and Mahendra dan Suzan (2015) suggested that the growth of saving deposit had positive effect on profitability, but in contrast to the study that was conducted by Alfatonah, et al. (2016) which showed that the growth of saving deposit had no effect on profitability. According to Act of The Republic of Indonesia Number 7 of 1992 Concerning Banking as Amended by Act Number 10 of 1998, time deposit is a deposit which may only be withdrawn at a certain time based on an agreement between the depositor and the bank concerned. By accepting deposit through time deposit, the money that is stored relatively longer, considering that time deposit have a relatively long period of time and the frequency of withdrawal is also rare, the institution could be free to reuse these funds for making loan (creating credit), and it could increase the profitability of the institution itself by gaining interests. The studies that were conducted by Mahendra dan Suzan (2015) found that the growth of time deposit had positive effect on profitability. While the studies resulted by Erawati dan Badera (2015) and Prajogo (2016) stated that the growth of time deposit had no effect on profitability. The funds of the village credit institution are accepted in the form of saving deposit and time deposit which are later channeled in the form of credit, where credit is one of the activities that supports the community improvement. According to Act of The Republic of Indonesia Number 7 of 1992 Concerning Banking as Amended by Act Number 10 of 1998, credit is the provision of money or equivalent claim to money based on a loan agreement between a bank and another party, obligating the borrowing party to repay his debt after a certain period with interest. One of the most productive assets in contributing income to the village credit institution is credit (Cahyani dan Dana, 2013). The high amount of credit that is created to the public, shows the high sales in the form of credit, so that the profit of the company would automatically be increased. By increasing the growth of credits, the interests income paid by the customer would also be increased, and this would increase the profitability of the institution itself. The studies that were conducted by Erawati dan Badera (2015); Mukarromah dan Badjra (2015); and Prajogo (2016) found that the growth of credit had positive effect on profitability. While the study resulted by Mahendra dan Suzan (2015) found that the growth of credit had no effect on profitability.

This study was conducted in Banjarangkan Sub-district, Klungkung Regency of Bali Province. This study has found that the growth of saving deposit and credit had no effect on profitability, while the growth of time deposit had positive effect on profitability.

RESEARCH METHOD

This study was conducted in village credit institutions which were located at Banjarangkan Sub-district, Klungkung Regency of Bali Province. The purposive sampling method was used in this study, and later by using certain criterias, 15 village credit institutions were obtained as samples. The type of data used was the secondary data which were the total amount of saving deposit, time deposit, credit, and ROA that were obtained from the financial statements of the 15 institutions observed in the year of 2016-2017. Those quantitative data were later tested statistically by using the multiple linear regression analysis.

RESULTS AND DISCUSSION

Table 1 displays the following results:

Table 1: The t-test Results

Independent Variable	t	Significance Value
Saving Deposit Growth	-0.106	0.917
Time Deposit Growth	2.738	0.011
Credit Growth	-1.398	0.174

The regression coefficient of the growth of saving deposit was -0.106, with the significance value of 0.917 (>0.05), suggested that the growth of saving deposit had no effect on profitability in the village credit institutions at Banjarangkan Sub-district in the year of 2016-2017. This identified that the growth of saving deposit was not a thing that could increase the growth of the profitability in village credit institutions at Banjarangkan Sub-district in the year of 2016-2017. This situation can be caused by an imbalance between the deposit that is accepted and the loan that is made by the institution ((Mukarromah dan Badjra, 2015). If the amount of deposit that is accpeted was greater than the amount of the loan that is made, the the institution has got to pay interest on these deposits to the customers, so that the institution would not earn profit from these activities. The result of this study was in line with the study that was conducted by Alfatonah, et al. (2016).

The regression coefficient of the growth of time deposit was 2.738, with the significance value of 0.011 (< 0.05), indicated that the growth of time deposit had positive effect on profitability in village credit institutions at Banjarangkan Sub-district in the year of 2016-2017. Time deposit is the main source of bank financing, therefore, time deposit has a significant effect on bank's profitability (Cahyani dan Dana, 2013). In theory, by accepting deposit through time deposit, the money that is stored relatively longer, considering that time deposit has relatively long period of time and the frequency of withdrawal is also rare, the institution could be free to reuse these funds for making loan (creating credit), and it could increase the profitability of the institution itself by gaining interests. The result of this study was consistent with the study that was conducted by Mahendra dan Suzan (2015).

The regression coefficient of the growth of credits was -1.398, with the significance value of 0.174 (> 0.05), showed that the growth of credit had no effect on profitability in village credit institutions at Banjarangkan Sub-district in the year of

2016-2017. This indicated that the ups and downs in the growth of credit would not affect the profitability. The high amount of the non-performing loans could be presumed to this case. The higher the amount of credit that is created would increase the profitability and the income of the institution. If the growth of credit was accompanied by the small percentage of non-performing loans, then the profitability would be increased (Sastrawan et al., 2014). If the credit that is created experienced a failure in repayment, the institution would lose the opportunity to earn interest on credit (Setyawati dan Suartana, 2014). So that, the village credit institution would experience problems in paying the cost of interest on saving deposit and time deposit to its customers and in financing its operations, then, the profitability would be decreased. Village credit institution is basically financial institution that carries out collection and distribution activities of community funds operating in an area of traditional village administration with a family basis between villagers and subject to applicable rules (Putra et al., 2019). Because of that kinship concept, the sanction imposed on customer who is experiencing the non-performing loan tends to be less strict. The existence of the non-performing loans also reduced the performance of the institutions, which becomes a threat to the health or the continuity of the institution and could lead to bankruptcy. These results were in line with Mahendra dan Suzan (2015).

CONCLUSIONS

The level of health of the village credit institution could be seen from the amount of profit that is generated within a certain period. The higher the ability to generate profit, indicates that the village credit institution has got a level of success or in a good health, and it is assumed that the institution would be able to survive. To achieve this consideration, the village credit institution is required to be able to manage and maintain the growth of all productive assets and third party funds, in this case the growth of saving deposit, time deposit and credit. The findings of this study showed that the growth of saving deposit and credit had no effect on profitability, while the growth of time deposit had positive effect on profitability. The further study is expected to expand the objective of the research, including the location or by adding another factors those are believed affecting the profitability such as from the aspects of capital, the number of customers, the management quality, and so on.

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