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Study of Sharia Bank Financing After Natural Disasters in Palu City in 2018

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ABSTRACT

The study aims to analyze the development of sharia bank financing after natural disasters in the Palu city in 2018. The analysis was carried out at the macro and micro levels. Macro analysis uses data from the Central Sulawesi Province Financial Services Authority. While the micro analysis is based on interviews with sharia banks. The selection of research subjects at BNI Syariah Bank and Muamalat Bank to see the response of sharia banks related to post-disaster conditions. The analytical method used for this research is descriptive qualitative analysis, namely by providing a narrative explanation of the phenomenon under study and understanding the meaning of the subject's actions. The development of post-disaster sharia banking financing in Palu city is shown by the level of problem financing that has excedeed the safe limit set by the Financial Services Authority. The portion of consumption financing dominates the structure of financing channeled so that the portion of financing to sustain productive activities tends to be lower. Settlement of problem financing particularly at BNI Syariah Bank and Muamalat Bank, is carried out through a restructuring, process, preventive measures and collateral settlement. Distribution of financing by BNI Syariah and Muamalat Bank is generally conducted in the form of a trade agreement (murabahah) based on an analysis of the ability to pay and the existence of collateral.

Keywords: Financing, Natural Disasters, Sharia Banks

INTRODUCTION

According to the results of a study conducted by the National Earthquake Study Center (PuSGeN, 2018:10-17), the Central Sulawesi region is a zone that has been tectonically active. History reveals that there were at least 7 strong earthquake events that were destructive and partly triggered tsunamis in Palu Bay and its surroundings. Starting with the Palu earthquakes in 1905, 1907, 1909, 1927, 1937, 1968 and 2012. Then the community was again shocked by a strong earthquake in Palu and Donggala on Friday evening, September 28, 2018, at 17:02:44 WIB.

The National Disaster Management Agency (2018) recorded that total losses due to earthquakes, tsunamis and liquefaction that hit 4 regions in Central Sulawesi in 2018 reached Rp13.82 trillion. Based on the distribution of the area, Palu City suffered the highest losses of IDR 7.63 trillion, then Sigi Regency IDR 4.29 trillion, Donggala IDR 1.61 trillion and Parigi Moutong reached IDR 393 billion.

In addition to disruptions to activities in the real sector, disasters also have a direct impact on the financial sector, especially in the banking sector. The most obvious impact on the banking industry is in the form of bad loans which are expected to affect the banking business itself. According to the Financial Services Authority (OJK, 2018) in a Press Release Number 68/DHMS/OJK/X/2018, there was a total of loans affected by the disaster of Rp3.9 trillion or 14.4% of the total banking loans in Central Sulawesi Province. Meanwhile, the amount of credit in

Central Sulawesi amounted to IDR 27 trillion or 0.5% of the total national credit which reached IDR 5,032 trillion.

Through its press release on October 18, 2018, OJK provides special treatment to bank loans or financing in Palu City. The policy is valid for 3 years since it was stipulated which is based on the Financial Services Authority Regulation Number 45/POJK.03 of 2017 concerning Special Treatment of Bank Credit or Financing for Certain Regions in Indonesia Affected by Natural Disasters.

Special treatment for financing is expected to be able to answer various problems that are challenges for Islamic banks after disasters. Subjective conditions within Islamic banks meet the objective conditions of the oppressive socio-economic environment. So based on the background description, it is necessary to conduct a study to obtain clear information and accompanied by scientific evidence. The author is interested in researching the development of Islamic banking financing after natural disasters in Palu City at the macro and micro levels.

LITERATURE REVIEW

Financing is the provision of facilities for providing funds by banks to meet the needs of parties classified as parties who experience a lack of funds. According to Antonio (2001), financing based on its use value is divided as follows:

1. Productive Financing. This type of financing is aimed at meeting production needs in a broad definition, namely increasing businesses, both production, trade and investment.
2. Consumptive Financing. The type of financing used to meet consumption needs, which will be used up when used to meet needs.

Financing Products Region

According to the usage pattern, the following is the distribution of financing (Sudiarti, 2018):

1. Revenue sharing
   a. Mudharabah
      Profit sharing contract when the owner of funds/capital (shahibul maal), provides 100% capital to the entrepreneur as a manager (mudharib) to carry out productive activities on the condition that the profits generated will be divided among them according to the agreement previously specified in the contract.
   b. Musyarakah
      A general form of profit-sharing business defined as a cooperation agreement between two or more parties for a particular business in which each party contributes funds with an agreement that the profits and risks will be borne jointly in accordance with the agreement.
2. Buying and selling
   a. Murabahah
      A contract to buy and sell certain goods in a transaction in which the seller clearly mentions the goods being traded, including the purchase price and the profit made.
   b. Salam
      A sale and purchase contract in which the buyer pays money (the same price) for the goods that have been specified in specifications, while the goods that are traded will be handed over later.
   c. Istishna
      A sale and purchase contract in which the price of the goods is paid in advance but can be paid in installments according to the schedule and conditions agreed upon by the union, while the purchased goods are produced and delivered later.

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3. Rent

Transactions on beneficial ownership of an item for a certain time with a reward can be applied in the Ijarah contract.

Natural disasters

According to Law Number 24 of 2007 concerning Disaster Management article 1 paragraph (1) a disaster is "An event or series of events that threaten and disrupt the life and livelihood of the community caused, either by natural and/or non-natural factors or human factors resulting in human casualties, environmental damage, property losses and psychological impacts."

Supriyatna (2011) in his research stated that disasters are capital shocks that significantly erode the amount and value of physical capital. As a result, the output level will decrease drastically. The effect of the decline will widen, starting with a decrease in labor absorption because companies see a decrease in consumer demand, and a significant reduction in household income. The post-disaster economy requires a large injection from the government to repair damaged infrastructure, where the repair of the infrastructure aims to enable the affected production sectors, both direct and indirect impacts, to recover.

POJK Number 45/POJK.03/2017

The recovery of post-disaster economic conditions can be carried out through the banking sector, namely by providing special treatment for credit or financing with a certain amount and restructured credit or financing. Special treatment of bank credit or financing refers to the Financial Services Authority Regulation Number 45/POJK.03/2017 concerning Special Treatment of Bank Credit or Financing for Certain Regions in Indonesia Affected by Natural Disasters. POJK Number 45/POJK.03/2017 is a special policy given to restore banking businesses and customers, as well as the economy in disaster-affected areas.

METHOD

Types of Research

Based on the research problems that have been presented, this type of research is qualitative. According to Wahidmurni (2017), qualitative research is a method used in research with data in the form of narratives sourced from interviews, observations and document excavation.

This study uses a case study approach as part of qualitative research. Nazir (2014) stated that a case study is research conducted on a program, event, and activity, either at the level of an individual, a group of people, institutions, or organizations to gain in-depth knowledge of an event. Based on the scope of the study area, case studies are limited to specific types of cases, in specific places or locations and within a specific time.

Data Types and Sources

The types and data sources used are as follows:

1. Primary data. The data obtained from the informant's answers in the form of interview results from competent parties provides information as a complement and a tool for data confirmation.
2. Secondary data. Data obtained from various sources, both in the form of reports and documents that have relevance to the object of research.

Data Collection Techniques

The data collection techniques in the study consisted of:

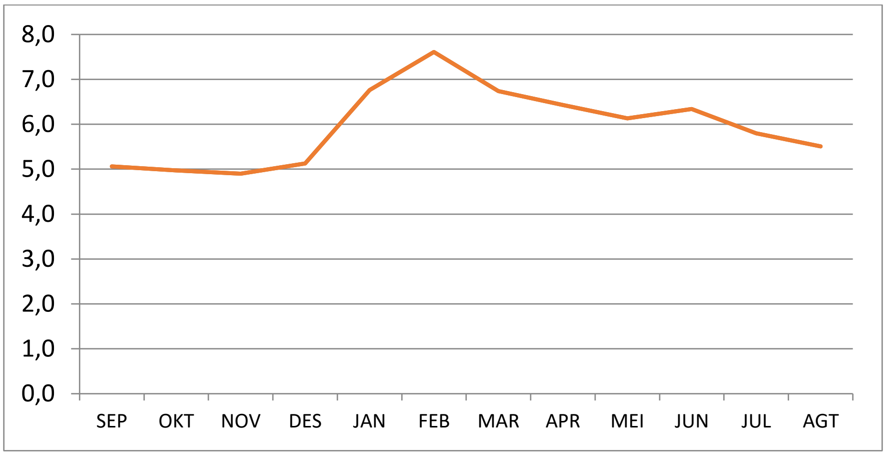
1. Literature Studies.

2. Interview
3. Documentation

RESULTS AND DISCUSSION

Sharia Bank Financing in Palu City

Non-performing financing (NPF) of Islamic banking after natural disasters is at a worrying level. The average NPF value from September 2018 to August 2019 was in the range of 5.9%, with the highest NPF figure in February 2019 at the level of 7.6%. This figure has exceeded the safe limit set by the Financial Services Authority, which is below 5%.



Source: Financial Services Authority, 2019

Figure 1. NPF Movement in Palu City (percent)

Table 1 and Table 2 below show data on the development of non-current financing based on the type of use and financing/debtor criteria. Post-disaster until August 2019, the position of non-current financing for consumption accounted for 48% of the total non-current financing of Rp53.7 billion. Meanwhile, working capital and investment financing accounted for around 32% and 20%, respectively. Meanwhile, non-current financing of Islamic banking according to post-disaster financing criteria is more common in the MSME sector. The highest contribution of MSMEs to the total non-current financing occurred in October and November 2018 at 63%. This condition improved to 47% in June 2019 but increased again in August 2019 to 52%. On average, the contribution of MSMEs to non-current financing from September 2018 to August 2019 was 53.6%.

Financing distributed by Islamic banking in Palu City after natural disasters has developed in aggregate. Entering the first year after the disaster, Islamic banking financing has grown by 5.2% consisting of groups of types of working capital use, investment and consumption. The allocation of financing for consumption is greater than financing for working capital and investment purposes. The portion of consumption financing every month exceeds 75% of the total value of financing disbursed. Meanwhile, the average distribution of investment financing and working capital was 9.6% and 13.5%, respectively.

Table 1. Non-Current Financing Based on Type of Use (billion rupiah)

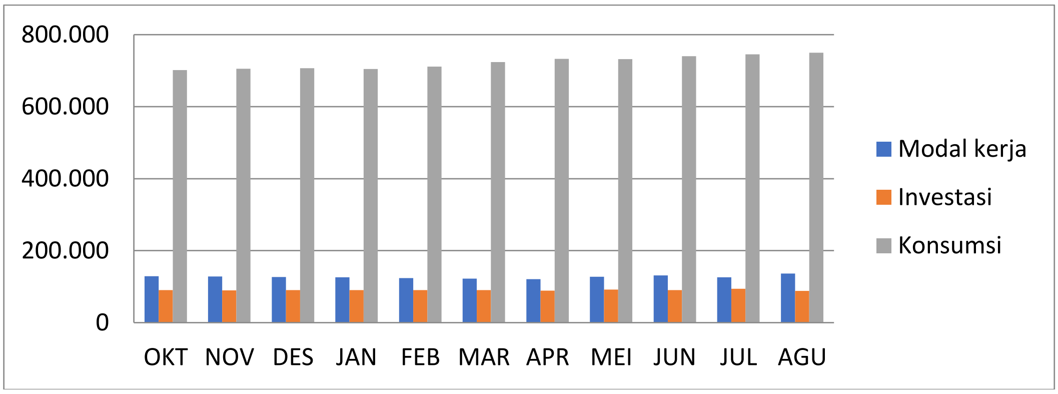
	2018				2019							
Type of use	Sep	Okt	Nov	Des	Jan	Feb	Mar	Apr	May	Jun	Jul	Agu
Working capital	18,5	18	18,5	18,5	21	22	18,5	17,5	17	18	17	17
Investment	10,5	11	10	9	12	14	12,5	12	11	11	11	11
consumption	18	17	17	20	29	34,5	32	31	30	32	28	25,5
Total	47	46	45,5	47,5	62	70,5	63	60,5	58	61	56	53,5

Source: Financial Services Authority, 2019. Processed

Table 2. Non-Current Financing Based on Financing Criteria (billion rupiah)

Financing criteria	Sep	Okt	Nov	Des	Jan	Feb	Mar	Apr	May	Jun	Jul	Agu
MSMEs	29	29	28	27,5	33	36	31	29,5	28	29	28	28
In addition to MSMEs	18	17	17	20	29,5	34,5	32	31	30,5	32	28	25,5
Total	47	46	45	47,5	62,5	70,5	63	60,5	58,5	61	56	53,5

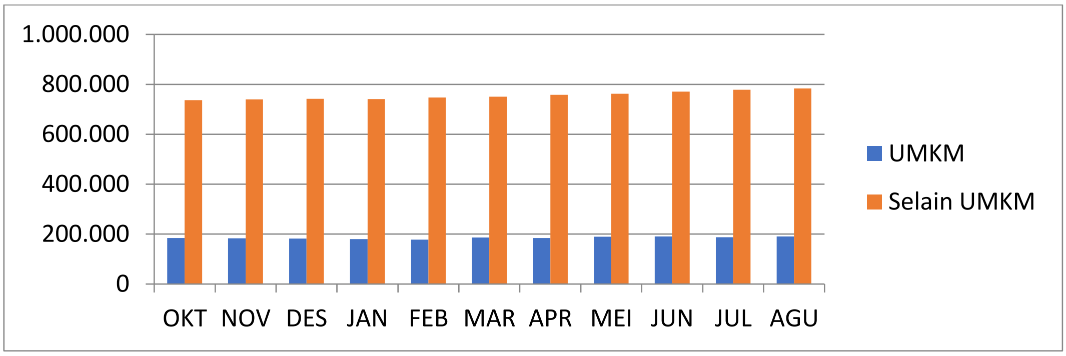
Source: Financial Services Authority, 2019. Processed



Source: Financial Services Authority, 2019. Processed

Figure 2. Sharia Banking Financing Based on Type of Use (million rupiah)

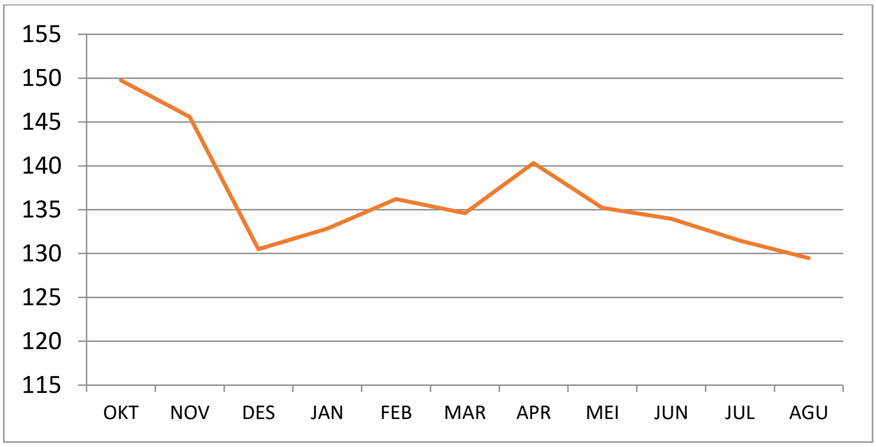
Meanwhile, according to the financing criteria, the financing so far has been mostly aimed at non-Micro, Small and Medium Enterprises groups. The portion of financing distributed to MSMEs and other MSME groups has almost no changed, namely 20% and 80% respectively per month. This shows that the share of financing for MSME groups is much smaller than for non-MSMEs. In fact, if Islamic banks provide more financing to MSME actors in disaster-affected areas, this will gradually reap an impact that then motivates and encourages business actors to redevelop their businesses.



Source: Financial Services Authority, 2019. Processed

Figure 3. Sharia Banking Financing According to Financing Criteria (millions of rupiah)

Financing disbursed by Islamic bank financing in aggregate has grown. After the disaster until August 2019, Islamic bank financing has grown from Rp921 billion to Rp975 billion. Unfortunately, financing expansion is always higher than the amount of third-party funds. The percentage of financing to deposit ratio every month even exceeds 100%. FDR's position has passed the ideal according to Bank Indonesia (2010) at 78%-100%.



Source: Financial Services Authority, 2019

Figure 4. FDR's Movement in Palu City (percent)

Handling of Problematic Financing at Bank BNI Syariah and Bank Muamalat

Productive financing is basically the most affected financing for BNI Syariah and Bank Muamalat banks because of business activities. Bank BNI Syariah and Bank Muamalat have not many different steps in handling problematic financing, namely each starting at the restructuring stage, preventive efforts and settlement through collateral. These three stages apply to all types of contracts/financing schemes. Both the profits are obtained from margin and profit sharing.

Financing Distribution at Bank BNI Syariah and Bank Muamalat BNI Syariah

The financing contract at Bank BNI Syariah consists of a purchase and sale contract (murabahah), profit sharing (mudharabah and musyarakah) and lease (ijarah). The sale contract (murabahah) is still the main product of Bank BNI Syariah in distributing financing. The main condition is the main assessment of Bank BNI Syariah in the financing approval process is seen in the legality of the business and financial statements. After the disaster on September 28, 2018 until the time of the interview, the number of customers who were in arrears became the main problem faced by Bank BNI Syariah.

Muamalat Bank

Financing products at Bank Muamalat consist of murabahah contracts for buying and selling, and mudharabah contracts for profit sharing. However, the contract for hadil (mudharabah) is still very rarely implemented by Bank Muamalat, so that buying and selling products (murabahah) are still a reliable product to meet customer needs.

Bank Muamalat only provides financing to customers who have liquid assets (deposits), by providing their liquid assets as collateral. Financing through this scheme is known as back-to-back facility. According to its characteristics, the customer's deposit funds or liquid assets are a requirement if they want to apply for financing with a back-to-back scheme. The customer's eligibility will then be reviewed based on the financial statements. According to the Head of Bank Muamalat Branch, the post-disaster business climate is a serious challenge faced. Post-disaster economic conditions make business risks higher.

DISCUSSION

Sharia Bank Financing in Palu City

The results of the data obtained showed that the position of non-performing financing of post-disaster Islamic banking in Palu City had exceeded the safe limit set by the Financial Services Authority, which was below 5%. In accordance with the Financial Services Authority Regulation Number 15/POJK.03/2017 article 3 paragraph (2) letter d, banks will be under intensive supervision if the net non-performing financing ratio (NPF net) is more than 5%.

Based on data from the Central Sulawesi Provincial Financial Services Authority (2019), the financing structure of Islamic banking is shown by the increasing amount of financing received for consumptive purposes. This shows that the role of Islamic banking in encouraging post-disaster economic recovery, especially to the real sector, has not yet become the main goal. This situation is feared to cause inflation turmoil after damage or loss of production assets due to disasters. Suseno and Siti Astiyah (2009:11) stated that according to the law of demand, if the increase in demand is not offset by the increase in the number of production supplies, then the price will rise.

Islamic banking financing in Palu City, on the other hand, can also be seen in the high ratio of financing to total financing (FDR). This high level of FDR is a serious threat to liquidity because banks will have difficulty fulfilling other obligations, especially to depositor customers who want to withdraw their funds at any time. According to Antonio (2001), the main trigger for bankruptcies experienced by banks, big or small, is not because of the losses they suffer, but rather because of the bank's inability to meet its liquidity needs.

Handling of Problematic Financing at Bank BNI Syariah and Bank Muamalat

The model for rescuing problematic financing caused by natural disasters has been regulated in POJK Number 45/POJK.03/2017, namely by way of restructuring. However, the regulation has not been explained in detail what form of restructuring will be used to deal with problematic financing of natural disaster victims. Restructuring policies in overcoming non-performing financing can be carried out by conventional banks and Islamic banks. Nevertheless, the two have fundamental differences that lie in their operating systems. If conventional banks are attached to the interest system, Islamic banks offer a profit and loss sharing system in carrying out their business activities.

Ascarya (2006) explained the meaning of profit sharing in Islamic banks, namely the determination of the amount of the profit-sharing ratio/ratio agreed upon at the time of the contract based on the possibility of profit and loss. If the business activity yields, the profit is divided in half, and if the business activity loses, the loss is borne together. The losses experienced in this sense are not the result of intentionality, fraud or negligence on the part of the fund manager.

The restructuring policy in overcoming this problematic financing is also carried out by Bank BNI Syariah and Bank Muamalat. When referring to the results of the interview, both Bank BNI Syariah and Bank Muamalat have additional options to rescue problematic financing, namely by settlement through collateral. It should be noted that efforts to rescue problematic financing at Bank BNI Syariah and Bank Muamalat apply to all financing contracts/schemes, both profit from margin and profit sharing.

Especially for profit-sharing financing, Islamic banks are considered financial institutions with a profit and loss sharing scheme as their main characteristics. Based on these assumptions, it means that there is fair equality between the owner of capital (bank) and the manager (customer), as well as the management of risks and consequences in a bold and responsible manner. This principle does not favor one party, but rather the two are in a balanced position.

Meanwhile, in the case of post-disaster problematic financing, which is not included in the intentional factor, if the customer as the fund manager suffers a loss, and the minimum profit share obtained by the bank is equal to zero, the bank's capital remains intact because it can be covered from the value of collateral, or the customer is given a suspension to complete its obligations. This means that the losses experienced by the customer are not only limited to the work that has been done, but he is also responsible for funds that have been given.

Financing Distribution at Bank BNI Syariah and Bank Muamalat

This study shows the financing scheme run by Islamic banks after natural disasters in Palu City. The two Islamic banks that were the subject of the study, namely Bank BNI Syariah and Bank Muamalat, each provided financing in a not much different way. At least, there are several things that need to be considered in observing the scheme carried out by both after the disaster based on the results of the research.

First, there is no salam and istishna contract in the financing products offered. Meanwhile, the need is not only limited to finished goods. Sometimes the goods needed are not yet available and must go through the production process first, such as agricultural products, and building or property construction. This means that someone who wants to manage agricultural land or just build a house or business that is damaged by a disaster, is certain to not be able to access financing. Second, contracts with a buying and selling pattern (murabahah) are still a product that is always applied to meet customer needs for certain economic activities. Third, the focus of Islamic bank analysis in the financing application process is still more focused on the ability to pay and the existence of collateral.

Islamic banks are financial institutions that function to facilitate economic mechanisms in the real sector through financing products. Ascarya (2006:128) explained that profit-sharing contracts are believed to reflect the essence of Islamic banks to encourage the smooth running of productive businesses in the real sector. Therefore, the profit-sharing contract should be the main contract for Islamic bank financing products. Meanwhile, the ability to pay and the existence of collateral are the main concerns in financing approvals, especially the profit-sharing pattern, giving the impression that the debt and receivables feel stronger than the impression of investment. Feasibility analysis is important, but the profit acquisition of Islamic banks remains by minimizing risks and not avoiding them.

CONCLUSIONS AND SUGGESTION

CONCLUSIONS

The development of financing carried out by Islamic banking after the natural disaster in Palu City is shown by the level of non-performing financing that has exceeded the safe limit set by the Financial Services Authority, which is below 5%. The portion of consumption financing

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dominates the financing structure that is distributed, so the portion of financing to support productive activities tends to be lower.

Meanwhile, the handling of post-disaster problematic financing, especially at Bank BNI Syariah and Bank Muamalat, is carried out through a restructuring process, preventive efforts and settlement through collateral. The distribution of financing by Bank BNI Syariah and Bank Muamalat is generally carried out in the form of a trade contract (murabahah) which is based on the analysis of the ability to pay and the existence of guarantees.

SUGGESTION

Some suggestions that can be conveyed from the results of this study are as follows:

1. Islamic banks in carrying out post-disaster rehabilitation should allocate financing to productive businesses. This is necessary so that the repair of economic facilities and infrastructure is more focused on the affected production sectors, so that economic recovery can take place faster.
2. Islamic banks need to increase the portion of profit-sharing financing in production sectors that are considered appropriate. Planning can be done by involving experts, especially in the fields of economics and disasters. This is to get a deeper picture, both of the potential of the business and the level of vulnerability to disasters. The impact of disasters on the economy makes mitigation-based development an effort that needs to be done in the future.

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