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NON-PERFORMING LOAN MODERATES INFLUENCE CREDIT PROVIDED BY LPD PROFITABILITY IN LPD GIANYAR SUB-DISTRICT

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Abstract:
The Village Credit Institution (LPD) is a financial business entity owned by a traditional village and carries out business activities within the traditional village environment. LPD is one of the assets and sources of income for traditional villages, so it requires good management by management and supervisory bodies. In general, the LPD aims to improve the standard of living of villagers and to preserve the existence of traditional villages in the Province of Bali. The Village Credit Institution (LPD) is a financial institution owned by Desa Pakraman, which has unique characteristics. This specificity is mainly related to the obligations of the LPD towards Desa Pakraman, which are physical/scale and non-physical/niskala. Regarding the LPD in the Gianyar sub-district, there are 40 LPDs spread across the Gianyar sub-district. This study aimed to determine the effect of credit extended by LPD on profitability with non-performing loans as a moderating variable. This type of research is an empirical study of LPDs throughout the Gianyar District. The sampling technique used was purposive sampling, namely sampling based on consideration. Hence, the sample in this study was 165 samples obtained from 33 LPD populations throughout the Gianyar District with five years of observation, namely from 2017-2021, and data collection was carried out with documentation. The data analysis technique used is Partial Least Square (PLS), where the independent variables are credit extended by LPD, the dependent variable is profitability, and the moderating variable is non-performing loans.

Keywords: Non-Performing Loans, LPD Loans, Profitability

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INTRODUCTION

Based on Bali Provincial Regulation No. 2 of 1988 and renewed by regulation no. 8 of 2002, the Village Credit Institution (LPD) plays a role in supporting rural economic development by increasing the saving habits of rural communities, providing credit for small-scale businesses, eliminating forms of exploitation in credit relations, and creating equal opportunities for business activities in village level, increasing the level of monetization in rural areas (Putri, 2019). LPD performs its function in the form of capital accumulation efforts.

Table 1. Health Conditions of LPDs in Gianyar District for the 2017-2021 Period

No	Year	Not Healthy	Unwell	Healthy Enough	Healthy
1	2017	8	26	59	150
2	2018	10	38	50	145

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3	2019	19	12	46	166
4	2020	25	32	57	99
5	2021	29	35	61	80

Source: Financial Report of the Gianyar Regency LPD Empowerment Institution (2021)

The health of LPDs during the 2017-2021 period has fluctuated. Fluctuations in LPD conditions indicate that LPDs are in an ill condition, on average, including difficulties in recovering LPD finances due to a decrease in cash turnover from bad loans. Another factor that causes the condition of the LPD to be unhealthy stems from many male administrators in the local village who are reluctant to take care of their LPD when there are problems.

According to Riyanto et al. (2019), credit giving, or lending, is one of the main activities in banking. This credit distribution activity is carried out by collecting funds from the community and channeling them back into savings and others. In contrast to Kasmir (2019), lending is the receivables turnover within a certain period.

The turnover rate of a company's receivables can describe the efficiency level of the company's capital embedded in receivables. The receivables turnover period depends on payment terms. The softer payment terms mean that, the longer the capital is tied to receivables, the more the accounts receivable turnover rate shows the effectiveness of working capital embedded in receivables. The credit turnover rate ratio shows how quickly receivables are collected. The results of this research, when associated with previous empirical studies conducted by Utami and Putra (2016), Dewi and Ratnadi (2018), Farida (2015), Lestari (2019), Udayani and Wirajaya (2019), Jayanti and Sartika (2021) and Sanjaya et al. (2022) state that credit provided by LPD has a positive effect on profitability. In contrast, Udayani and Wirajaya (2019) state that credit hurts profitability.

Non-Performing Loan (NPL) is a ratio that is proxied to measure the ability of bank management to manage bad loans provided by banks (Rachmawati, 2019). The lower the NPL, the higher the bank's profitability. Conversely, if the NPL at the bank is high, the bank will incur losses because the interest income earned from loans will be low, which will impact decreasing profitability. Bank Indonesia will set the criteria for an NPL ratio below 5% because it is based on the bank's value to the value of the NPL ratio (Kasmir, 2019). The results of this study, when associated with previous empirical studies conducted by Utami and Putra (2018), Dewi and Ratnadi (2018), and Lestari (2019), state that non-performing loans hurt profitability. In contrast, Udayani and Wirajaya (2019) state that non-performing loans positively affect profitability.

Basis Theory, Contingency Theory. Contingency theory is said to be a system that is applied and is effective in an organization; it is not sure that it will be successful and effective when applied to other organizations with different organizational characteristics because it is caused by contingency factors (Sutrisno, 2019). Wawan (2018) states that contingency theory is the center of structural theory with a proposition or structure that must go through a process according to the context (characteristics of organizational culture, technology, size, or task) to survive or be effective. Suarnawa (2018) argues that contingency theory is an open system in a company that is closely related to interactions for adjustment and control of the environment to maintain the viability of a business. Other companies may not use systems designed and used by certain companies due to differences in conditions and environment that cause a company's system to differ.

Signaling Theory. Suganda (2018) argues that signal theory emphasizes that the company can send signals to external parties through reporting information related to company performance; the market will respond to the announcement of dividend distribution so that it can see the company's prospects for the future to increase the value of the company. Suppose the company decides to share

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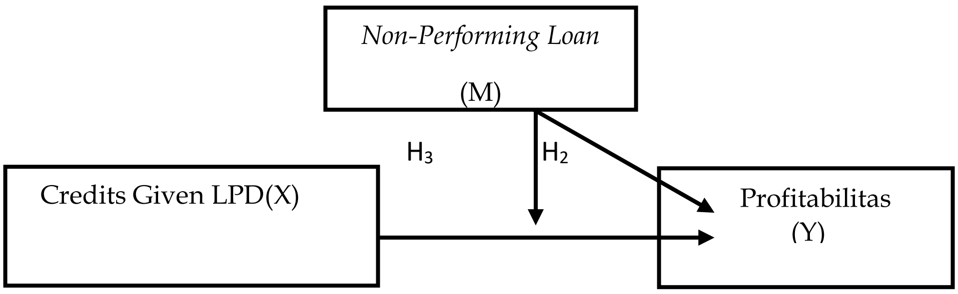
the profits earned as dividends. In that case, it will reduce the retained earnings, ultimately reducing the source and internal used to develop the company. Companies can reduce agency costs by distributing dividends due to the reduced amount of company cash flow that managers often use for wasteful (inefficient) use and use of underground water. The tax rate is set at 20% (twenty percent).

Conceptual Framework

Non-Performing Loans Moderate the Effect of Credit Provided by the LPD on Profitability



METHODS

This research was conducted at Village Credit Institutions in the Gianyar District for 2017-2021. The object of this study is the financial statements of the Village Credit Institutions in the Gianyar District for the 2017-2021 period, especially those related to loans provided by LPDs, non-performing loans, and profitability. This study's population is 40 LPDs obtained from all Village Credit Institutions registered with the LPLPD of Gianyar Regency for 2017-2021.

The sampling technique used in this study was purposive sampling, namely a sampling technique based on specific criteria or considerations. Consideration of the criteria used in the sample selection process is as follows:

1) Village Credit Institutions in the Gianyar Subdistrict are registered consecutively at the LPLPD for 2017-2021.
2) Village Credit Institutions in the Gianyar Subdistrict submit annual financial reports to the LPLPD for 2017-2021.
3) Village Credit Institutions in the Gianyar Subdistrict will continue operating during 2017-2021.

RESULT AND DISCUSSION

Validity test results showed that all research instruments used to measure tax knowledge variables, tax sanctions, service quality, and taxpayer compliance had a correlation coefficient value with a total score of all statement items greater than 0.30 with a significance of less than 0.05. It indicates that the details of the statement in the research instrument are valid and worthy of use as the research instrument.

Multiple Linear Regression Analysis.

Table 2. The Result Moderate Regression Analysis

Interaksi Variabel	*Original Sample (O)*	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*

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X->Y	0,5348	0,5157	0,1515	3,5297	0,0005
M ->Y	-1,1545	-1,1109	0,3858	2,9927	0,0029
M*X->Y	-0,009	0,022	4,032	0,002	0,998

Source: Data processed 2023

The Effect of Credit Given on Profitability. Based on the results of hypothesis testing, the credit given positively affects profitability in LPDs throughout the Gianyar District. Indicated by a positive original sample direction of 0.5348 and a significance level of p-values of 0.0005 or less than α (0.05). It means that the increase in credit given can influence the increase in profitability of LPDs throughout the Gianyar District. The signal theory has a relationship with credit extended by LPD to profitability.

In contrast, through signal theory, the LPD can determine how much good signal or good impact arises from credit given to creditors. The credit given will signal if the creditor can fulfill its obligations in repaying the debt it has previously borrowed so that cash turnover is stable and impacts increasing profitability. A lousy signal will also arise if the credit given before cannot be paid by the creditor causing lousy credit; this will impact decreasing profitability due to unstable cash circulation.

The results of this study follow previous empirical studies, where empirical studies conducted by Utami and Putra (2018), Dewi and Ratnadi (2018), Farida (2015), Lestari (2019), Udayani and Wirajaya (2019), Jayanti and Sartika (2021) and Sanjaya et al. (2022) state that credit provided by LPD has a positive effect on profitability.

The Effect of Non-Performing Loans on Profitability. Based on the results of hypothesis testing shows that non-performing loans hurt profitability in LPDs throughout the Gianyar District. Indicated by the original sample's negative direction of -1.1545 and a significance level of p-values of 0.0029 or less than α (0.05). It means that the reduction in non-performing loans can affect the increase in profitability of LPDs throughout the Gianyar District.

The contingency theory is related to NPL or credit risk, which explains that NPL is often considered by LPDs in extending credit. Credit risk occurs due to the dependence of factors on one another. These factors can be antecedents & consequences that have a solid potential for reducing LPD profitability when creditors cannot fulfill their obligations in paying loan installments.

The results of this study follow previous empirical studies, where empirical studies conducted by Utami and Putra (2018), Dewi and Ratnadi (2018), and Lestari (2019) state that non-performing loans hurt profitability.

Non-Performing Loans Moderate the Effect of LPD Loans on Profitability. Based on the results of hypothesis testing, non-performing loans cannot strengthen the relationship between loans extended to profitability in LPDs throughout Gianyar District. Indicated by the original sample's negative direction of -0.009 and a significance level of p-values of 0.998 or less than α (0.05). It means the reduction in non-performing loans cannot strengthen the relationship between loans extended to profitability in LPDs throughout the Gianyar District.

The signal theory relates to the relationship between credit extended by LPDs to profitability and NPL as a moderator, where signal theory provides both good and bad directions LPDs face. High credit risk gives a lousy direction for LPDs because the cash turnover that occurs does not go well or the occurrence of bad loans causes a decrease in profitability; conversely, if the credit risk is low, the cash turnover at the LPD becomes stable, and profitability also increases.

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The results of this study are inconsistent with previous empirical studies, where empirical studies conducted by Utami and Putra (2018), Dewi and Ratnadi (2018), and Lestari (2019) state that non-performing loans weaken the relationship between loans provided by LPDs and profitability.

CONCLUSION

Loans have a positive effect on profitability in LPDs throughout the Gianyar District. It means that the higher the credit turnover given, it will affect the increase in profitability in LPDs throughout the Gianyar District. Non-performing loans hurt profitability in LPDs throughout the Gianyar District. It means that the lower the level of non-performing loans or credit risk, the higher the profitability of LPDs throughout the Gianyar District. Non-performing loans cannot strengthen the relationship between loans extended to profitability in LPDs throughout the Gianyar District. It means that the lower the level of non-performing loans or credit risk, the weaker the relationship between credit extended to profitability in LPDs throughout Gianyar District.

Based on the results of the research analysis and the results of the discussion, several suggestions can be used as material for consideration in increasing the profitability of LPDs throughout the Gianyar District as follows: For Village Credit Institutions (LPD) throughout the Gianyar District Village Credit Institutions (LPD) throughout the Gianyar District can increase profitability in each LPD by increasing lending, where increasing lending can be done through increasing the number of customers and reducing loan interest rates. Another step that needs to be considered by the LPD is to reduce credit risk or non-performing loans, where credit risk reduction is carried out to minimize the occurrence of bad loans. This method can be done by tightening rules related to securities guarantees so that if lousy credit occurs, the LPD can obtain goods from securities that customers have guaranteed.

For future researchers, it is hoped that they will be able to expand the scope of the research area, not only to the scope of LPDs in the Gianyar District but to include a broader range of LPDs such as LPDs in Klungkung Regency, LPD Units in Bangli Regency, LPS throughout Denpasar City and others. So that it can represent a population with a more significant number and the study results can be generalized. Further research is also recommended to add independent variables to support the complexity of the research, for example, adding business capital, solvency, liquidity, or other variables, as well as using other moderating variables, such as financial performance variables, because in this study, the moderating variable does not influence the relationship between the independent variables and the dependent variable.

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