



FINANCIAL ANALYSIS OF MICROFINANCE INSTITUTION: A CASE STUDY IN LKM-A PUAP SUBUR PURBALINGGA REGENCY

M A Rachmah*, L Zulkifli, D R Utami

Department of Agricultural Socio-Economic, Faculty of Agricultural,
Universitas Jenderal Soedirman, Purwokerto, Indonesia

*Email: malinda.aptika@unsoed.ac.id

Abstract. The Rural Agribusiness Development Program (PUAP) is a government program that aims to stimulate the development of Agribusiness Microfinance Institutions (LKM-A) so that they can provide sustainable financing to farmers. This study aimed to determine the financial performance of LKM-A PUAP Subur in Purbalingga Regency in 2019-2022. The study was conducted from April to June 2024 and included direct interviews with the management of LKM-A PUAP Subur in Purbalingga Regency. Data analysis was in the form of liquidity ratios, solvability, and profitability. The results of the liquidity analysis of LKM-A PUAP Subur during the 2019-2022 period showed that the cash ratio and the ratio of financing to funds received were liquid, which means that LKM-A PUAP Subur's ability to pay off its short-term debts was quite good so that the performance of LKM-A PUAP Subur was good. Solvency analysis with debt to assets and debt to equity criteria is not good, which means that LKM-A PUAP Subur's ability to pay off its long-term debts is not good, so it can be said that its performance is not good. The profitability ratio analysis using the net return on assets ratio and return on equity ratio shows fairly good criteria, which means that the performance of LKM-A PUAP Subur is good in generating operating profits.

Keywords: liquidity ratio, profitability ratio, solvability

A. Introduction

LKM-A is an autonomous business unit established and owned by a farmer group association (Gapoktan), receiving direct community assistance to develop rural agribusiness (BLM-PUAP). In carrying out its business activities, LKM-A must have a business license from the Financial Services Authority (OJK), where one of the requirements is to be a legal entity in the form of a Limited Liability Company (PT) or cooperative. Rural Agribusiness Development (PUAP) is a program of the Ministry of Agriculture since 2008 that is part of the Independent National Community Development Program (PNPM). A program is a business capital assistance facility for farmer group members, owner-farmers, sharecroppers, farm laborers, and farming households. This program aims to strengthen the capacity of rural communities and alleviate poverty. LKM-A PUAP Subur is a cooperative established in 2010 on the initiative of Gapoktan Subur, which aims to provide loan assistance for members' farming activities, especially in capital problems, and is a distributor of PUAP funds.

As a growing financial institution, LKM-A PUAP Subur requires internal and external evaluations to evaluate financial performance. Financial performance is a picture of a company's financial condition that reflects the health level of a company [1]. In addition, financial performance also reflects the company's work performance in a certain period [2]. Indicators of liquidity, solvency, and profitability usually measure financial performance. The



liquidity ratio describes the company's ability to meet its short-term obligations; profitability shows its ability to generate profits during a certain period [3].

Financial performance calculation is a form of internal evaluation that functions to see the development of financial performance over a certain period. The success of a financial institution can be seen from its financial performance by considering several things, such as recording techniques, financial reporting, and calculating several financial ratios that show the accountability of a financial institution. In contrast, external evaluation can be seen by measuring customer satisfaction with an LKM-A [4]. An evaluation needs to be carried out to improve and evaluate the performance of LKM-A PUAP Subur. Financial reports are analyzed to understand finances better and determine the financial conditions listed in the financial report. In addition, by analyzing financial reports, the financial achievements of LKM-A PUAP Subur from year to year can be known, and the analysis results can be used to assess the performance of LKM-A PUAP Subur.

B. Methods

The research was conducted from May to June 2024. The location of research was carried out at the LKM-A PUAP Subur Cooperative located in Kedungjati Village, Bukateja District, Purbalingga Regency. The research was conducted through direct interviews using questionnaires with management and LKM-A PUAP Subur Cooperative members. The data analysis used in this study is qualitative, considering the results of the existing number calculations with the help of theory and reality in practice in the field. The financial report analysis is used to determine the financial condition of LKM-A PUAP Subur based on financial ratios. This aims to identify the performance level of LKM-A PUAP Subur. Data in the form of calculation figures are analyzed using time series analysis. This analysis compares the company's financial ratios from one period to another. The comparison ratio achieved now or in the past will show whether the LKM-A PUAP Subur Cooperative is progressing or declining. In this study, the following financial ratio analysis was used:

1. Liquidity Ratio

The liquidity ratio, known as the smoothness ratio, shows the level of smoothness of a company in meeting its short-term obligations [5]. If a company can pay its obligations on time, it can be said to be liquid. Liquidity shows that current assets are more significant than current liabilities [6]. Conversely, it is illiquid if a company cannot meet its debt obligations on time. The liquidity ratio in this study consists of the cash ratio and the financing ratio to funds received.

Cash Ratio

$$\text{Cash Ratio} = \frac{\text{Cash}}{\text{Current Debt}} \times 100\%$$

Financing Ratio to Funds Received

$$\text{Financing Ratio to Funds Received} = \frac{\text{Total Financing (Loan)}}{\text{Funds Received}} \times 100\%$$

2. Solvency Ratio

Solvency Ratio or Leverage Ratio is used to measure the extent to which a company's assets are financed by debt or used to measure solvency [7]. A company can be solvable if it has sufficient assets or assets to pay debts. Conversely, a company is said to be insolvent if its assets or assets are insufficient to pay its obligations [6]. The standard for measuring the solvency



ratio in this study uses the DAR (Debt to Asset Ratio) and DER (Debt to Equity Asset) ratio types as in the following formula:

Debt to Equity Ratio

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

Debt to Asset Ratio

$$\text{Debt to Asset Ratio} = \frac{\text{Total Asset}}{\text{Equity}} \times 100\%$$

3. Profitability Ratio

The profitability ratio is a ratio that shows the level of success of a company in generating profits [7]. Specifically for cooperatives, profitability is measured by using cooperative assets productively, which can be known by comparing the SHU (Remaining Operating Results) obtained in a period with the amount of assets or capital of the cooperative [6]. The types of ratios used in the profitability ratio are ROA and ROE, as in the following formula:

Return On Total Asset (ROA)

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Asset}} \times 100\%$$

Return On Equity (ROE)

$$\text{ROE} = \frac{\text{Net Income}}{\text{Equity}} \times 100\%$$

After obtaining the results of the figures from the analysis of the financial condition of LKM-A PUAP Subur using the liquidity, solvency, and profitability ratios, an analysis was carried out to determine whether the calculation results were included in the standards and criteria for healthy finance. The standards and ratio criteria values can be seen in Table 1.

C. Results And Discussion

1. LKM-A PUAP Subur Cooperative

LKM-A PUAP Subur Cooperative is an agribusiness microfinance institution in Purbalingga Regency, Central Java. LKM-A PUAP Subur Cooperative was established in 2010 and registered in the OJK (Financial Services Authority) data in 2023 with a business license dated November 18, 2015. LKM-A PUAP Subur was initiated by Gapoktan Subur, a combination of 7 farmer groups in Kedungjati Village, Bukateja District. Currently, LKM-A PUAP Subur has several types of productive businesses in the agricultural sector, such as animal husbandry, horticulture, food crops, home industry (agricultural product processing), marketing of products, and agricultural-based businesses (agricultural production facilities). LKM-A PUAP Subur has several available products such as 1) SIMPOKSUS (Special Principal Savings), which are savings that must be paid when registering as a member; 2) SISUKA (Voluntary Savings) which are savings paid by members voluntarily, the amount of which is by the ability of each member; 3) TATIQR (Qurban Deposit Savings); 4) SIHARA (Holiday Savings); 5) SIPENDIK (Education Savings) and 6) Loans for members. Loan services to cooperative members are used to assist with capital problems and facilitate the marketing of harvests by providing loans.



Table 1. Standard values ratio criteria

| No. | Ratio | Standard | Values | Criteria |
|-----|----------------------|---------------------|--------|--------------|
| 1. | Cash Ratio | < 14 and > 56 | 25 | Not Liquid |
| | | (14-20) and (46-56) | 50 | Less Liquid |
| | | (21-25) and (35-45) | 75 | Quite Liquid |
| | | (26-34) | 100 | Liquid |
| 2. | Financing Ratio | < 50 | 25 | Not Liquid |
| | | 50-74 | 50 | Less Liquid |
| | | 75-99 | 75 | Quite Liquid |
| | | > 99 | 100 | Liquid |
| 3. | Debt to Assets Ratio | ≤ 40% | 100 | Very Good |
| | | 40% - 50% | 75 | Good |
| | | 50% - 60% | 50 | Fairly Good |
| | | 60% - 80% | 25 | Not Good |
| | | > 80 | 0 | Bad |
| | | > 80 | 0 | Bad |
| 4. | Debt to Equity Ratio | ≤ 70% | 100 | Very Good |
| | | > 70% - 100% | 75 | Good |
| | | > 100% - 150% | 50 | Fairly Good |
| | | > 150% - 200% | 25 | Not Good |
| | | > 200% | 0 | Bad |
| | | > 200% | 0 | Bad |
| 5. | Net Return on Assets | ≥ 10% | 100 | Very Good |
| | | 7% - < 10% | 75 | Good |
| | | 3% - < 7% | 50 | Fairly Good |
| | | 1% - < 3% | 25 | Not Good |
| | | < 1% | 0 | Bad |
| 6. | Net Return on Equity | ≥ 21% | 100 | Very Good |
| | | 15% - < 21% | 75 | Good |
| | | 9% - < 15% | 50 | Fairly Good |
| | | 3% - < 9% | 25 | Not Good |
| | | < 3% | 0 | Bad |

Source: Asia et al., (2023)

2. Liquidity Ratio

The liquidity ratio measures the company's short-term liquidity capability by looking at its current assets relative to its current liabilities or liabilities [8]. The liquidity ratio of LKM-A PUAP Subur was analyzed using the cash ratio and financing ratio calculations as in Table 2. The results of the cash ratio calculation of LKM-A PUAP Subur for the 2019-2022 period showed fluctuating figures, where in 2019, there was an increase in the cash ratio value. Still, they continued to decline from 2021 to 2022. In 2019, the cash ratio of LKM-A PUAP Subur was included in the liquid category. In 2020 and 2021, it was less liquid and in 2022 quite liquid (Table 3). In 2019, the cash ratio showed a liquid figure of 26.29%, which means that every IDR 1 of LKM-A PUAP Subur's current debt can be guaranteed by current assets of IDR 26.29. The standard value of the ratio criteria can be seen in Table 1, where the smaller the ratio indicates, the smaller the company's ability to meet its financial obligations [9]. Cash is an important asset in financial reports. Little cash will certainly slow down the activities of LKM-A PUAP Subur and hinder it from paying its obligations. Therefore, so that cash can always be available, it can be done by adding new members so that the funds deposited will increase [6].

The financing ratio to funds received is used to measure the ability of LKM-A PUAP Subur to distribute its funds [7]. The results of the analysis of the financing ratio to funds received by LKM-A PUAP Subur in 2019-2022 show fluctuating figures, where in 2019 to 2020, there was a decrease and then an increase from 2020-2022. The highest financing ratio result was in 2022, which reached 238.68%, which means that every current debt of IDR 1,- can be guaranteed by IDR 238.68 with the funds received. The results of the analysis show that the financing ratio to funds received for the period 2019-2022 is in the liquid category (Table 2).

Table 2. Recapitulation of liquidity, solvency, and profitability ratios LKM-A PUAP Subur 2019-2021

| No. | Ratio | Years (%) | | | |
|-----|-----------------------------------|-----------|--------|--------|--------|
| | | 2019 | 2020 | 2021 | 2022 |
| 1. | Liquidity Ratio | | | | |
| - | Cash Ratio (CR) | 26.29 | 55.49 | 48.67 | 40.69 |
| - | Financing Ratio to Funds Received | 234.91 | 211.23 | 223.80 | 238.68 |
| 2. | Solvency | | | | |
| - | Debt to Asset Ratio (DAR) | 64.84 | 70.43 | 70.58 | 70.32 |
| - | Debt to Equity Ratio (DER) | 184.39 | 238.18 | 239.94 | 236.92 |
| 3. | Profitability Ratio | | | | |
| - | Net Return on Asset (ROA) | 6.73 | 4.54 | 5.16 | 4.96 |
| - | Net Return on Equity (ROE) | 19.14 | 15.36 | 17.53 | 16.72 |

Source: Primary data processed (2024)

3. Solvency Ratio

To measure the ability of LKM-A PUAP Subur to pay all its obligations, both long-term debt and short-term debt, a solvency ratio analysis was carried out [10,11]. Based on the results of the calculation of the financial condition of LKM-A PUAP Subur, in 2019, the Debt to Asset Ratio (DAR) value reached 64.84%, which means that every total asset of IDR 64.84 can be financed by a debt of IDR 1,-. Furthermore, in 2020-2021 the Debt to Asset Ratio (DAR) value of LKM-A PUAP Subur increased by 70.43% and 70.58% respectively. However, in 2022 it decreased by 0.26%, namely 70.32%. The debt to asset ratio (DAR) value of LKM-A PUAP Subur in the last four years, 2019-2022, is in the poor category (Table 2). This indicates that the risk faced by LKM-A PUAP Subur is getting bigger because it has not been able to overcome its total debt. The increase in total debt each year is not followed by an increase in total assets, so it can be said to be quite risky [12]. Furthermore, to find out how much equity is used to guarantee LKM-A PUAP Subur's debts, the Debt to debt-equity ratio (DER) calculation is carried out [13]. Table 1 shows that the highest DER value of LKM-A PUAP Subur was in 2021, reaching 239.94%, which means that every total debt of IDR 1 can be guaranteed by the capital of IDR 239.94. However, during the 2019-2022 period, the Debt to Equity (DER) calculation analysis results were included in the criteria of not good or even bad (Table 2).

4. Profitability Ratio

Based on the calculations that have been carried out, it is found that the financial ratio of LKM-A PUAP Subur based on the Net Return on Asset (ROA) value in 2019 was 6.73%. Then it decreased in 2020 by 2.19% or had a value of 4.54%; in 2020, it rose again by 5.16%. However, in 2022, it decreased again by 0.2% or had an ROA value of 4.96%. This ROA value shows how efficiently management uses its assets [14]. The highest ROA value of LKM-A PUAP Subur was in 2019, which shows that each capital capacity against LKM-A PUAP Subur assets generated a net profit of 6.73%, where each total asset of IDR 1 - generated a surplus of IDR 0.06. Overall, the ROA value of LKM-A PUAP Subur during 2019-2022 was fairly good. Furthermore, the results of the analysis of the calculation of the Net Return on Equity (ROE) of LKM-A PUAP Subur during 2019-2022 tend to fluctuate, where the lowest ROE value was in 2020 at 15.36%, and the highest ROE value was in 2019 at 19.14% (Table 1). The higher the ROE value, the higher the profit because the more efficient the invested capital [7]. For example, in 2019, the ROE value of LKM-A PUAP Subur was 19.14%, which means that the capital ability of LKM-A PUAP Subur to generate a net profit of 19.14%, where every capital of IDR 1 - produces a surplus of IDR 0.19. During 2019-2022, the ROE value of LKM-A PUAP Subur showed good criteria (Table 2).

Table 3. Category results of liquidity, solvency, and profitability ratios LKM-A PUAP Subur 2019-2021

| No. | Description | 2019 | 2020 | 2021 | 2022 |
|-----|-----------------------------------|-------------|-------------|-------------|--------------|
| 1. | Liquidity Ratio | | | | |
| - | Cash Ratio (CR) | Liquid | Less Liquid | Less Liquid | Quite Liquid |
| - | Financing Ratio to Funds Received | Liquid | Liquid | Liquid | Liquid |
| 2. | Solvency | | | | |
| - | Debt to Asset Ratio (DAR) | Not Good | Not Good | Not Good | Not Good |
| - | Debt to Equity Ratio (DER) | Not Good | Bad | Bad | Bad |
| 3. | Profitability Ratio | | | | |
| - | Net Return on Asset (ROA) | Fairly Good | Fairly Good | Fairly Good | Fairly Good |
| - | Net Return on Equity (ROE) | Good | Good | Good | Good |

Source: Primary data processed (2024)

D. Conclusion

Based on the research results, it can be concluded that the cash ratio and the ratio of financing to funds received LKM-A PUAP Subur 2019-2022 were liquid, which means that LKMA-PUAP Subur's ability to pay off its short-term debts was quite good, so that the performance of LKMA-PUAP Subur was good. Solvency analysis with debt to assets and debt to equity criteria is not good, which means that LKMA-PUAP Subur's ability to pay off its long-term debts is not good, so it can be said that its performance is not good. The profitability ratio analysis using the net return on assets ratio and return on equity ratio shows fairly good criteria, which means that the performance of LKMA-PUAP Subur is good in generating operating profits. LKM-A PUAP Subur's bad solvency ratio can be overcome by implementing efficiency and providing liquid assets to pay its debt.

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