NON-PERFORMING FINANCING RISK MANAGEMENT IN MURABAHAH AGREEMENTS AT BAITUL QIRADH ARAFAH SAVINGS AND LOAN COOPERATIVE, MATANGKULI SUBDISTRICT

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Abstract
The Sharia Financing Savings and Loan Cooperative (KSPPS) engages in various financial activities, including trade financing based on a Murabahah contract, which involves payments due at maturity. Such funding is inherently prone to risks, necessitating effective measures to manage Non-performing financing and maintain the financial stability of the cooperative through comprehensive risk management practices. This study examines the risk management strategies employed by the Baitul Qiradh Arafah Cooperative in addressing Non-performing Financing. The findings indicate that the cooperative's risk management approach includes a thorough evaluation of prospective customers' character and financial capacity, assessment of their financial conditions, adherence to the terms stipulated in financing agreements, evaluation of collateral requirements, identification of potential default risks, implementation of mitigation strategies, and consistent monitoring activities.
***Keywords**: Risk Management, Non-Performing Financing, Murabahah, Savings Cooperatives.*

INTRODUCTION

Islamic financial institutions play a pivotal role in fostering economic development aligning with Islamic principles. These institutions provide an alternative for communities to meet their financial needs while serving as strategic tools to achieve economic objectives rooted in Sharia values. Islamic finance is not confined to serving large corporations; it also extends its services to broader communities by introducing Sharia-compliant financial solutions. Consequently, Islamic Microfinance Institutions (LKMS) significantly enhance the welfare of Micro, Small, and Medium Enterprises (MSMEs), support community development, and fulfil social responsibilities. According to Euis Amelia, the role of LKMS in various forms is highly strategic for strengthening community economies, particularly for small and micro-enterprise development.

Islamic cooperatives, which adhere to Sharia principles, contribute to fostering a sustainable and equitable economy. Cooperatives have long been an integral part of Indonesia's economic development. The Sharia Financing Savings and Loan Cooperative (KSPPS) engages in various financial activities, including profit-sharing financing (Mudharabah), partnership-based financing (Musyarakah), trade financing with deferred payment (Murabahah), trade financing through instalments (ba'i), and interest-free loans limited to administrative costs (qard al-hasan).

In general, financing refers to the provision of funding facilities to support productive business activities or investments. It involves funds allocation for capital collaboration between a cooperative and its members, prospective members, other cooperatives, or their members. Recipients of financing are obligated to repay the principal amount received by the cooperative, as stipulated in the contract, along with a share of the income or profit generated from the financed activity or use of the funds.

Murabahah trade financing is one of the primary products offered by Sharia Financing Savings and Loan Cooperatives. In Islamic jurisprudence (fiqh), Murabahah is defined as a sales contract in which the seller discloses the purchase price of the item to the buyer and specifies a profit margin. According to DSN-MUI Fatwa No. 04/DSN-MUI/IV/2000, Murabahah involves selling an item by disclosing its purchase price to the buyer, who pays a higher price to include a profit margin. This definition underscores that in Murabahah transactions, the purchase price, selling price, and profit margin must be transparently communicated to all parties involved.

Although the conditions and requirements of Murabahah financing are typically fulfilled, a potential risk arises when customers face challenges in meeting their instalment obligations. This situation often leads to delayed payments or, in some cases, defaults, resulting in non-performing financing. Non-performing financing refers to the provision of funds by financial institutions, such as Islamic banks, where customers fail to meet their repayment commitments. It includes financing that underperforms, financing that does not comply with agreed-upon terms, and financing that deviates from the scheduled repayment plan. These issues can have significant negative impacts on both the financial institution and the customers involved. Non-performing financing is a key indicator for evaluating the performance of savings and loan cooperatives. An increase in non-performing financing significantly heightens the risk of declining profitability. If profitability decreases, the cooperative's ability to expand its financing operations diminishes, and the overall pace of financing slows down.

Therefore, non-performing financing requires proper mitigation to maintain the financial health of cooperatives, which can be achieved through risk management. Risk management is a series of procedures and methods to identify, measure, monitor, and control risks arising from a company's business activities. According to Adiwarman Karim, the objective of risk management policies is to identify, measure, monitor, and control the business operations of banks at a reasonable level of risk in a directed, integrated, and sustainable manner. Thus, risk management functions as a filter or an early warning system for potential risks in banking operations.

In Matangkuli Subdistrict, North Aceh Regency, the Sharia Savings and Loan Cooperative (KSPPS) Baitul Qiradh Arafah has been operating since 2007, offering savings and loan services based on Sharia principles. As of now, KSPPS Baitul Qiradh Arafah serves approximately 3,263 members, who are residents of Matangkuli, Tanah Luas, Nibong, and Paya Bakong subdistricts.

The Baitul Qiradh Arafah Cooperative provides both consumptive and productive financial products. One of the most sought-after productive financing products is Murabahah financing, widely used by Micro, Small, and Medium Enterprises (MSMEs) to strengthen their business capital. To mitigate the risk of Non-performing financing, the cooperative enforces specific terms and procedures for members seeking financing under Murabahah contracts. In conducting its financing activities, Baitul Qiradh Arafah adopts a cautious approach to minimize business risks. It is achieved through the application of risk management practices, including adherence to the 5C principles: Character, Capacity, Capital, Condition, and Collateral. Despite these precautionary measures, cases of non-performing financing persist. Some cooperative members who received financing could not fulfil their repayment obligations as stipulated in the financing agreement.

For further details, the data on non-performing financing cases is presented in the following table.

Table I. Non-Performing Financing in Arafah Cooperative, Matangkuli.

Year	Current	Substandard	Doubtful	Non-Performing	Total Accounts
2021	190	13	8	4	215
2022	148	16	5	5	174
2023	92	10	6	74	183

Based on the description above, the author intends to conduct research titled Management of Non-performing Financing Risk in Murabahah Contracts at the Baitul Qiradh Arafah Savings and Loan Cooperative, Matangkuli District, North Aceh Regency..

RESULT DAN DISCUSSION

1. Financing Risk Management in Cooperatives

Financing risk refers to the risk arising from the failure to meet obligations, whether related to production or the cooperative's financing activities. Therefore, cooperatives, as non-bank financial institutions, must implement effective risk management. Financing risks may occur due to factors such as credit (fund provision), treasury and investments, and trade financing. This is because, in the feasibility assessment process, BI Checking (historical checks, credit/loan quality) is not used, as the cooperative does not yet have access to the Debtor Information System (SID) from the Financial Services Authority (OJK).

2. Risk Management of Non-Performing Financing in the Cooperative

Financing risk is a risk caused by failure to fulfil obligations, both related to production and cooperative financing. Non-performing Financing is defined as "financing that is not smooth, namely the customer is not competent in the agreement contained in the contract, cannot meet the instalment payment schedule so that there are arrears in debt. Therefore, cooperatives are non-bank financial institutions that need to implement risk management. Risk management is defined as a logical and systematic method of identifying, quantifying, determining attitudes, determining solutions and monitoring and reporting risks that occur in each activity or process. Financing risks can arise from credit (fund provision), treasury and investment activities, and trade financing. It is due to the absence of a BI Checking process (a historical review of credit or loan quality) during the feasibility assessment, as the cooperative has not yet obtained authorization for access to the Debtor Information System (SID) from the Financial Services Authority (OJK).

The implementation of financing risk management must be carried out continuously to address the growing risk of instalment arrears. Therefore, a comprehensive evaluation is essential to identify solutions for each financing risk encountered. One approach involves applying the 5C principle in the financing process. The provision of financing by Islamic cooperatives must adhere to the principle of assessment, commonly referred to as financing analysis, which typically employs the 5C framework. This framework is used to assess the customer's eligibility for financing with greater confidence. According to Kasmir, the 5C analysis encompasses the following:

a. Character (Personality)

Character refers to the traits or characteristics of a debtor. The personality being analysed is the character of an individual who will be granted financing and must be genuinely trustworthy. Character is a crucial factor in evaluating prospective members. Financial institutions must ensure that potential debtors possess good character, uphold their promises, and are willing to fulfil their obligations as stipulated in the initial agreement.

Several aspects to consider regarding the character of prospective debtors include their history with the bank, specifically:

1. Debts history
2. Reputation in business and finance
3. Management
4. Business legality

b. Capacity (Ability)

The analysed ability refers to the customer's capacity to pay. This analysis provides insights into how prospective customers manage their businesses. Financial institutions must assess the ability of prospective customers as it determines the potential income they may generate in the future. Prospective customers are more likely to succeed if they manage their businesses effectively.

c. Capital

The capital analysed refers to the amount of personal capital owned by the prospective borrower. Financial institutions must evaluate the capital held by prospective borrowers before providing financing. A higher amount of capital reflects a stronger commitment from the borrower to their business, enhancing the financial institution's confidence in extending credit. Furthermore, this evaluation aims to assess the prospective borrower's business capacity to bear the financing burden and manage potential risks that the business may encounter.

d. Collateral

Collateral assessment is one of the most critical aspects for banks, as it helps mitigate financing risks arising from potential non-performing loans (Mulyati & Dwiputri, 2018). The collateral refers to the guarantees by prospective debtors, whether physical or non-physical. Ideally, the collateral provided should exceed the amount of financing granted, as higher collateral increases the financial institution's confidence and sense of security in the borrower. Collateral serves two primary functions: first, as a means of debt repayment if the debtor cannot fulfil their financing obligations, and second, as a determinant for the amount of financing. The 5C principle is sometimes expanded with an additional "C," referring to as "constraint," which addresses potential obstacles that may prevent business operations.

Risk Management in Non-Performing Financing Conducted by Sharia Savings and Loan Cooperatives

Islamic financial institutions operate under the philosophy of seeking Allah's pleasure to achieve virtue in both this world and the hereafter. Therefore, any activity within a financial institution that risks deviating from religious principles must be strictly avoided. Consequently, every transaction conducted by Islamic institutions must adhere to a profit-sharing system or trade and involve money exchange for goods. Regarding financing implementation, Islamic financial institutions must fulfil the Sharia aspect. It requires that all financing activities remain guided by Islamic law, ensuring the absence of elements such as gambling (Maysir), uncertainty (Gharar), and usury (Riba). Additionally, the business activities involved must be halal.

The Arafah Sharia Savings and Financing Cooperative in Matangkuli District operates as a non-bank financial institution, with financing as one of its primary business activities. Among its financing products, Murabahah is the most sought-after by customers. In this arrangement, the cooperative fully provides the goods and earns a profit margin agreed upon by both parties. Payment is made based on the terms of the agreement, structured as a sale and purchase transaction. In its financing operations, the Baitul Qiradh Arafah Cooperative adopts a cautious approach to minimize the risk of business failure. Financing risk arises from a customer's inability to fulfil their obligations to the cooperative. To address this, the cooperative implements comprehensive risk management practices throughout the financing process. Adherence to rules and Standard Operating Procedures (SOPs) significantly reduces the likelihood of risk, with the risk percentage being negligible when such guidelines are followed. However, inherent risks remain, as all human efforts ultimately rely on divine will. Despite this, strict compliance with established rules and procedures ensures smoother operations and enhances overall performance. Many potential risks hinder financing. Therefore, the first step of the Arafah Sharia Savings and Loans Cooperative, Matangkuli subdistrict, in the risk management process is to identify the dangers or threats of risk.

According to Awaluddin, financing risk management should be applied continuously in line with the potential risk of customer arrears. Risk management is the application of management principles to address the risks faced by cooperatives. Therefore, the implementation of financing risk management at the Arafah Cooperative is a process of identification, evaluation, and mitigation of risks related to financing at the Arafah Cooperative. The steps taken in financing risk management include risk identification, which involves identifying the sources of risk and determining whether they are internal or external; risk evaluation, where after risks are identified, an evaluation must be carried out to determine the potential impact and the likelihood of the occurrence of these risks; risk mitigation, where the Arafah Cooperative takes actions to reduce the effect of risks and optimize available opportunities; and finally, monitoring and supervision of risks, which involves continuously monitoring risks to ensure the success of the risk mitigation measures.

The provision of financing by the Arafah Sharia Cooperative in the Matangkuli subdistrict is under an assessment principle or financing analysis. This analysis is used to assess the eligibility of customers for financing. The management of the Baitul Qiradh Arafah Cooperative conducts risk identification with a focus on examining the character and capacity of potential customers. The cooperative must evaluate the customer’s personality and assess their ability to meet commitments. Additionally, the principles of the customer are substantial, ensuring that they are motivated to grow, free from malicious intent, and honest. Furthermore, the cooperative evaluates the individual’s personality to ensure their suitability for financing.

According to Awaluddin, to obtain data regarding the background of potential customers' businesses, customers must first fulfil the required documentation to assess the business's feasibility because the Baitul Qiradh Arafah Cooperative anticipates risks by conducting feasibility surveys, thereby strengthening the analysis of financing eligibility. Therefore, potential customers wishing to obtain financing from the Baitul Qiradh Arafah Cooperative in Matangkuli must meet the following requirements:

a. Must have been a customer of the Baitul Qiradh Arafah Cooperative in Matangkuli for at least 2 weeks.
b. Must have a savings balance of Rp. 100,000.
c. Must have a business domicile in Matangkuli and its surrounding areas.
d. Must complete the financing application form.
e. A photocopy of the husband/wife's ID card (KTP) and the Family Card.
f. Two colour passport-sized photographs (3 x 4 cm).
g. A letter of consent from the husband/wife.
h. A business certificate issued by the village head.
i. Willing to provide a profit margin for Murabahah transactions.

j. The repayment period can be 3, 6, 10, 12, or 24 months.
k. Willing to undergo a survey at the business location.

According to Zulfadli, to strengthen the business feasibility analysis, the cooperative must survey approving financing. The survey is carried out at the prospective customer's business location by consulting with village leaders and neighbours regarding the legality of the customer's business. One of the key considerations is the recommendation in the form of a business license for the prospective customer, issued by the village government, which is the requirement for the business proposal completeness. Regarding the business conditions, the development of the customer's business is evaluated, including how long the business has been in operation.

According to Zulfadli, the Baitul Qiradh Arafah Cooperative also evaluates the personality of the prospective customer. The personality assessment focuses on assessing the character of the individual applying for financing to ensure they are trustworthy. The cooperative must be confident that the prospective customer possesses good character, honours their commitments, and is willing to repay their obligations on time, as outlined in the previously agreed-upon contract. Several factors are considered when assessing the character of a prospective customer, including an examination of their business background, such as whether they have ever defaulted on payments with other financial institutions. So, it implies that a customer may obtain financing from multiple financial institutions, provided their business is sound and coordinated with other institutions. Additionally, the cooperative evaluates whether the prospective customer tends to delay debt repayments and assesses the legality of their business operation.

The capital being analysed refers to the personal capital owned by prospective clients. The Baitul Qiradh Arafah Cooperative must assess the amount of capital held by prospective clients before providing financing, as a larger amount of capital indicates a higher level of commitment by the client to their business. This analysis ensures that the cooperative feels more confident in granting financing and aims to evaluate the prospective client’s business capability to bear the required financing burden and handle potential risks that the business may face.

Additionally, an analysis is conducted to determine whether the client has previously received financing from other financial institutions and whether their payments are on time. If prospective clients/customers have experienced arrears with other financial institutions, the reasons behind these arrears are examined—whether due to intentional actions or unfavourable business conditions. This analysis provides insight into the business management capabilities of prospective customers, and the cooperative must understand their abilities, as this can influence the magnitude of their customers' future income.

Also, the Baitul Qiradh Arafah Cooperative needs to analyze the prospective customers' collateral. Therefore, the collateral provided is a guarantee that exceeds the amount of financing because greater collaterals will increase the peace of mind and trust of the Baitul Qiradh Arafah Cooperative towards prospective customers.

The further process to prevent risk after the fund's disbursement is monitoring and controlling the risk by conducting visits by AO officers once a week or every day during working hours. So that with this step, they know the risks that can be detected as early as possible. Before the customer experiences bad financing, we will mitigate or prevent losses, such as by carrying out intensive collection. In general, the parties involved in the Baitul Qiradh Arafah Cooperative, as in Sharia cooperatives, have different roles and responsibilities to ensure that operations run according to Sharia principles and mandates.

Based on the explanation above, it is evident that the risk management undertaken by the Baitul Qiradh Arafah Cooperative begins as soon as a customer submits a financing proposal. The cooperative requires prospective customers to provide the necessary documentation. Once the data is submitted, the cooperative surveys the prospective customer's location. Then, the information gathered during the survey is used to assess the financing risk of the prospective customer. The Baitul Qiradh Arafah Cooperative evaluates financing risks by considering the character and capacity of prospective customers, their financial condition, the terms outlined in the financing agreement, collateral aspects, the potential for default, and the customer's ability to manage such failures. After disbursing the funds, the cooperative implements risk monitoring and control measures, including regular visits by the financing department, conducted daily or weekly.

CONLUSION

The Baitul Qiradh Arafah Cooperative implements risk management from when a customer submits a financing proposal. Prospective customers are required to complete all necessary documentation. Once the data is submitted, the Cooperative conducts an on-site survey at the prospective customer's location.

The Cooperative assesses financing risks by evaluating the character and capacity of prospective customers, financial condition, the terms of the financing agreement, collateral aspects, and the potential for payment defaults, as well as their capacity to manage such defaults.

After the funds are disbursed, risk monitoring and control are carried out through regular visits by the financing department, conducted daily or weekly..

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