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The Performance of Islamic Microfinance Institutions in the COVID-19 Pandemic: Is Asset Quality Important?

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COVİD-19 Pandemisinde İslâmî Mikro Finans Kurumlarının Performansı: Varlık Kalitesi Önemli mi?

Abstract

This research aimed to analyse the moderating impact of non-performing financing on the effect of the distribution of murabahah financing and ijarah financing on the return on assets of Islamic microfinance institutions. The research method used was quantitative, using regression panel data. As for the research results, it is known that ijarah financing has no significant effect on increasing the return on assets of Islamic microfinance institutions. Meanwhile, murabahah financing positively and significantly affects increasing return on assets. Furthermore, the non-performing financing variable becomes a moderating variable that weakens the relationship between the distribution of ijarah financing and murabahah financing to the return on assets of Islamic microfinance institutions. The novelty of this study is to link the quality of the funding with the financial performance of Islamic microfinance institutions during the COVID-19 pandemic.

Keywords : Islamic Microfinance Institution, Murabahah Financing, Ijarah Financing, Return on Assets, Non-Performing Financing.

JEL Classification Codes : F65, G15, G22.

Öz

Bu araştırmanın amacı, murabaha finansmanı ve icare finansmanının İslâmî mikro finans kurumlarının aktif kârlılığı üzerindeki etkisini analiz etmektir. Panel veriler kullanılarak bir regresyon analizi yapılmıştır. Araştırma sonuçlarına göre, icare finansmanının İslâmî mikro finans kurumlarının varlık getirisini artırmada önemli bir etkisi olmadığı görülmüştür. Öte yandan, murabaha finansmanının aktif kârlılığını artırmada pozitif ve anlamlı bir etkisi vardır. Ayrıca, takipteki finansman değişkeni, icare finansmanı ve murabaha finansmanının dağılımı ile İslâmî mikro finans kurumlarının varlık getirisi arasındaki ilişkiyi zayıflatan ılımlı bir değişken haline gelmektedir. Bu

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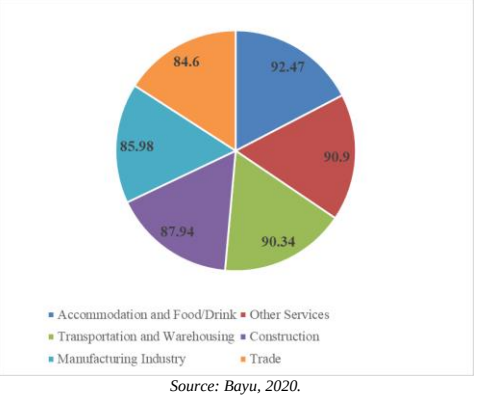
araştırma, COVİD-19 salgını sırasındaki finansman kalitesi ile İslâmî mikro finans kurumlarının finansal performansı arasındaki ilişkiyi açıklayarak literatüre katkı sağlamaya çalışmaktadır.

Anahtar Sözcükler : İslâmî Mikro Finans Kurumu, Murabaha Finansmanı, İcara Finansmanı, Aktif Kârlılığı, Takipteki Finansman.

1. Introduction

The extraordinary event of the COVID-19 pandemic has disrupted all business segments, including the micro-segment. This condition is different from the monetary crisis in the 1997-1999 period, where the micro, small and medium enterprises (MSMEs) segment persisted, and many corporate business segments went bankrupt (Matoenji et al., 2021; Nugroho & Tamala, 2018; Sudarsono, 2009). During the monetary crisis, many entrepreneurs in the corporate segment used foreign debt as their working capital, while micro-entrepreneurs relied on their capital or used debt from local financial institutions (Beisland et al., 2019; Nugroho, 2015). Moreover, during the COVID-19 pandemic, this condition disrupted all business segments, including micro and small businesses, because of the restrictions on community mobility to mitigate the spread of COVID-19 (Koren & Pető, 2020). Policies that impact the business activities of micro and small businesses are the work-from-home (WFH) policy and the school-from-home (SFH) policy because micro and small businesses are the informal sectors that rely on their business through physical meetings. Therefore, the WFH and SFH policies impact sales turnover due to declining public consumption demand (Chang et al., 2020; Van Assche & Lundan, 2020). This condition is indicated by the six MSME business sectors that are most affected by the policy, which is shown in Figure 1 below:

Figure: 1
Six MSME Business Sectors with The Largest Decline in Income During The COVID-19 Pandemic



Source: Bayu, 2020.

Related to Figure 1 above, it is known that the accommodation and food/beverage sector is the sector most affected by the decline in income by 92.47%. Furthermore, the second-ranked sector affected by the decrease in revenue was the other services sector by 90.9%, and the third rank was the transportation and warehousing sector, which experienced a decline in income of 90.34%. Furthermore, the construction sector was ranked fourth, with a decrease in revenue of 87.94%; the fifth was the manufacturing sector, with a decline of 85.98%. Finally, the last rank is the trade sector, with a decreased income of 84.6%. In addition, other research also stated that the COVID-19 pandemic disrupted the sustainability of MSME businesses, where 87.5% of MSMEs experienced a decline in sales turnover (Saputra, 2021).

Moreover, the decline in income in several business sectors and MSMEs can impact decreasing debtors' ability to pay their instalment obligations. Nevertheless, according to Santia (2020), the COVID-19 pandemic has caused Islamic microfinance institutions to face two challenges. The first challenge is the declining liquidity of Islamic microfinance institutions due to the large number of customers who have experienced layoffs and the number of entrepreneurs who have gone bankrupt. Meanwhile, the second challenge during the COVID-19 pandemic faced by Islamic microfinance institutions is the potential for increased financial risk, namely the decreased ability to pay from the debtor.

Another phenomenon is that several regions in Indonesia have a relatively high number of COVID-19 sufferers, namely the province of East Java. Moreover, East Java Province in September 2021 became the province in Indonesia that contributed the highest number of positive cases of COVID-19 in Indonesia, namely 427 patients infected with the virus (Latifa & Putranto, 2021). Therefore, with the high number of positive COVID-19 cases in East Java, East Java has the highest COVID-19 death rate in Indonesia, which is 7.4% (Azmi, 2021). On the other hand, according to Octaviano & Hidayat (2022), 70% of Islamic and microfinance institutions in Indonesia during the COVID-19 pandemic encountered financial challenges. This challenge was caused by the COVID-19 Pandemic, which impacted liquidity difficulties for Islamic microfinance institutions and institutions where internal and external capital experienced a decline. In addition, the liquidity problem was due to customers not paying their instalments, and some withdrew their deposits. The COVID-19 pandemic has caused major disruptions in global and national economies. Many countries have experienced significant economic recession or slowdown. This has impacted the incomes of households and small businesses, the main clients of microfinance institutions (MFIs). The decrease in revenue makes it difficult for clients to repay their loans. Furthermore, the pandemic causes high uncertainty regarding health, the economy, and the future (Belitski et al., 2022; Imaduddin et al., 2023). As a result, MSMEs tend to refrain from taking new financial risks, including applying for loans from microfinance institutions. In addition, difficult economic conditions during the pandemic may lead to increased credit risk. Many clients who were previously able to manage their loan repayments well may suddenly experience difficulties due to sudden economic changes (Nugroho et al., 2022; Salsabilah et al., 2023). This can increase the number of non-performing loans and hurt the portfolio quality of microfinance institutions. The COVID-19 pandemic has also reduced

the repayment ability of MSMEs, as the pandemic has caused a decrease in income for many MSMEs, which means that MSMEs may not have sufficient funds to pay their loan instalments. In addition, MSMEs have to change their spending priorities during the pandemic. For example, they may have to allocate funds for basic operational costs or procurement of raw materials rather than paying loan instalments.

Related to Bumacov et al. (2017), Nugroho et al. (2017), and Postelnicu et al. (2019), one of the main activities of a microfinance institution is channelling its funds to the public. Therefore, the primary income from microfinance institutions is from interest or margin and profit-sharing from Islamic microfinance institutions (Fianto et al., 2018; Nugroho, 2014). However, the COVID-19 pandemic has hit the whole world, which has caused a decline in the public's ability, including debtors from Islamic microfinance, which can potentially reduce the asset quality of the Islamic microfinance institution. Regarding Badawi et al. (2021) and Nugroho et al. (2021), there are several ways to improve performance, including improving financing quality and reducing expenses or overhead costs so that income from microfinance institutions can be optimal.

Furthermore, based on the high cases of COVID-19 in East Java province, which caused a decrease in MSME income that has the potential to have an impact on the performance of Islamic microfinance institutions, the formulation of the problem in this study includes (i) Does the working capital financing (murabahah financing) distribution affect the performance of Islamic microfinance institutions; (ii) Does the distribution of investment financing (ijarah financing) affect the performance of Islamic microfinance institutions; (iii) Does the quality of financing moderate the effect of murabahah financing distribution on the performance of Islamic microfinance institutions; (iv) Does the quality of financing moderate the effect of ijarah financing distribution ratio on the performance of Islamic microfinance institutions.

Therefore, this study aims to analyse the factors that can affect the main business of Islamic microfinance, namely the distribution of financing on performance. Furthermore, the novelty of this study is to analyse the relationship of asset quality as a moderating influence of financing distribution on the performance of Islamic microfinance institutions during the COVID-19 pandemic in East Java province. Thus, the implication of this research is to provide scientific treasures for all stakeholders in Islamic microfinance institutions and provide input to decision-makers related to asset quality in maintaining the performance of the Islamic microfinance institution.

2. Literature Review and Research Framework

In Indonesia, Islamic microfinance institutions, or Baitul Mal wat Tamwil (BMT), have reached 4500 units spread throughout Indonesia (Karyanto et al., 2021). Islamic microfinance is a financial institution with a strategic role as an intermediary institution that collects, manages, and allocates funds to productive sectors. Therefore, Islamic microfinance institutions increase society's productivity and low-income people (Adnan &

Ajija, 2015; Arafah & Nugroho, 2016). Furthermore, in terms of the function of the Islamic microfinance institution, community business activities will result in economic growth supported by the real sector so that the fundamentals of the economy will be better because fluctuations in the stock market index do not cause real economic growth (Nugroho & Nugraha, 2020; Rahim Abdul Rahman, 2010).

In addition, Islamic microfinance institutions aim not only to gain profit (financial aspect) but also to alleviate poverty and improve the welfare of the community, primarily low-income people (social aspect) (Alkhan & Hassan, 2021; Wulandari et al., 2016). Islamic microfinance institutions also focus on aspects of spirituality, namely through mental development and socialisation (Da'wah) to customers and the surrounding community so that they have the will and motivation to improve their economy to be more viable (Akram Laldin & Furqani, 2013; Ihwanudin et al., 2020). Furthermore, several Islamic microfinance institutions are concerned about environmental aspects, namely counselling customers don't use plastic bags and providing free trash cans to keep their environment clean (Alhammadi, 2022; Nugroho et al., 2020; Rosita Butarbutar et al., 2021). In general, microfinance institutions in Indonesia are divided into two, namely banks and non-banks. Non-banks are divided into formal microfinance institutions, pawnshops, and ventures. Meanwhile, non-formal microfinance providers are non-governmental organisations (NGOs). Moreover, historically, microfinance institutions in Indonesia have existed since the Dutch era through the Village Credit Board (BKD), which is under the local village government. Subsequently, BKD transformed into village community guidance (BIMAS), later becoming BRI Village Units in 1973 (Gunawan & Banjarnahor, 2019). However, the history of Islamic microfinance institutions in Indonesia began in 1992 with BMT Bina Insan Kamil in Jakarta. In Indonesia, Islamic microfinance institutions have several names, including Baitul Mal wat Tamwil (BMT), and the Indonesian government officially calls it the Islamic Cooperative.

The fundamental difference between conventional microfinance institutions and Islamic microfinance institutions, according to Nugroho et al. (2022), Imani et al. (2022), and Nugroho (2022), is in their contracts because the contracts of Islamic microfinance institutions are based on sharia principles, namely prohibiting transactions containing maysir (gambling), gharar (uncertainty), and riba (interest rate). Furthermore, there are two types of credit for customers in microfinance institutions: working capital loans and investment loans. The definition of working capital credit is credit given to entrepreneurs and fixed-income groups (workers) as additional funds or financing that aims to meet the business working capital needs of entrepreneurs and the consumptive needs of workers. Meanwhile, the definition of investment credit is credit given to entrepreneurs to finance the construction of infrastructure and production facilities or equipment. Furthermore, the fixed income group can use the credit to purchase or house renovation, purchase motor vehicles, and do other productive activities. However, disbursement to Islamic microfinance institutions for working capital loans uses murabahah contracts more, while investment loans use ijarah contracts.

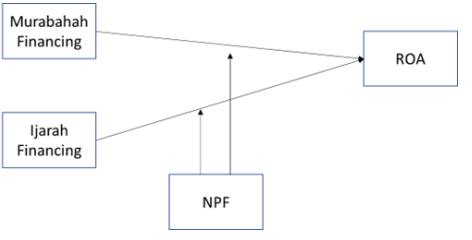
Moreover, the distribution of financing to Islamic microfinance institutions must also be based on the principle of prudence; namely, a feasibility analysis ensures that the loan can be returned following the terms and commitments. These aspects include (i) Willingness to pay or the debtor's intention to pay in terms of character, moral obligations, and legal obligations, and (ii) Capacity to pay or the ability and capacity to pay debtors based on their financial strength, capital and collateral (Wette, 1983). On the other hand, there is a classification of financing quality where financing in arrears of more than three months is included in funding non-performing (Muniarty et al., 2020; Suprapty et al., 2021).

Reputation for financial institutions, including Islamic microfinance institutions, is essential in maintaining operational sustainability. Therefore, profitability is one of the most critical aspects in measuring the performance of Islamic microfinance institutions. According to Bukit & Anggono (2013) and Utami et al. (2021), the profitability ratio is the return on assets (ROA), which shows the extent to which a company can manage its assets and provide optimal profits. Furthermore, optimal profits from managing productive assets will increase investors' confidence and deposit owners in Islamic microfinance institutions.

During the COVID-19 pandemic, where there were restrictions on mobility, there was a decrease in business transactions and consumption, causing turnover or sales volume from the community to experience a significant decline. Therefore, the reduction in company turnover was due to business closures, so some workers also experienced the impact of layoffs (Shafi et al., 2020). In addition, the COVID-19 pandemic has led to a decline in people's incomes, which can potentially reduce the ability to pay instalments of those with loan payment obligations at Islamic microfinance institutions.

Based on the literature review above, the conceptual framework of the research is as follows:

Figure: 2
Conceptual Framework of Research



Hypothesis development is needed to analyse and discuss the problem formulation in research. Therefore, referring to Figure 2 above, the development of research hypotheses includes:

- The distribution of murabahah financing affects the performance of Islamic microfinance institutions during the COVID-19 pandemic (Edriyanti et al., 2020; Rizky & Azib, 2021). Supporting economic mobility in the community is obligatory even during the COVID-19 pandemic as a microfinance institution. In addition, financing with Murabahah contracts is a working capital credit. The murabahah contract is for Low-income people, especially micro-entrepreneurs who need a replacement for working capital used for treatment if their family members are affected by COVID-19. The murabahah financing products at Islamic microfinance institutions have a relatively short period, namely a maximum of 3 years. Thus, although there is an additional risk during the COVID-19 pandemic, Islamic microfinance institutions must channel the funds they collect from communities. Therefore, the distribution of murabahah financing during the COVID-19 pandemic affects ROA.
- The distribution of ijarah financing to Islamic microfinance institutions affects the performance of Islamic microfinance institutions. This is because the funding with the ijarah agreement is an investment credit with a period of more than three years and a maximum of five years (Wijanarko et al., 2023). During the COVID-19 pandemic, several entrepreneurs continue to invest in maintaining business continuity by purchasing technology equipment and equipment to accommodate current transaction needs. Therefore, the distribution of ijarah financing during the COVID-19 pandemic affects ROA.
- During the COVID-19 pandemic, there is a potential for deterioration in asset quality from financing. Therefore, there is the potential that non-performing financing (NPF) will be a moderating variable of the effect of murabahah financing on ROA (Astohar, 2014).
- The same thing also happened to ijarah financing products, where there was a potential for deterioration in financing quality during the COVID-19 pandemic. Therefore, NPF is a moderating variable of the effect of ijarah financing on ROA (Astohar, 2014).

3. Methodology

The research method used in this study is a quantitative approach that aims to test the effect of the independent variable on the dependent variable. This study has two independent variables, namely Murabahah Financing and Ijarah Financing. One dependent variable is Financial Performance (Return on Assets-NPF), and the moderating variable is Non-Performing Financing (NPF). The population in this study is Islamic microfinance institutions located in the East Java Region. The sample used in this study is 30 Islamic microfinance institutions with a research period of 2019-2020. This research uses panel data type with the data source in secondary data. The data analysis technique used in this research tests the hypothesis using panel data regression. Before testing the hypothesis using panel data regression, the classical assumption test was conducted to determine whether the regression model gave a BLUE regression coefficient estimator (Best, Linear, Unbiased,

Estimate) and heteroscedasticity test. Furthermore, the regression equation in the study is as follows:

$$\gamma = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X1 * Z + \beta 4X2 * Z \quad (1)$$

Remark:

Y: Return on Assets

X1: Ijarah Financing

X2: Murabahah Financing

Z: Non-Performing Financing.

Furthermore, the simultaneous hypothesis test (F test) is used to obtain a simultaneous effect or determine the feasibility of the research model. Moreover, this study uses a partial hypothesis testing t-test to partially understand the independent variable's impact on the dependent variable.

4. Results and Discussion

This study uses Stata version 16 statistical tools - the results of the classical test before performing the regression test. The normality test was conducted to determine if the error was usually distributed to produce a reasonable estimate. The normality test was carried out using Shapiro-Wilk with the decision criteria if the Prob value > 0.05, which generally distributed the data. The following table presents the results of the normality test.

Table: 1
Normality Test

```
. swilk residual

                    Shapiro-Wilk W test for normal data

    Variable |        Obs        W         V         z       Prob>z
-------------+-------------------------------------------------------
    residual |         60    0.98630     0.744    -0.636    0.73765
```

Based on Table 1 above, the prob. value is 0.737 > 0.05, according to the decision-making criteria, meaning that the data in this study are typically distributed.

A multicollinearity test is carried out to see whether there is a violation of assumptions due to independent variables that have a strong correlation (correlation) in a regression model. In the multicollinearity test, the Variance Inflation Factor (VIF) value is used to see the occurrence of multicollinearity. If the VIF value of a variable is more than 10, it indicates a multicollinearity problem. The following table presents the results of the multicollinearity test.

Table: 2
Multicollinearity Test

```
. vif

    Variable |       VIF       1/VIF
-------------+----------------------
          X2 |      1.99    0.503123
         X1Z |      1.80    0.555059
          X1 |      1.53    0.655208
         X2Z |      1.36    0.735061
-------------+----------------------
    Mean VIF |      1.67
```

Based on Table 2, the data above, the VIF value < 10, under the decision-making criteria, means that the independent variable data in the study do not have symptoms of multicollinearity.

The heteroscedasticity test in this study uses the White Test (white test) with the criteria that there are heteroscedasticity symptoms if the Prob value is <0.05. The following table presents the results of the heteroscedasticity test:

Table: 3
Heterocedasticity Test

```
White's test for Ho: homoskedasticity
         against Ha: unrestricted heteroskedasticity

         chi2(14)     =     10.10
         Prob > chi2  =    0.7550

Cameron & Trivedi's decomposition of IM-test

---------------------------------------------------
              Source |       chi2     df       p
---------------------+-----------------------------
Heteroskedasticity |      10.10     14    0.7550
            Skewness |       4.61      4    0.3292
            Kurtosis |       2.38      1    0.1228
---------------------+-----------------------------
               Total |      17.09     19    0.5835
---------------------------------------------------
```

Based on the data table above, the Prob value > 0.05, according to the decision-making criteria, means that the data in the study does not have heteroscedasticity symptoms or, in other words, is homoscedastic.

In this study, panel data regression analysis was used to predict how far the change in the dependent variable's value was as if the independent variable's value was increased or decreased. In panel data regression, there are three models: Common Effect, Fixed Effect, and Random Effect. Furthermore, the Common Effect model will be used based on the Chow and Lagrange Multiplier tests. Furthermore, testing the hypothesis using the coefficient of determination analysis, simultaneous effect testing (F-test), and partial effect testing (t-test). The following is a table of panel data regression results based on processed data:

Table: 4
Hypothesis Test

```
. reg Y X1 X2 X1Z X2Z
```

Source	SS	df	MS	Number of obs	=	60
				F(4, 55)	=	26.74
Model	2689.92463	4	672.481156	Prob > F	=	0.0000
Residual	1383.32613	55	25.1513843	R-squared	=	0.6604
				Adj R-squared	=	0.6357
Total	4073.25076	59	69.0381485	Root MSE	=	5.0151

Y	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
X1	26.06049	26.02912	1.00	0.321	-26.10303	78.22401
X2	194.9333	40.73056	4.79	0.000	113.3075	276.5592
X1Z	-.0639503	.0281656	-2.27	0.027	-.1203953	-.0075052
X2Z	-.0389615	.0189029	-2.06	0.044	-.0768437	-.0010793
_cons	-276.2188	45.60141	-6.06	0.000	-367.6061	-184.8316

Based on Table 4 above, it is known the value of Prob. of 0.000 < 0.05, which can conclude that all independent variables, namely murabahah financing, ijarah financing, and murabahah financing and non-performing financing interactions, ijarah financing, and non-performing financing interactions have a simultaneous effect on financial performance with an effect magnitude of 63.57%. Furthermore, based on Table 4 above, the regression test formulation of each variable in the study is as follows:

$$\gamma=-276.21+ 26.06X1+ 194.93X2- 0.63X1*Z- 0.38X2*Z \quad (2)$$

Furthermore, Table 4 above shows that the Murabahah Financing variable (X1) produces a significant value greater than 0.05. If the significance value is more critical than 0.05, then H0 is accepted, which means that ijarah financing (X1) partially has a positive and no significant effect on financial performance (Y). On the other hand, Murabahah financing (X2) produces a significance value of less than 0.05, then H0 is rejected, which means that ijarah financing (X2) partially has a positive and significant effect on return on assets (Y). The interaction test determines whether the moderating variable strengthens or weakens the relationship between the independent and dependent variables. In this study, non-performing financing (Z) is a moderating variable in Islamic banks' financing distribution. Based on the table above, the significance value of X1*Z moderation is 0.027 < 0.05. Because the significance value is less than 0.05 with a negative coefficient value, H0 is rejected, which means non-performing financing (Z) weakens the effect of Murabahah Financing (X1) on Financial Performance (Y). Furthermore, the table above shows the X2*Z moderation significance value of 0.044 < 0.05. Because the significance value is less than 0.05 with a negative coefficient value, then H0 is rejected, which means non-performing financing (Z) weakens the influence of ijarah financing (X1) and murabahah Financing (X2) on return on assets (Y).

4.1. The Effect of Ijarah Financing Distribution on the Return on Assets of Islamic Microfinance Institutions

Furthermore, based on the statistical analysis results, it is stated that ijarah financing (investment credit) does not increase the return on assets of Islamic microfinance institutions. This is because, during the COVID-19 pandemic, micro-entrepreneurs do not have plans to expand their business. According to Bressan et al. (2021) and Nik Azman et al. (2021), during the COVID-19 pandemic, entrepreneurs tend to carry out "wait and see" behaviour where they do not dare to make decisions to develop their business due to conditions of uncertainty. Thus, micro-entrepreneurs have not dared to take loans intended for investment. As a result, the financing portfolio with ijarah contracts at Islamic microfinance institutions is not as much as the murabahah financing portfolio. Hence, the effect of ijarah financing on the return on assets of Islamic microfinance is insignificant.

4.2. The Effect of Murabahah Financing Distribution on the Return on Assets of Islamic Microfinance Institutions

The results of the statistical analysis state that murabahah financing has a positive and significant effect on the return on assets of Islamic microfinance institutions. This shows that during the COVID-19 pandemic, micro-entrepreneurs need additional working capital to maintain their business (Aidara et al., 2021). Moreover, according to Irwansyah et al. (2021) and Muniarty et al. (2021), many micro-entrepreneurs have changed their business processes from traditional marketing methods to digital marketing that micro-entrepreneurs are still able to maintain their sales turnover. In addition, financing with murabahah contracts can also help micro-entrepreneurs whose working capital is used for COVID-19 treatment costs. Therefore, murabahah financing during the COVID-19 pandemic significantly affects the return on assets from Islamic microfinance institutions. Thus, during the COVID-19 pandemic, Islamic microfinance institutions maintained the distribution of murabahah financing to the community, especially micro-entrepreneurs, to survive.

4.3. The Non-performing Financing as A Variable That is Moderating the Effect of Ijarah Financing Distribution on the Return on Assets of Islamic Microfinance Institutions

The effect of the distribution of ijarah financing on the return on assets of Islamic microfinance institutions is not significant. However, if the non-performing financing variable becomes the moderating variable, it will negatively and significantly impact ijarah financing on the return on assets. Therefore, during the COVID-19 pandemic, asset quality is a vital variable to be mitigated. If the quality of the funding is not adequately mitigated, it will have a fatal impact on the performance of the Islamic microfinance institution (Nugroho et al., 2021). Thus, during the current COVID-19 pandemic, Islamic microfinance institutions must have risk acceptance criteria to provide ijarah financing (investment credit) distribution during the COVID-19 pandemic so that they can adequately mitigate the risk of ijarah financing. In addition, there is a potential that the murabah contract is a contract used

for working capital financing with a long-term financing tenor. Thus, the greater the amount of funding with an ijarah contract can potentially increase financing risk because the customer's instalment time becomes longer.

4.4. The Non-performing Financing as A Variable That is Moderating the Effect of Murabahah Financing Distribution on the Return on Assets of Islamic Microfinance Institutions

The quality of financing is an essential variable in the funding distribution. If the financing quality does not accompany the distribution, the Islamic microfinance institution will experience losses and even become bankrupt. Referring to the results of statistical processing, it is known that the non-performing financing variable weakens the positive influence of the distribution of murabahah financing on return on assets during the COVID-19 pandemic. Therefore, in channelling its financing, Islamic microfinance institutions must continue to implement the principles of prudence, namely channelling to customers with good character and willingness to pay their loans (Nugroho et al., 2022). Thus, Islamic microfinance institutions must mitigate the potential decline in the quality of murabahah financing distributed to debtors.

5. Conclusion

Based on the results and discussion of research related to the effect of murabahah and ijarah financing on return on assets, Islamic microfinance must maintain (i) Distribution of murabahah is vital for Islamic microfinance institution financial performance because, during the COVID-19 pandemic, the distribution of murabahah financing has a positive and significant influence in increasing return on assets; (ii) The distribution of ijarah financing has no significant effect on increasing return on assets from Islamic microfinance institutions because, during the COVID-19 pandemic, micro-entrepreneurs tend to be cautious in expanding their business.

In addition, the results and research related to the impact of the moderating variable of non-performing financing on the influence of financing distribution on the return on assets of Islamic microfinance institutions are as follows: (i) Non-performing financing has a significant and negative impact on the effect of murabahah financing with return on assets so that by the existence of non-performing financing, it will reduce the influence of the distribution of murabahah financing to increase the return on assets of Islamic microfinance institutions; (ii) The moderating variable of non-performing financing also weakens the relationship of the distribution of ijarah financing to the return on assets of Islamic microfinance institutions.

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