


Non-Performing Financing as a Medium of Sharia Cooperative Performance in East Java

Non-Performing Financing sebagai Pemediasi Kinerja Koperasi Syariah di Jawa Timur

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ABSTRAK

Sumber informasi utama bagi manajemen dan investor adalah kinerja keuangan. Penghasilan yang diperoleh mengungkapkan kesehatan keuangan bisnis. Tujuan dari penelitian ini antara lain menganalisis Pembiayaan pengaruh Mudharabah dan Pembiayaan Ijarah terhadap Non-Performing Financing (NPF) dan kinerja keuangan, menganalisis pengaruh NPF terhadap kinerja keuangan. NPF sebagai pemediasi Pembiayaan Mudharabah dan Pembiayaan Ijarah terhadap kinerja keuangan Koperasi Syariah di Jawa Timur. Populasi dalam penelitian ini sebanyak 37 koperasi, teknik pengambilan sampel menggunakan purposive sampling, sehingga diperoleh jumlah sampel sebanyak 30 koperasi dengan periode pengamatan periode pengamatan 4 tahun dari 2018 hingga 2021. Teknik analisis data yang digunakan adalah SEM-PLS. Temuan analisis menunjukkan bahwa Pembiayaan Mudharabah tidak berdampak pada NPF, Pembiayaan Ijarah berdampak pada NPF. Pembiayaan Mudharabah dan Pembiayaan Ijarah berdampak pada kinerja keuangan. NPF berdampak pada kinerja keuangan. Pembiayaan Mudharabah tidak berdampak pada Kinerja Keuangan melalui NPF. Pembiayaan Ijarah mempengaruhi Kinerja Keuangan melalui NPF. Semakin besar pembiayaan mudharabah dan pembiayaan ijarah yang disalurkan Koperasi pada anggota dapat meningkatkan kinerja keuangan Koperasi Syariah di Jawa Timur, jika anggota melakukan pembayaran dengan lancar atau tidak terjadi kredit macet.

Kata Kunci: Kinerja Keuangan, Pembiayaan Ijarah, Pembiayaan Mudharabah, Non-Performing Financing.

ABSTRACT

The main source of information for management and investors is financial performance. The income earned reveals the financial health of the business. The objectives of this study include analyzing the influence of Mudharabah financing and Ijarah financing on non-performing financing (NPF) and financial performance, and analyzing the effect of NPF on financial performance. NPF as a mediator of Mudharabah Financing and Ijarah Financing on the financial performance of Sharia Cooperatives in East Java. The population in this study was 37 cooperatives, the sampling technique used purposive sampling so that a total sample of 30 cooperatives was obtained with a 4-year observation period from 2018 to 2021. The data analysis technique used was SEM-PLS. The analysis findings show that Mudharabah Financing has no impact on NPF, and Ijarah Financing has an impact on NPF. Mudharabah Financing and Ijarah Financing have an impact on financial performance. NPF has an impact on financial performance. Mudharabah Financing has no impact on Financial Performance through NPF. Ijarah Financing affects Financial Performance through NPF. The greater the mudharabah financing and ijarah financing distributed by cooperatives to members can improve the financial performance of Sharia cooperatives in East Java, if members make payments smoothly or there are no bad loans.

Keywords: Financial Performance, Ijarah Financing, Mudharabah Financing, Non-Performing Financing.

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I. INTRODUCTION

Sharia Cooperatives as a financing facility are very helpful for members or the community who need funds, the financing products that are most in demand by customers are mudharabah financing and ijarah financing. However, in the distribution of this financing, there are financing problems or non-performing financing (NPF) caused by the community or members who do not return on time. This can be seen that the NPF value is greater than 7.87% more than 5%. Thus, it can have an impact on decreasing the performance of Sharia Cooperatives. The main instrument used by management and investors to collect information is financial statements that show financial performance data (Rahmawati & Dianita, 2011). Financial performance can be understood using financial statements, which are an important component. According to (Weshah et al., 2012), net income is a measure of the company's financial success and can be used by stakeholders as a basis for internal decision-making. According to (Beaver, 1968), when making investment choices, investors can consider information about company earnings. There are many types of measures used to show financial performance. According to its general size, financial performance can be divided into two groups: *Return On Asset* (ROA) dan *Return On Equity* (ROE) (Waddock & Graves, 1997).

Rivai (2007) revealed that most of the distribution of financing contributed to the income of financial institutions. The results of research by Chamidah et al., (2021), Pratama et al., (2017), Nurfajri & Priyanto, (2019), Edriyanti et al., (2020) show that mudharabah has an impact on ROA. The results of this study are different from the findings of Faradilla et al., (2017), Putra & Hasanah (2018) which stated that mudharabah financing does not affect profitability. Financing risk is one of the major financial hazards that will come with Islamic banks offering more financing options. This is the result of the inclusion of Islamic bank financing as a natural uncertainty contract in the investment offering (Rivai, 2007). The ratio of non-performing financing (NPF) is what causes high financing risk. Sharia Cooperative financing products that often occur in NPF are mudharabah financing and ijarah financing.

Non-Performing Financing such as non-performing profit sharing or principal repayment, namely financing that has not fulfilled or fulfilled the objectives desired by the bank in its implementation. If not managed properly, the financing risk caused by the inability of the debtor to repay a certain amount of financing within a certain period of time can lead to a higher proportion of non-performing financing, which can have an impact on the banking environment and the environment. public perception of non-performing financing and the soundness of banks. The results of research by Mutiah et al., (2020), Choiriyah & Fitria, (2019), Afif & Mawardi (2014), Edriyanti et al., (2020) proved that NPF affects financial performance.

The distribution of mudharabah and ijarah financing by sharia cooperatives to its members and/or other cooperative members has a significant impact on the growth of the previously mentioned sharia cooperative, Baitul Mal wat Tamwil (BMT). Sharia cooperatives can assist in distributing capital and earning profits by doing so. The greater the funds disbursed, the higher the profit obtained. Harahap (2011) confirmed that the mudharabah and ijarah financial cards incorporated in the tijarah contract are used in commercials, there are no social transactions. According to the profitability design, aspects of bank financing or credit that affect profitability. Profitability will increase if the level of funding is high, and can be seen as one of the indicators to evaluate the performance of the financial system. ROA is one of the analytical tools used in analyzing how well a business operates and generates profits. High ROA can reflect strong financial performance. Conversely, if the ROA is low, it means that not enough money has been invested to produce maximum performance, which will make the performance unfit to be classified as healthy.

Muhammad (2005) suggested that the Return On Assets (ROA) ratio is used to evaluate how well a bank finances its operations and generates profits. The smaller the ROA, the worse the bank's management, managing assets to increase costs or increase revenue. Thus, ROA will be an important criterion in assessing how well a bank performs its function. The amount of profit is correlated with the significant distribution of financing and the level of success of the bank in carrying out its activities. According to Kuncoro (2002) ROA is the ability of bank management to manage existing assets in obtaining net profits. Siamat (2005) asserted that ROA is a ratio that shows how effective a bank is in completing tasks because it shows the size of the benefits that can be realized on average for each dollar

of assets. The greater the ROA reflects the better financial performance. Therefore, the use of assets in cooperatives is very important because it can affect profitability.

The grand theory in this research was the Stewardship Theory which was coined by Donaldson & Davis (1991). Stewardship theory can be understood in sharia cooperative financing products. Sharia cooperatives as principals who entrust members as stewards (servants) to manage funds that are ideally able to accommodate the overall common interest between stewards and principals based on servants who have behavior in which stewards can be formed so that they can always be invited to work together in the organization, have collective behavior or groups with higher utility than individuals and are always willing to serve.

The reason for choosing Sharia Cooperatives in East Java is because East Java is in the third rank which has the most sharia cooperatives, the first is Central Java with 88 cooperatives, the second is West Java with 75 cooperatives, and the third is East Java with 37 cooperatives. Sharia cooperatives have a stake in the welfare and economy of a nation and are able to offer financing with very competitive profit sharing. Sharia cooperatives have certain types of contracts that each member can rely on when they want to do business. In sharia cooperatives, in the adoption of mudharabah financing, it is very interesting to examine because this financing is a characteristic of the cash of a sharia financial institution, namely by sharing the results whether it is very interested in members or consumers or not, the idea of ijarah financing is different from the idea of financing in a conventional bank. Due to its unique characteristics compared to other forms of Islamic financing, ijarah financing serves as a catalyst for the commercial sector. Thus, ijarah financing is more appropriate than other types of financing, such as Musyarakah and Mudharabah because entrepreneurs do not need capital goods before starting business activities and can instead lease them to Islamic financial institutions rather than being required to provide guarantees (Muhammad, 2005). The research findings of Pratama et al., (2017), and Putra & Hasanah (2018) proved that ijarah financing has an impact on profitability. However, in contrast to research conducted by Faradilla et al., (2017), Nurfajri & Priyanto (2019), and Chamidah et al. (2021), which stated that ijarah does not affect ROA. The authors are interested in doing research related to this topic because of the research gap. The novelty of this research is that this research is a development of Fazriani & Mais' research (2019) which examined NPF as a mediator of the effect of mudharabah financing on ROA, by recommending NPF as a mediator of the effect of ijarah financing on financial performance, thus in this study examined mudharabah financing and Ijarah financing to ROA through NPF is carried out simultaneously.

With regard to the description of the background, this research aimed to analyze the effect of Mudharabah financing and Ijarah financing on non-performing financing and financial performance, and analyze the effect of non-performing financing on financial performance. Non Performing Financing as a mediator of Mudharabah Financing and Ijarah Financing on the financial performance of Sharia Cooperatives in East Java.

II. LITERATURE REVIEW

The Effect of Mudharabah Financing and Ijarah Financing on Non-Performing Financing

Mudharabah or investment is the provision of financial resources to someone who does business in exchange for a share of the income (Karim, 2011). Two parties are involved in this cooperative arrangement, with the first party (shahibul maal) providing all the finances and the second party acting as the manager or mudharib. The revenue generated will increase in proportion to the level of mudharabah funding, consequently increasing profits. Through equity involvement in the project or business concerned, Islamic banks can use mudharabah contracts to facilitate members or projects in meeting their capital needs. Nurhayati & Wasilah (2015) defined ijarah as a contract for the transfer of usufructuary rights to a commodity or service for a certain period of time in exchange for payment of rental wages without the transfer of ownership of the appropriate goods. In addition, the National Sharia Council Fatwa No.09/DSN/MUI/IV/2000 defines MUI Ijarah as a contract that transfers the right to use something (benefits) from time to time through payment of rent or wages, without also transferring ownership of the goods. As a result, there is no MUI Ijarah contract that changes ownership; instead, it simply transfers the right to use from the owner to the tenant. The study by Fazriani & Mais (2019)

found that mudharabah financing had a negative effect on NPF. This description is the basis for the following formulation of hypothesis 1:

H1: *Mudharabah Financing and Ijarah Financing affect Non-Performing Financing*

The Effect of Mudharabah Financing and Ijarah Financing on Financial Performance

Brigham & Houston (2007) argued that the company's financial performance measures how well the company uses the available resources to gain profits. Wiyono & Maulamin (2013) mudharabah is a business cooperation agreement between the fund manager and the fund owner through a profit-sharing ratio in accordance with the agreement in advance; if a loss occurs, then all losses are borne by the owner of the funds unless the error is caused by mudharib such as fraud, or litigation; or, in other words, there is an element of intentionality. MUI Fatwa NO: 07/DSN-MUI/IV/2000 explains that mudharabah is a contract for cooperation and something that requires work. Two parties are involved: the first (Malik, LKS, Shahib Al-Mal) supplies all the capital, the second (Mudharib, 'Amil, Customer) functions as the manager, and profits are shared between them according to the terms of the contract. The findings of research conducted by Chamidah et al., (2021), Pratama et al., (2017), Nurfajri & Priyanto (2019), Edriyanti et al., (2020) found that mudharabah affects ROA. However, this contradicts the research results of Putra & Hasanah (2018) and Faradilla et al., (2017), which state that mudharabah financing does not affect profitability.

Al-Ijarah is a contract that does not include the transfer of ownership of goods but the transfer of usufructuary rights for services or goods through rental wages. In fact, leasing businesses perform both of these tasks for financial and operating leases (Kasmir, 2013). The effect on profit will also increase with the value of assets obtained for ijarah so that it is possible to provide high income. The research findings of Pratama et al., (2017), Putra & Hasanah (2018) proved that ijarah financing affects profitability. However, this is different from the research conducted by Faradilla et al., (2017), Nurfajri & Priyanto, (2019) and Chamidah et al., (2021), which found that ijarah did not affect ROA. Based on this explanation, the second research hypothesis is :

H2: *Mudharabah Financing and Ijarah Financing affect Financial Performance*

The Effect of Non-Performing Financing on Financial Performance

Sucipto (2003) explained that financial performance is the identification of certain indicators that can assess the company's ability to generate profits. In contrast to the opinion of Mulyadi (2007) that a company's financial performance is determined by how well it performs when using debt. Therefore, the use of debt is expected to improve financial performance. If financing money can increase a company's productivity, then borrowing money has advantages for the business.

According to Dendawijaya (2009), Non-Performing Financing is a comparison between non-performing financing compared to the total amount of funds provided by Islamic banks. Non-Performing Financing (NPF) is the percentage of total financing provided in the non-current category to total financing. The research findings of Mutiah et al., (2020), Choiriyah & Fitria, (2019), Afif & Mawardi (2014), Edriyanti et al., (2020) prove that NPF affects financial performance. However, the research findings of Fazriani & Mais (2019) found that NPF did not affect ROA. This description is the basis for the following formulation of hypothesis 3 :

H3: *Non-Performing Financing affects Financial Performance*

The Effect of Mudharabah Financing and Ijarah Financing on Financial Performance through Non-Performing Financing

Sudana (2011) suggested how to measure financial performance based on profitability ratios. This profitability ratio measures the company's capacity to earn profits using its own resources, such as capital, sales, or assets. Profitability ratios serve a purpose and offer advantages to those who have shares in the company as well as the owners and management of the business. The ratio of non-performing financing in a bank is known as non-performing financing (NPF). If non-performing financing increases, the risk of declining profitability is higher. If profitability decreases, the ability of banks to expand financing decreases and the level of financing decreases (Muhammad, 2005). Thus, if the NPF ratio is higher, this indicates that the quality of Islamic bank financing is getting worse.

Research conducted by Chamidah et al., (2021), Pratama et al., (2017), Nurfajri & Priyanto, (2019), Edriyanti et al., (2020) which proved that mudharabah affects ROA. Pratama et al., (2017),

Putra & Hasanah (2018) proved that ijarah financing has an effect on profitability. Fazriani & Mais (2019) found that mudharabah financing negatively affects ROA through NPF. This description forms the basis for the following formulation of hypothesis 4:

H4: *Non-Performing Financing as a mediator of the influence of Mudharabah Financing and Ijarah Financing has an effect on Financial Performance*

III. RESEARCH METHOD

Population and Sample

This research was included in the type of explanatory research. The population in this study amounted to 37 Sharia Cooperatives in East Java. The sampling technique used purposive sampling with criteria for 4 consecutive years which were from 2018 to 2021. The data was complete, so that 30 Sharia Cooperatives with a combined model data were obtained as many as 30 Sharia Cooperatives x 4 years = 120 observations.

Variable Operational Definition

1. Mudharabah Financing

Mudharabah financing is the total ending balance of mudharabah financing carried out by Sharia Cooperatives for the 2018-2021 financial reporting period. Data obtained from the annual balance with the formula:

Mudharabah Financing Ending Balance = Initial Balance + Debit Transactions – Credit Transactions

2. Ijarah Financing

Ijarah financing is the total ending balance of Ijarah financing distributed by Sharia Cooperatives for the period 2018-2021, in the position of the financial statements. Data obtained from the annual balance with the formula:

Ending Balance of Ijarah Financing = Initial Balance + Debit Transactions – Credit Transactions

3. Non Performing Financing

Non-performing financing, namely financing problems experienced by Sharia Cooperatives for financing distribution in the 2018-2021 period. Data obtained from the annual balance with the formula:

$$NPF = \frac{\text{Pembiayaan Bermasalah}}{\text{Total Pembiayaan diberikan}} \times 100\%$$

4. Financial Performance

Financial performance is a description of the state of the cooperative in a certain period that refers to the established company standards, which are proxied by ROA, in the 2018-2021 period. The data is obtained from the annual balance sheet and profit and loss with the formula:

$$ROA = \frac{\text{Laba Sebelum Pajak}}{\text{Rata - rata Total Aset}} \times 100\%$$

Data Analysis Technique

The data analysis technique used in this research was a structural equation modeling approach based on Partial Least Square (PLS). PLS is a powerful analytical technique because it does not rely on many assumptions and can handle all types of data. PLS allows the use of small or large sample sizes. The bootstrap technique used in direct estimation in PLS eliminates the requirement for the assumption of a multinormal distribution. Saunders et al. (2007) described the advantages of PLS-PM including flexibility, robustness, and less demand for distribution assumptions and requirements for identification.

IV. RESULTS AND DISCUSSIONS

Descriptive Statistics

The results of the description of each variable used in this research are presented in table 1.

Table 1
Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Mudharabah Financing	208.778.522,00	60.182.503.724,00	8.939.242.799,34	11.840.222.222,89
Ijarah Financing	249.999.998,00	37.258.336.606,00	4.224.425.380,68	5.820.280.900,07
NPF	0,07	7,87	3,69	2,27
Financial Performance	1,33	37,12	11,27	8,65

Source : processed data.

Table 1 shows that mudharabah financing has a minimum value of Rp. 208.778.522 and a maximum value of Rp. 60.182.503.724,00, with a mean value of Rp. 8.939.242.799,34 This shows that the mudharabah financing provided to members varies. Ijarah financing has a minimum value of Rp. 249.999.998 and a maximum value of Rp. 37.258.336.606,00, with an average value of Rp. 4.224.425.380,68. This shows that the ijarah financing given to members varies. The NPF value is in the range of 0,07 to 7,87 with a mean value of 3,69. This shows that the NPF value is in the healthy category within the reasonable limits of the NPF ratio. Financial performance proxied by ROA has a minimum value of 1,33% and a maximum value of 37,12% with a mean value of 11,27%. This indicates that sharia cooperatives are able to generate profits from 2018 to 2021.

SEM-PLS Results Analysis

In order to test the research hypothesis, the data is processed using SEM-PLS, while the output of SEM-PLS is presented in table 2.

Table 2
Non Performing Financing as Mediator of Mudharabah Financing and Ijarah Financing on Financial Performance

Independent Variable	Intervening Variay	Dependent Variable	Direct Effect	P Value	Indirect Effect	Total Effect	Description
mudharabah Financing	NPF	-	-0,189	0,068	-	-	Not Significant
ijarah Financing	NPF	-	-0,255	0,028	-	-	Significant
mudharabah Financing	-	Financial Performance	0,309	0,010	-	-	Significant
ijarah Financing	-	Financial Performance	0,253	0,039	-	-	Significant
-	NPF	Financial Performance	-0,361	0,000	-	-	Significant
Significant	NPF	Financial Performance	0,309	0,102	0,068	0,377	Not Significant
ijarah Financing	NPF	Financial Performance	0,253	0,042	0,092	0,345	Significant

Source: processed data.

Based on Table 2 and Figure 1, it can be explained that mudharabah financing has a negative but not significant impact on NPF with a coefficient value of -0,189 and a probability value of 0,068 exceeding 0,05. Ijarah financing has a significant and negative impact on NPF with a coefficient value of -0,255 and a probability value of 0,028 not exceeding 0,05. Thus, the first hypothesis which stated that mudharabah financing and ijarah financing affect the NPF is not statistically tested.

Mudharabah financing has a significant and positive impact on financial performance with a coefficient value of 0,309 and a probability value of 0,010 not exceeding 0,05. Ijarah financing has a significant and positive impact on financial performance with a coefficient value of 0,253 and a probability value of 0,039 not exceeding 0,05. Thus the second hypothesis which states that mudharabah financing and ijarah financing affect financial performance is statistically tested.

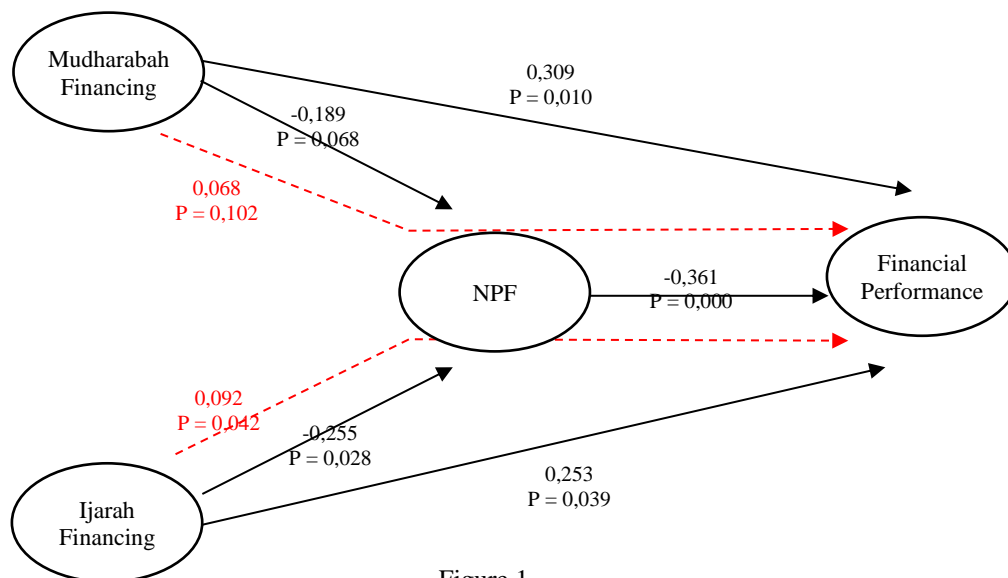


Figure 1.
SEM-PLS Results Analysis

NPF has a significant and negative effect on financial performance with a coefficient value of -0,361 and a probability value of 0,000 not exceeding the number 0,05, thus the third hypothesis which states that NPF affects financial performance is statistically tested.

The total effect of mudharabah financing on financial performance through NPF is 0,377 with a significance value of 0,068, so the NPF is not able to mediate the effect of mudharabah financing on financial performance. The total effect of ijarah financing on financial performance through NPF is 0,345 with a probability value of 0,042 not exceeding 0,05, so that NPF as a mediator of ijarah financing has an impact on financial performance. Thus the fourth hypothesis is not statistically tested.

Discussion

The Effect of Mudharabah Financing and Ijarah Financing on NPF

Mudharabah financing has a negative but not significant impact on NPF, this indicates that the high mudharabah financing issued by Sharia Cooperatives has no impact on the size of the NPF, because most members have the ability to make payments smoothly, although there are some customers who are unable to make payments smoothly. and on time, resulting in bad credit. If the member is unable to repay the principal installments when due or to pay the financing proceeds, an NPF will appear. The main source of financing risk is the misuse of excess liquidity that is not according to plan and the ease with which Sharia Cooperatives can channel their funds or make investments, causing financing assessments to be inaccurate in predicting financing for various potential business problems. Mudharabah financing was disbursed in relatively large amounts during the study period, but the Sharia Cooperative has realized that this type of financing carries considerable risks and has been well planned. Therefore, Sharia Cooperatives are careful and thorough in looking for prospective financing members to ensure that they are truly in accordance with the targets and segments that have been determined. Thus, mudharabah financing can reduce the risk of non-performance financing; As a result, changes in mudharabah financing will not affect the non-performance financing of Sharia Cooperatives. The results of this study support Djatmiko & Rachman (2022) who whoated that mudharabah financing has no effect on NPF. However, the results of this study do not support Fazriani & Mais (2019) who found that mudharabah financing had an effect on NPF.

Ijarah financing has a significant and negative impact on NPF. This shows that high ijarah financing will be followed by a decrease in NPF, and conversely, a decrease in ijarah financing will be followed by an increase in NPF. The higher the level of mudharabah financing provided by the Sharia Cooperative to its members, the lower the NPF or the risk of bad credit, which is caused by members having the ability to make payments smoothly, thereby minimizing the risk of bad credit. Ijarah is a legal agreement that transfers usufructuary rights to commodities and services in exchange for rental payments. Because the financing is used in the manufacturing, construction, agriculture, fisheries, and

MSME sectors, the amount of ijarah financing in the Sharia Cooperative portfolio is still limited. The results of this study support Hutagalung & Batubara (2020) which states that ijarah financing has an effect on NPF.

The Effect of Mudharabah Financing and Ijarah Financing terhadap on Financial Performance

Financial performance is positively and significantly affected by mudharabah financing. This shows how financial performance can be improved with a substantial quantity of mudharabah financing. Mudharabah financing is the same business as an employment contract. The fund manager and the fund provider together, or the first and second parties, share the profits according to the terms of the agreement, with the fund owner bearing the temporary loss. Mudharabah financing can improve financial performance as it enables better management of Shariah cooperatives, resulting in higher quality funding and increased revenue sharing for these organizations. This shows that capital management in sharia cooperatives which are distributed as mudharabah financing can maximize revenue sharing. The findings of this study support the findings of Chamidah et al., (2021), Pratama et al., (2017), Nurfajri & Priyanto, (2019), Edriyanti et al., (2020) which proved that mudharabah affects ROA. However, these results do not support Faradilla et al., (2017), Putra & Hasanah (2018) which stated that mudharabah financing does not affect profitability.

Ijarah financing has a significant and positive impact on financial performance, which means that an increase in ijarah financing can improve financial performance, in this case the profits of Sharia cooperatives have increased, and conversely a decrease in ijarah financing can reduce the profits obtained by Sharia cooperatives. In order to avoid non-performing financing, Sharia Cooperatives have regular coaching and monitoring activities, namely active monitoring and passive monitoring, so that the emergence of non-performing financing is small, because the ijarah financing system is a lease, so Sharia Cooperatives do not need to carry out active supervision which will have an impact on the reduction in operational costs incurred by Sharia Cooperatives and financial performance may increase in line with the increase in ijarah financing. The findings of this study support Pratama et al., (2017), and Putra & Hasanah (2018) which state that ijarah financing has an impact on profitability. However, it does not support the research conducted by Faradilla et al., (2017), Nurfajri & Priyanto (2019), and Chamidah et al. (2021), which states that ijarah does not affect ROA, one of the reasons is that the volume of ijarah financing is too small in value.

The Effect of NPF on Financial Performance

NPF has a significant and negative impact on financial performance, which means that a decrease in NPF value can improve financial performance, and it is better if an increase in NPF value can reduce the financial performance of Sharia Cooperatives. NPF is the percentage of the total non-performing financing of the total financing distributed by Sharia Cooperatives. The NPF ratio can increase costs which will have the potential to cause losses, and income will not be received routinely as usual so that income will decrease for Sharia Cooperatives. Therefore, increasing the NPF value will reduce the financial performance of Sharia Cooperatives. The findings of this research support Mutiah et al., (2020) which proves that financing has an impact on financial performance. A low NPF in sharia cooperatives shows that sharia cooperatives are said to be healthy, so that the profits obtained by sharia cooperatives increase. The results of this study also support Choiriyah & Fitria, (2019), Afif & Mawardi (2014), Edriyanti et al., (2020) which stated that NPF affects financial performance. The larger the NPF, the greater the potential loss. However, the results of this study do not support Fazriani & Mais (2019) who found that NPF had no effect on ROA.

The Effect of Mudharabah Financing and Ijarah Financing on Financial Performance Through NPF

The results of the analysis show that the NPF failed to mediate the impact of mudharabah financing on financial performance. This shows that the high distribution of mudharabah financing cannot improve financial performance, because members do not have the ability to repay on time, which results in high NPF or bad loans. The inability of customers to pay on time due to circumstances and also uncertain environmental situations. Therefore, Sharia Cooperatives in assessing financing applicants always pay attention to the condition of their prospective members. This can be seen from the 5C and 1S consisting of, Character, Capacity, Capital, Collateral, Condition, and Sharia. Character can be seen from the character or personality of prospective customers. Capacity is the ability of

prospective members to make payments. Collateral is a guarantee that members have. Capital is the capital ability of prospective members. Condition, namely Sharia Cooperatives must be able to see the economic conditions that occur in the community. Meanwhile, Sharia is to see whether the type of business of prospective members is in accordance with sharia principles. Well-managed sharia cooperative management can improve financial performance, in this case including general management, asset quality management, capital management, liquidity management, and profitability management. The results of this study do not support Fazriani and Mais (2019) who found that mudharabah financing had a negative effect on ROA through NPF.

NPF is a mediator of the effect of ijarah financing on financial performance, which means that an increase in financial performance can be increased if the NPF decreases and there is an increase in ijarah financing. A low NPF proves that Sharia cooperatives have the potential to channel funds in the form of ijarah financing because it can be profitable for cooperatives. In addition, the existence of bad loans can also hinder the improvement of the financial performance of Sharia Cooperatives. As the opinion of Sudarsono (2005) states that ijarah is a lease contract in which a financial institution leases equipment to one of its customers based on the imposition of fees that have been determined with certainty in advance. The results of this study support Hutagalung and Batubara (2020) which states that ijarah financing has an effect on NPF. The results of this study also support Mutiah et al., (2020), Choiriyah & Fitria, (2019), Afif & Mawardi (2014), Edriyanti et al., (2020) who found that NPF affects financial performance.

Sharia cooperatives have activities such as collecting funds, distributing funds, and providing other services. Providing other services is a financing distribution facility. The distribution of financing can provide income for the Sharia Cooperative and can improve financial performance. If the profit from the distribution of the financing is greater than the administrative costs paid by the cooperative to members and the operational costs of other cooperatives, it can be said that the cooperative has a healthy condition. Sharia cooperatives must carefully assess members in applying for financing so that when the cooperative distributes financing, it will pay on time according to the agreement that has been made and agreed upon. A careful and thorough assessment by the cooperative is expected to minimize bad credit or NPF. The cooperative as a distributor of financing before providing financing should evaluate prospective members both in terms of quality and quantity as a consideration in order to avoid various risks such as NPF. Evaluating in terms of quality, the cooperative must really know information about prospective members, both personal profiles of members, business profiles, and member history, both history of relationships with other financial institutions that have provided credit facilities to members, and history of relationships with other companies. While evaluation in terms of quantitative can be seen from the financial statements of members which are then analyzed by the Sharia Cooperative.

V. CONCLUSION

The following conclusions can be drawn from the results of the tests and analyzes that have been carried out: Mudharabah financing has a negative but not significant impact on NPF, while ijarah financing has a negative and significant effect on NPF, which means that the level of mudharabah financing does not have an impact on NPF, but the high cost of looting can lower NPF. Mudharabah and ijarah financing have a large and negative impact on financial performance, indicating that financial performance can be improved by increasing the amount of mudharabah and ijarah financing offered by sharia cooperatives. A low NPF can improve financial performance because the NPF has a large and detrimental impact. NPF is not able to mediate the impact of mudharabah financing on financial performance. NPF as a mediator of the effect of ijarah financing on financial performance.

The novelty of this research is NPF as a mediator of the effect of ijarah financing on financial performance. This means that more ijarah financing provided by cooperatives to cooperative members can increase profits for cooperatives, thus reflecting better financial performance, which is supported by members making timely payments and non-performing loans.

The concept of financial performance that is influenced by Mudharabah Financing and Ijarah Financing and its impact on non-performing financing still requires a broader study of both subject and object to be accepted as a standard model and the variables used are limited. In addition, the observation period in this research is relatively short, starting from 2018 to 2021. This research is only seen from

the aspect of the cooperative's internal factors so it does not pay attention to the external aspect of the cooperative.

In connection with the conclusions, suggestions can be given as follows: from the results of the analysis, it is known that the financial performance of Sharia Cooperatives is influenced by internal cooperative factors such as mudharabah financing, ijarah financing and NPF. Therefore, this internal factor should be used as a focus for cooperative management in managing sharia cooperatives. The research sample uses different indicators to measure financial performance and adds more varied independent variables such as other financing products, as well as increasing the observation period.

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