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ANALYSIS OF RISK MITIGATION EFFORTS FOR ISLAMIC EQUITY AND DEBT FINANCING IN ISLAMIC MICROFINANCE INSTITUTIONS

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ANALYSIS OF RISK MITIGATION EFFORTS FOR ISLAMIC EQUITY AND DEBT FINANCING IN ISLAMIC MICROFINANCE INSTITUTIONS

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ABSTRACT

This paper investigates risk mitigation practices and alternative measures for non-performing financing in sharia rural banks (BPRS) in Indonesia. Using in-depth interviews with Islamic microfinance practitioners who are expert in the area, this study explores two categories of financing which are equity financing (mudharabah and musyarakah) and debt financing (murabahah). The mechanism will advise on the themes of equity financing, debt financing, risk identification and mitigation, risk appraisal, risk control and monitoring, and digital systems. Interviews were conducted at 6 BPRS in West Java and Banten,

Indonesia. The data will inform researchers about success stories of equity and debt financing by implementing risk mitigation to reduce the magnitude of the risk of each financing and alternative steps to mitigate non-performing financing. The results show that BPRS prefer musyarakah financing for equity over mudharabah, because they consider mudharabah to be riskier. For debt financing, all BPRS apply murabahah financing. Risk mitigation is carried out properly, starting from analyzing the client's credit history to assessing the required collateral. In the event of non-performing financing, the BPRS first assesses the source of the problem and the BPRS provides easy payments to clients through relaxation and restructuring. The digital system also plays an important role in mitigating BPRS risk and facilitating client access to BPRS.

INTRODUCTION

Microfinance institutions (MFIs) are the institution that can create financial inclusion, and alleviate poverty (Littlefield et al., 2003). The practice of microfinance is recognized as most effective mechanism to help the entrepreneurs and provide welfare to the poor through the development of microenterprises. MFIs are now operating in many developing countries. (Somanathan et al., 2019). It is proved by the growing rapidly in Indonesian economic fields which are caused of the Muslim majority population in Indonesia. As stated by (Nimrah Karim et al., 2008), they types of Islamic MFIs, were non-government, BPRS, BMT, and cooperatives. The primary source of Islamic banks were from PLS and non-PLS where is also supported by (Alzoubi, 2018). The financing used are equity, and debt financing. Each of the financial fields were applied mudharabah and musyarakah contract. As stated by (Shahinpoor, 2009) mudharabah contracts, known as cost plus margin and itis based on sales principles with the agreed price at the beginning of financing. This items were famous on Islamic MFIs. Whereas, it is reported as 70% of total Islamic financing amount globally than PLS mudharabah (IFSB, 2020).

Based on the statement of Chong & Liu (2009), the mudharabah financing is less popular than debt financing. The factors of the case were many. This is also supported by Ariffin & Kassim (2009 and Louhichi & Boujelbene (2016) where it is considered riskier than musyarakah because micro enterprises is not responsible of financial failure or with vary minimum risk as compared to funder of financial institution. However, the

statement of Warninda (2019) is different, where it has no significant effect of mudharabah than musyarakah on credit risk. It meant, the degree of risk is differed from one and another (Islam, 2012).

As stated by Rahman & Nor (2020), the challenges of Islamic equity risk financing were many. Moreover, the main problems were portfolio and default risk (Tamanni, 2019). Meanwhile, the diversity of portfolios are needed to avoid high-risk financing (Shahriar, 2015). This case were referred to the risk of credit risk. The risk were caused the failure of the mudarib whereas determined by the contract and the managing of credit risk. In this case, it required the effective management until the problems may solved (Islam,2013). This were mentioned on the previous research about credit risk in Islamic banking. Research from Pisol (2021) and Nazirwan (2015) explore the mechanism of risk mitigation at BMT in Indonesia. Meanwhile, Manan (2015) and Hafsa (2013) explore the risk management of Islamic microfinance. Rahman & Nor (2020) explore risk mitigation in venture capital companies and Islamic banks using 5 VC strategy. However, very few empirical studies focused on risk mitigation implemented by sharia rural banks (BPRS) in Indonesia. This research is different from previous research. The data that will be used where from the BPRS. Unless, it will not harming the BPRS.

This study focuses on the risk mitigation practice of sharia in rural banks (BPRS), The bank contributes an important role in SMEs and improves the welfare of the poor in Indonesia. This is including financial services authority (OJK). Currently, the BPRS's business branches are expanded nati/onwide. Whereas, reported of OJK (2021), there are 163 central BPRS operating throughout Indonesia. The opening of the BPRS needs the balanced by usage excellent financial performance. This is important to cater a small market share and high risk of default financing (Jalil, 2020). This study aims to explore the risk mitigation measures implemented by BPRS towards equity and debt financing. It is also focused on the mechanism used by BPRS to resolve the problems while discharging equity and debt financing and the study also will propose the best risk mitigation to be applied in MFIs. The usage of depth interviews with the practitioners and an expert in Islamic MFIs. It is expected to maked new approach on risk mitigation for Islamic MFIs, which may improve their risk mitigation profile and increase the sustainability of Islamic MFIs.

LITERATURE REVIEW

Islamic Financing

The study by Fianto et al (2018) evaluated the following aspects of equity and debt-based financing: the moral hazard; information asymmetry. Whereas, the entrepreneur able to manipulate the profit report. The study by Islam & Ahmad (2019) on the application of mudharabah and musyarakah for underprivileged women in Malaysia showed the results that underprivileged women in Malaysia have a great interest in sharia principles in M&M, although it is not acceptable for all of respondents. It is referring

to the general knowledge of M&M that needed by customers. However, the lacking knowledge of M&M enable the damage to the customers.

Abdul Manap et al (2017) investigated poverty alleviation through microfinance using the concept of mudharabah. The result of the investigation referring to the loans were given in small amounts and for a short period of time, and that new loans could be given based on performance once the previous loans were repaid. This concepts referring to the issues such as talent limitations, moral hazard, and a lack of risk management that must be taken seriously during the selection process, but the mitigation approach was not a significant part of their research. Yaya & Saud (2021) explore the practice of profit and loss sharing (PLS) governance in relation to the socio-economic development objectives of Islamic financial institutions. The process of providing and managing PLS financing contrary to popular belief. PLS financing is not particularly suitable for long-term business financing, only for a short period of time (3 years) and is not available for start-ups. As statement of Belkhaoui et al (2020) explore a conceptual model that includes variables related to financing modes, risk-taking, efficiency, and profitability of Islamic banks in GCC countries. The results showed that the total financing mode had a high and significant effect on the bank's profitability, statistically.

Financing Risk in Islamic Microfinance

Chamberlain & Khokhar's (2020) study investigates the differences in the credit profiles of Islamic and conventional banks in the Gulf Cooperation Council (GCC) region and tries to identify the factors responsible for these differences. The results show that Islamic banks have a lower credit risk than conventional banks. Using several econometric specifications, this study finds that higher capitalization, greater liquidity, and cost inefficiency contribute to the lower risk profile of Islamic banks. However, it should be noted that failure to manage credit risk mitigation will have an impact on the health of the bank and will affect the bank's overall performance. Rahman & Nor (2020) explore the strategies used by venture capital (VC) companies in assisting entrepreneurs who have business potential but lack capital, and investigate whether the VC strategy can be adopted by Islamic banks through musyarakah financing. There are challenges in musyarakah financing, namely high risk, business selection, market demand, asymmetric information problems, and capital guarantees. These challenges need to be managed properly to minimize the risk of loss and failure. Strategies to reduce the risk of loss and failure in businesses carried out by venture capital (VC) businesses can be studied and applied in the Islamic banking industry in providing financing. The strategies implemented in the VC business are: criteria selection, disbursement of funds, monitoring, non-capital assistance, and investment period. Implementing VC will benefit small businesses and the poor.

Risk Mitigation in Islamic Microfinance

The study by Pisol et al (2021) investigated risk mitigation model for equity financing in Islamic MFI in Indonesia. The result showed that BMT and MFIs in Indonesia are well-organized, that governance and entrepreneurial selection play a significant role, and that the payment system, where it is an effective way to mitigate microfinance risk. However, some particular risk mitigation measures, such as the application of takaful or micro-insurance to clients, the industry in which the business operates, and the usage of mudharabah muqayyadah in concluding contracts between clients and microfinance institutions, are also included.

This quantitative study concluded that Islamic microfinance has the potential to improve microentrepreneurs' business income. The study also discovered that the SME selection process, business control, incentive system, and good relationships are all important factors in achieving the effectiveness of BMT financing. However, this study does focus on strategies taken by MFI in risk mitigation especially on Islamic equity financing. Risk mitigation is highly dependent on the sectors, and a proper risk assessment and strategy must be completed prior to the deployment of financing. For the measuring of this financial. It is used the E-payment where it is stated by Mwafise & Stapleton (2012) discovered that the majority of micro-entrepreneurs in the country used m-payment technology by gadget.

A study by Sholihin (2018) revealed that while BPRS conducts credit analysis using the conventional method of 5C (character, capacity, collateral, capital, and conditions). The 5C method in credit risk analysis also needs a professional subjective assessment on application (Yu et al., 2015). Elements in risk credit analysis cover:

Character: Character is referring to the individual knowledge

Capital: Capital is referring to the business individual

Capacity: Capacity is referring to the managerial skill.

Conditions: Conditions are referring to the factors.

Collateral: it is referring to the value of assets.

Based on the previous study examined above, the current study is required to assist the BPRS in properly disbursing its funding. This effort will eventually aid the Islamic microfinance industry. As a result, the current lesson is critical in defining risk mitigation strategies that BPRS and Islamic micro-institutions in Indonesia can use. The process will propose evaluating the six bases listed above and determining the BPRS risk reduction procedures. In the usage of selection procedure, it is requiring the documentations, financial reports, depth interviews, based on the criteria that decided. The significant part are including the credit, the fund, evaluation, and procedure of collection strategies. It has contributes on risk mitigation mechanisms and alternative risk mitigation measures.

METHODOLOGY

Study design

This study uses a qualitative method by usage of the interviews with respondents on Islamic MFIs. This is important, which are considering to getting the informations of mitigating financing risks. Where, it is also referring to the solutions also. The locations of this research were focused on JABODETABEK. Considering the strategical locations and still it is including the respondents where it was only 6 respondents for each area and it is conducting on October-November 2021 at the BPRS office.

Recruitment

The chosen of the respondents based on the skills of managerial of BPRS and the strategic locations and the respondents were the OJK website user.

Sampling strategy

The sampling strategy by using theoretical sampling. Where, the populations of respondents were 22 on JABODETABEK, but the sampling that used only 6 respondents that has the experience therefore. According to (Hair et al, 1998) the minimum sample size that can be used is 5-10 times the number of independent variables used in the study.

Data collection

This study uses a depth interview with practitioners and experts in Islamic MFIs. The questionnaire was designed before the interview was conducted, and adopted the questionnaire (Ewool & Quartey, 2021). The interviews also has several questions that related to the research focused and it is conducting on 30-1 hour by phone recording.

Data analysis

The analysis are using the inductive-data driven analysis. Where it is using the identification of phenomenon and the results will be narrated by the author.

RESULT AND DISCUSSION

In this study, there were six themes used in interviews. Whereas, the chapters in this research are very important to understanding the strategy of BPRS in reducing their risk in equity and debt financing.

Equity financing

The implementation of PLS-based equity financing, each BPRS institution has its different approaches in term of PLS financing activities. Which the institutions has various risk profile mitigations on Islamic MFI (Nazirwan, 2015). In providing PLS financing P1, P3, P4, P5, and P6 agreed that the PLS financing mode in a musyarakah contract is the most favorite as compared to mudharabah due its different risk profiles and type of monitoring. In addition, musyarakah contract is more attractive to Islamic Rural Bank groups (Ernawati, 2016). Through the methods and the distributions the result showed the percentage of BPRS not full enough. Meanwhile, P2 has opinion that mudharabah is lower than musyarakah

financing and even more profitable. Obviously, P2 has the offer of mudharabah financing in their PLS financing activities. It is same as Warninda (2019) research, whose had supportive and the stronger bond between the community and financing.

To mitigate the risk of equity financing, BPRS also applies for an agreement letter or letter of cooperation agreement (SPK) from the customer. The letter is part of the requirements when applying for financing. It includes the proposed financing period, the amount of money needed, and collateral assets. Whereas is it called SPK and has important role. Thus, it required the business documents, and the financial tenor is more important on implementation of risk mitigation in the BPRS. Meanwhile, the statements of P2 about this case are different, which are the application may trigger a sharia issue. According to P1,

In sharia principle, there is no collateral requirement for PLS concept. Due to the parties in musyarakah sharing their capital and trusting each other. However, to avoid this risk, the information pertaining to customers' character is insufficient and the collateral comes as the third factor to protect negligence.

Customers can provide guarantees in the form of certificates of ownership rights (SHM), fixed assets, vehicles, or businesses that are financed can be used as collateral. Other risk mitigation mechanisms used by the BPRS, such as the business being run must be known and understood by the BPRS, transparent to each other, and the proportion of financing must not be too large. This result is in line with the research by Widarjono (2020) which shows that a high proportion of profit sharing contracts causes a high financing risk.

All BPRS (P1-P6) agree on the importance of providing convenience to customers in order for them to continue paying their financing installments. Relaxation and restructuring are two of the conveniences provided. To accomplish this, BPRS must first assess the customer's character and capacity. If the customer retains the ability to pay installments but his capacity for that is limited by declining income, the BPRS will reduce installment payments (relaxation) and also extend the financing period (restructuring). However, this result are not referring to the financial capacity to pay the installments to cover the debt that the customer has not paid (Sukriya, 2022).

In carrying out their operational activities, BPRS not only sells their financing products, but they also need to sell religious knowledge through the dakwah route. Because not all clients understand sharia principles, BPRS needs to educate clients about the application of sharia principles and their benefits in the financing environment and can develop trust between parties. According to P6,

Islamic financial products are still quite foreign to the general public. They are currently more familiar with conventional financial products and question the halalness of Islamic financial products. We are here not only to sell financing products, but also to preach to clients and the community.

Through the dakwah route, people will familiarize themselves with Islamic finance and can change their mindset to be oriented towards Islamic finance.

The topic of MAGHRIB (maisyr, gharar, and usury) is also taught in dakwah to clients to create awareness to avoid such transactions. Dakwah is not only given directly, but BPRS also posts their dakwah in the form of articles on websites and posters uploaded on their Instagram and Telegram.

Debt Financing

All BPRS are aligned in their use of murabahah contracts to provide non-PLS financing. This financing is not only for the purchase of consumer goods but also performs working capital financing with a murabahah contract. Small businesses have a high risk of default, therefore P3, P4, and P5 as well carry out working capital financing for small businesses with a murabahah contract. If applied to a musyarakah contract, the BPRS must wait at the end of the contract period to get the money back, but if they applied the murabahah contract BPRS will get the money back every month, especially when the customer makes installments of the financing, so, the capital of BPRS will turn around smoothly, such practice of risk mitigation are carried out by the BPRS. P2 and P5. This contract provides home mortgage financing products, but to mitigate the risks of this mortgage, the BPRS will only provide financing to the customers who are in the same group of the BPRS, such a practice by P5, where the customers who intend to purchase a house will be financed if the house is in the possession of that member of the group. However, P2 cooperates with housing developers, and the financing will be given to customers directly with cooperation from the housing developer. In the case of consumer financing, the financing will be given to the customer with the proposed items to buy a certain product such as vehicle, electronic goods, education costs, and others.

Financing requirements such as documents are important to be prepared by customers before applying for any financing. The assessment of documents is one of the important steps in BPRS's risk mitigation strategy. Among the documents are salary slips, bank accounts, place of domicile, and cash flow and business proposal. In addition, collateral analysis of any tangible assets is also required. However, because murabahah financing is mostly consumptive, the collateral required is not too large. For consumable products such as purchasing of vehicle, BPRS cooperates with vehicle dealers to first purchase and customer buy the customer's desired vehicle from BPRS's sales officer. The dealer then delivers the vehicle to the customer. For other risk mitigation analysis for non-performing financing, BPRS prepares a standard risk mitigation measure for all business under their entity.

Identification and Risk Mitigation

Identification of risk is another step taken by the BPRS. The study found that all BPRS (P1, P2, P3, P4, P5 and P6) will analyze the financial information service system (SLIK) provided by OJK to see the customers'

credit history. Through the OJK SLIK, the BPRS will analyze the customer's character. The results will show the customer character on credit history of financing repayment. The decision either to proceed or stop the deal will definitely depend on the OJK SLIK result. Once the result is positive, BPRS will proceed to the next stage of risk identification which is type of work, the private employees and not permanent will be considered higher risk in comparison to government servant, the next process is business financial statements, the identification will take place on the customer's salaries, bank's accounts, this process is important to ensure proper management of bank account and cash flow management by customer (Heravi, 2022). The step is crucial to assess the customer's attitude toward daily and monthly expenditure. On consumer financing, the BPRS will analyze the customer's salary and current account in order to assess the customer's ability to pay the financing in the future. BPRS will include other factors in their assessment as additional factor in helping the customers to gain the financing, unless all possible measures have been taken place and the assessment result is maintained negative, BPRS will reject the application. On top of that, all BPRS apply the 5C technique as a tool of credit risk analysis, the application of the technique with certain modification to suit the shariah requirement, since all the products of BPRS are shariah compliant, where the standard is called the 5C1S technique. 5C1S has added "business character" as a new criterion. The latter reflects that the business that is run is in accordance with Islamic law.

This assessment of 5C techniques is compliant with shariah as advocated by Sholihin (2018) in his study on 5C techniques of credit applications in Islamic financial institutions. In addition to that, all BPRS expected the customers to prepare financial proposals that included business activities and a financial budget in their proposals. Among other items which form a part of the risk identification are the business history and collateral. Collateral plays a significant role in measuring the case of default, All BPRS (P1, P2, P3, P4, P5 and P6) assess the ability of prospected clients to maintain and sustain their businesses. On top of that, all BPRS (P1, P2, P3, P4, P5 and P6) assess the factors that arise from socio-economic development that will affect the customer's ability to pay off the financing balance. Finally, in risk identification using the 5C1S technique, the BPRS identifies the debtor's sharia aspects. The financing provided may not be used for business or things that are contrary to the values of the Qur'an and As-Sunnah. This assessment evaluates the debtor's agreement to comply with sharia principles both in terms of production of goods, operational systems, the business being run, as well as the goods to be purchased. The study found that all BPRS (P1, P2, P3, P4, P5 and P6) join hands with cooperatives and Baitul Mal wa Tamwil (BMTs) to support their financial ability and to increase financial inclusion for the poor. The afford is in line with the study by (Rahman & Nor, 2020). According to P2,

Financing can then be channeled through cooperatives or BMTs. The cooperative or BMTs distribute funds to small entrepreneurs who need working capital, such as fishermen, farmers, etc. But financing is prioritized

to be channeled to groups. Because they have more of a good character to return financing compared to financing given to individuals.

Risk Assessment

Risk assessment is another method used by all BPRS in Indonesia, to ascertain the real intention of customer applying a financing through OJK SLIK methods. The process will trace the customer's credit history reviewing the past track of customers financing. This exercise is paramount important to justify the amount of financing and risk exposed by BPRS before discharging the financing facility. By reviewing the customer's credit history, the BPRS can assess how much credit risk will arise from the customer (Hamisu, 2017).

The study found that all BPRS evaluate the characteristics of participant/debtor's since character is posted as the key factor for business success. It will indicate the ability and intention to pay the financing amount, BPRS will also provide a back up solution in case of customers' failure to settle the financing amount. In addition to that, BPRS also examines the customers' commitment to run the business and the sustainability of the business products via its marketability and viability to market the products to the business community. To commensurate the above notion, all BPRS (P1, P2, P3, P4, P5 and P6) agreed to finance a business that has been running for at least 2 years. This risk mitigation strategy is proven by the NPF level of all interviewed BPRSs being below 5% per year according to the criteria set by the central bank (BI). NPF management is very important in maintaining the cash flow of microfinance institutions (Warninda et al., 2019)

The next risk assessment is reviewed based on the collateral. The results of the study revealed that BPRS cannot provide financing that exceeds the value of the collateral. However, it is different from P6 where they can provide financing without collateral, although this unsecured financing is specifically for permanent employees who are still in the Islamic village group. In addition to the need for collateral, and financing that must not exceed the value of the collateral, the BPRS mitigates risk by carrying out insurance on each financing. Every financing will be insured by Jamkrida, as Jamkrida is a government-owned insurance institution, and according to the regulations from the OJK, which advises doing insurance at Jamkrida. Insurance is important because it will reduce the financing risk faced by the BPRS.

Risk Monitoring Or Controlling

BPRS monitors the all its clients through direct participation or close relationship, it aims to guide and monitor the progress of the participant/debtor's business. In addition to that, direct participation and close relationships establish a strong bond, it finally build up the transparency, honesty and mutual trust among business community and

BPRS as a Islamic MFI. It turns the clients to be more disciplined and prudent in discharging the business fund in accordance with the budget plan, direct participation and close relationship has helped to identify the possible business failures, According to P6,

Through direct monitoring and monitoring of financial reports and project progress. The mitigation step that we take is to provide a financing term, term 1 of 80% and term 2 of 20%. When term 1 is given, then monitoring will be carried out by the BPRS. If during this monitoring the client uses his funds wisely, the transfer of funds in term 2 will be expedited (Alemu, 2017).

Furthermore, to control the risk, the researcher asked a question related to penalties for debtor default. Some BPRS (P1, P3, P5, P6) do not impose penalties or fines for customer defaults because they believe that applying fines for customer defaults is prohibited by Sharia law. However, unlike P2, they apply fines for defaults or delays in customer payments. The fine given is around Rp. 1000. The application of this fine aims to make customers disciplined in their payments. The OJK regulations do not prohibit fines, instead OJK recommends fines or penalties to discipline customers. P2 also received fines or penalties for default, but not for their income. However, it will be used for social purposes and not for the benefit of private institutions. P4 also applies a penalty or fine to debtors who default, but the amount of the fine depends on the agreement of the two parties at the beginning of the contract, so that both parties have been sincere with each other in carrying it out.

In running their business, debtors need self-development so that the business they run can run long term. However, from the study results, only P4 provides training to clients to improve their business performance. P1, P2, P3, P5, and P6 currently do not provide training to clients, but they have plans to in the future. They will provide training so that customers' businesses can run smoothly and can increase their business profits. P6 has not formally provided training at this time, but informally P6 has provided knowledge related to sharia insights so that they can be applied in their business.

Digital System

The usage of digital application is important for BPRS in order to inclusiveness. This usage in term of financial accessible by the customers for their transaction with. Furthermore, it is also increased their competitiveness with the other financial institutions. For example, P3 and P6 have used technology in applying for financing. Therefore, customers can saving the cost for transaction (Baber, 2021) and simplify the process. According to P3, We are the only BPRS that has gone digital. In accordance with our slogan "Go digital", we also have an application that starts from the submission process to the contract process that has gone through digitization. Documents are already in the form of soft copies. With a special application, when marketing goes into the field to collect customer installments with a collector machine and a cellphone. The customer can

immediately receive a receipt and go online directly into our system. For customer financing applications, when the application form is received by the system, a savings and contract opening is immediately formed. In addition to payment through marketing, clients can also pay installments via transfer to our bank account or VA. Even clients can pay through digital wallets such as OVO.

In addition, the application of digital technology has also been used in the installment payment process. Such as P2 to P6, which has collaborated with Islamic commercial banks for financial traffic so that customers can pay installments through interbank transfers using mobile banking to a BPRS bank account. Even though P2, P3, and P6 have implemented virtual account (VA) technology, each customer gets their own VA number, and when it's due the customer transfers funds to their VA number, which will automatically be input into the system if they have paid the installments. at maturity. The use of this kind of technology can protect customer data, reduce processing time, and connect with clients anywhere. The results of this study are consistent with research by Mwafise & Stapleton (2012). Although several BPRS have implemented technology, P1 has not yet implemented technology. The limitations of the community in accessing technology and the elderly are the causes of P1 not yet implementing technology in their installment payments. But MFIs need to adopt new technologies and adapt them to their business models (Mohamad & Kassim, 2019). All BPRS require the opening of savings accounts for their clients as risk mitigation and can be used for installment payments.

CONCLUSION

The study has successfully highlight the risk mitigation of BPRS in Indonesia with several categories such as equity financing, debt financing, identification and risk mitigation, risk assessment, risk monitoring or controlling, and digital systems. Based on the results, there are several actions taken by the BPRS to mitigate the risk of each financing, such as analyzing customer credit history through OJK SLIK, analyzing a client's business financial statements, analyzing client salaries, 5C analysis, using technology as support, and relaxing and restructuring non-performing financing. However, to reduce the credit risk, they carry out financing insurance for Jamkrida and monitor the clients to ensure their financing. BPRS prefer musyarakah financing for equity over mudharabah as the instrument is riskier than musyarakah. For debt financing, all BPRS apply murabahah financing. In the event of non-performing financing, the BPRS first assesses the problem and provides easy payments to clients through relaxation and restructuring. On top of that BPRS applies digital system to support the mitigation process.

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