

## MURABAHAH FINANCING REPAYMENT OPTIMIZATION THROUGH 5C CREDIT ANALYSIS

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### ABSTRACT

*This study investigates the impact of the 5C credit analysis principles (Character, Capacity, Capital, Collateral, and Conditions of Economics) on the smoothness of murabahah financing payments at KSPPS BMT ItQan Soreang Unit either simultaneously or partially. Micro, Small, and Medium Enterprises (MSE) often face challenges due to a lack of business capital, despite financial products introduced by institutions like Savings and Loans Cooperatives and KSPPS BMT. Persisting issues in payment smoothness necessitate a comprehensive examination, particularly in credit analysis. This research employs a quantitative approach with logistic regression tests on a sample of 101 respondents using statistical techniques such as regression analysis, Wald test, and omnibus test of model coefficients. This research highlights the importance of applying the 5C credit analysis principles to improve risk management, policy development, operational efficiency, and financial inclusion in murabahah financing at KSPPS BMT ItQan Soreang Unit. Findings from the Omnibus Test of Model Coefficients confirm that the 5C principles collectively impact payment smoothness. Moreover, the Wald test identifies Character, Capacity, and Conditions of Economics as significant contributors to the effectiveness of murabahah financing payments at KSPPS BMT ItQan Soreang Unit. This research highlights the importance of applying the 5C credit analysis principles to improve risk management, policy development, operational efficiency, and financial inclusion in murabahah financing at KSPPS BMT ItQan Soreang Unit.*

## **1 Introduction**

Islamic financial institutions are business entities primarily operating in the financial sector, dealing with the gathering and allocating of funds, including bonds, stock portfolios, or other financial instruments by Sharia principles. The rapid progress in the Islamic financial institution industry has been evident over the last decade, encompassing Islamic banking, Islamic insurance, Islamic capital markets, Islamic mutual funds, Islamic bonds, Islamic pawnshops, and Baitul Mal Wat Tamwil (BMT) (Afrianty et al., n.d.)

The development of Micro, Small, and Medium Enterprises (MSME) in Indonesia faces persistent challenges, with capitalization issues being a constant impediment for these enterprises (Ardiansyah, 2019). Providing financial assistance, such as working capital, to BMT members, who are predominantly MSE, is one of the products designed to target the BMT market. The additional capital or financing provided by BMT aims to enhance the business activities of its members, ultimately impacting their productivity and turnover, serving as a basis for personal economic progress (Husaeni & Dewi, 2019). From the customers' perspective, the concept of fairness arises, as financial institutions are expected to have pursued all possible avenues for recovering the outstanding amount from the principal debtor. This is particularly relevant because the principal debtors have directly benefited from the financing they received (Nor et al., 2020).

Supporting micro and small entrepreneurs with financing can generate a wide-ranging multiplier effect on the local economy. Assisting MSE entrepreneurs not only contributes to capital enhancement, potentially leading to increased income but it is also anticipated to create more job opportunities over time. Considering the significant role played by MSEs in propelling the regional economy, providing financial support to them is expected to positively influence regional economic development (Ratnasari et al., 2021). BMT plays a crucial role in empowering productive business functions, serving as a means to enhance the welfare of the community. In its distribution of funds, BMT predominantly offers financing products to MSE players, particularly those in the lower to middle-income brackets. The common risk encountered by BMTs is associated with murabahah financing, primarily due to its popularity and frequent utilization as the preferred form of financing in BMTs (Suparmo & Roni, 2022).

Murabahah is compatible with Sharia principles and its potential to address the challenges faced by ItQan in accessing business capital. Unlike conventional financing, which often involves interest-based transactions, murabahah operates on a cost-plus-profit basis, which aligns with Islamic finance principles. This highlights the importance of credit analysis principles, particularly the 5C principles (Character, Capacity, Capital, Collateral, and Conditions of Economics), in assessing the eligibility of members for financing. Murabahah financing, when implemented effectively, can provide a smoother payment experience by considering these principles in credit analysis. The research findings suggest that the 5C principles collectively impact the smoothness of murabahah financing payments, with specific factors like Character, Capacity, and Conditions of Economics significantly and positively affecting payment smoothness.

The agreement for the murabahah product is more appropriate as it aligns with the principles of allowable financing contracts in Islam, specifically focusing on profit margins. (Md Tahir et al., 2018). In the context of murabahah financing, the inclusion of guarantees

is a crucial prerequisite. This is because the guarantees offered by potential customers seeking murabahah financing serve as an evaluation tool to gauge the customer's commitment to repaying the financing funds (Melinda & Segaf, 2023). Profit and falah oriented are the goals in murabahah products, while in credit products only profit-oriented is glorified without falah to make a profit as much as possible. The difference in terms of relationships with customers made by institutions is also different, where Murabaha financing is a partnership while conventional credit products are in the form of relationships between creditors and debtors (Kurniati, 2019).

One such BMT that issues Murabahah financing products for additional working capital to MSE, especially housewives, is KSPPS BMT ItQan. Their product, Pembiayaan Majelis ItQan (PMQ), has significantly influenced BMT ItQan's assets, reaching financing of 49.11 billion Rupiah over its 15-year existence since its establishment on April 19, 2007, in Bandung, West Java. Meeting material needs, capital investment, and comprehensive services for each member constitute the primary role of Islamic financial institutions. However, challenges persist in ensuring timely repayment of installments or credit payments, a common issue in financing, highlighting the importance of trust in the lending process (Kartika & Oktafia, 2021). Murabahah financing provided by KSPPS BMT ItQan must be managed effectively. Murabahah financing has the potential to become a boomerang for the institution itself, leading to problematic financing that can affect the institution's sustainability, financial health, and reputation. This, in turn, can impact the continuity of the institution's business, necessitating the identification of a suitable solution to minimize issues related to losses.

The 5C analysis exemplifies the principle of prudence, known in Sharia terms as the principle of prudence or *Ikhtiyati*. This evaluation is crucial as a precautionary measure to avert customer defaults. The concept of payment smoothness involves adherence to financial obligations and is influenced by various factors, such as the character of the customer/member, their financial capacity, the collateral provided, and the economic conditions. To minimize issues related to payment smoothness, effective control, and timely collection efforts are crucial, fostering a sense of responsibility in members to meet their financial commitments.

The importance of implementing this 5C analysis for prospective customers at KSPPS BMT ItQan Unit Soreang can help minimize the lack of commitment from prospective customers in repaying installments for the murabahah financing they receive, which is often encountered in the field. Cases, where customers avoid paying installments, create a gap for institutions to ensure the return of funds they have provided. Therefore, in line with the purpose of this research, it aims to enable the institution, especially field officers, to assess prospective customers as eligible for the application of the 5C principles.

The 5C principle proves highly valuable in guiding banks in their credit decisions, which involve determining whether to accept or reject a credit application. Hence, the organization needs the capability to evaluate the creditworthiness and viability of prospective borrowers seeking credit (Izzalqurny et al., 2022). Financing applications from each member undergo screening through the 5C analysis tool due to the prevalence of cases where members struggle to make payments, often attributed to unstable and declining economic conditions. Therefore, addressing these issues is essential, and this study focuses on exploring potential solutions related to payment smoothness at KSPPS BMT ItQan

Unit Soreang. Previous research has yielded varied results regarding the influence of the 5C principles on payment smoothness. A study in 2018 found that Character, Capacity, and Collateral influence the repayment rate of financing (NADIA EVA DHARMASARI JATMIKA, 2018). Meanwhile, in this research, the results obtained show that Character, Capacity and Condition of Economic of a customer greatly affect the level of smooth payment. KSPPS BMT ItQan implements a system of mutual assistance agreements between customers who are united in one group so that each customer can help each other if there is one customer in a group experiencing payment difficulties. For this reason, the authors are interested in reviewing the application of the 5C principle to the smooth payment of customers.

This research addresses gaps in existing literature by focusing on the specific application of the 5C credit analysis principles in murabahah financing within KSPPS BMT ItQan Soreang Unit. This study fills these gaps by providing empirical insights into how these principles impact payment smoothness, thereby contributing a nuanced understanding that can enhance both theoretical frameworks and practical applications in Islamic finance and microfinance research. This research continues and expands upon existing studies by delving into the application of the 5C credit analysis principles specifically within the context of murabahah financing at KSPPS BMT ItQan Soreang Unit. Unlike previous studies that often provide general insights into credit assessment principles, this research offers empirical evidence on how these principles influence payment smoothness in Islamic microfinance. By focusing on a specific financial product and institution, it challenges the broader applicability of existing theories and extends the understanding of effective credit management practices in Islamic finance. Thus, it contributes to the refinement and enhancement of theoretical frameworks and practical strategies in the field of microfinance and Islamic finance.

## **2 Literature Review**

The 5C principles in credit analysis are essential for assessing creditworthiness in Islamic financing. They ensure that the borrower's integrity, financial ability, investment, assets, and external economic factors are thoroughly evaluated. This alignment with Shariah law principles, such as honesty, risk-sharing, and fairness, helps mitigate risks and ensure ethical financial practices. Reviewing studies on the 5Cs is relevant to research as it helps adapt traditional credit evaluation methods to Islamic finance, enhances risk management, informs policy development, and provides a deeper understanding of integrating Islamic finance with global systems while maintaining its unique ethical standards. It's crucial for assessing creditworthiness in Islamic financing. They ensure a comprehensive evaluation of a borrower's integrity, financial ability, investment, assets, and external economic factors. This alignment with Shariah law principles, such as honesty, risk-sharing, and fairness, helps mitigate risks and ensures ethical financial practices.

Reviewing studies on the 5Cs is relevant to research because it helps adapt traditional credit evaluation methods to Islamic finance, enhances risk management, informs policy development, and provides a deeper understanding of integrating Islamic finance with global systems while maintaining its unique ethical standards. It is vital for assessing creditworthiness, especially in the context of Islamic financing such as Murabahah, a cost-plus-profit arrangement. Here's a theoretical framework on each of these variables and

their influence on the repayment of Murabahah financing: The use of the 5C principle is in line with what the author wants to research regarding the phenomenon that occurs in the field, namely the discovery of many cases of members of the KSPPS BMT ItQan Soreang Unit who experienced difficulties in paying installments. It has been implemented by KSPPS BMT ItQan Soreang Unit but not completely, because it only relies on the 3 C principles (Character, Capacity and Economic Conditions) + 1S (Shariah), so according to the author this needs to be implemented. applying the 5C principles to provide optimality in measuring the smoothness of payment cases.

These connections validate the hypotheses, showing that the 5C principles effectively predict repayment behavior in Murabahah financing. This integrated framework ensures ethical and financially sound practices, informs risk management strategies, and guides policy development, enhancing the stability and reliability of Islamic financial products. Reviewing these studies supports the study's aim to develop a comprehensive evaluation framework that adheres to Shariah principles while maintaining financial prudence.

There are some researchs that relevant to this case. Firstly, research by Rosyalina A. Patmanegara (2018) conducted a study indicating that the 5C variables (Character, Capacity, Capital, Collateral, and Condition of Economic) show that Character has a positive and significant influence, while Capacity, Capital, Collateral, and Condition of Economic have positive but not significant influences. This shows that there is one variable that has similarities with the results of this research, namely character which has a significant half. This shows that each person's character can have an impact on a person's sense of responsibility for what has been given, especially in the context of financing.

Secondly, research by Nadia Eva (2018) indicates that Character has a positive but not significant influence, Capacity has a positive and significant influence, Capital has a negative but not significant influence, Collateral has a positive and significant influence, and Condition of Economic has a negative and significant influence on the level of financing returns. This shows that there is one variable that has the same results, namely capacity. The differences in terms of the indicators taken show different results, where the capacity indicators taken are whether they have income that can cover the amount of the installments and whether they have other loans at other institutions or not, where each person's ability greatly influences the smoothness of payments.

Third, the research by Selvina Novita Sari (2021) stated that simultaneously, the 5C variables (Character, Capacity, Capital, Collateral, and Condition of Economic) influence the level of installment financing returns in Murabahah. Judging from the hypothesis testing used in previous research, it only searched simultaneously, whereas in this research it also searched partially or one variable unit, where not all variables had a significant effect.

Then, research by Wulandari (2012) shows that each variable of the 5 C principles has a positive and significant. Different from this research, especially on collateral variables. where in this research guarantees are not used as a reference for institutions to provide financing, which is due to the principle of helping every member of the assembly. The research by Cahyaningtyas & Dharmawan (2020) shows the results that Character, Capacity, Capital, Collateral and Economic Conditions do not have a significant effect. And last, the research by Lesawati, Soleh and Ferina (2019) research shows the results that the 5c principles and financial reports have fulfilled procedures and play an important role in providing credit. The significant difference with this research is that the research methods are different, resulting in different outputs.

### 3 Methods

The study focuses on members of KSPPS BMT ItQan Unit Soreang. The population consists of all members, and a sample size of 101 respondents were selected using the Random Sampling technique. The sample size calculation was based on the Slovin formula, ensuring a representative subset of the population. Data collection involves the distribution of questionnaires, which are subsequently analyzed using regression tests. Partial tests are conducted using the Wald test, and simultaneous tests are performed with the Omnibus Test of Model Coefficients. Data was collected through the distribution of questionnaires to the selected sample of 101 members. Questionnaires are a common method for gathering quantitative data in research studies, allowing for structured data collection. The study employs a quantitative methodology with a descriptive analysis approach. Descriptive analysis involves summarizing and presenting data to provide insights into the characteristics of the sample and variables studied. Statistical techniques used such as Regression Analysis, Wald Test, and Omnibus test of model coefficient to uncover associations between the 5C credit analysis principles and the smoothness of payments among the members of KSPPS BMT ItQan Unit Soreang. By employing logistic regression, the study seeks to provide a quantitative understanding of how these credit assessment criteria impact the financial outcomes of the members.

Binary Logistic Analysis is used to find the association between the binary Y variable and the X variable. (D.W. Hosmer, 2000) This regression model is a mathematical model approach that aims to analyze the association or relationship of several factors on binary variables. The response variable in this study consists of 2 categories, namely D = 1 indicates that the results obtained are “Yes / Current” and D = 0 indicates that the results obtained state “No / Not Current”, therefore this logistic regression is called binary liner regression. Finally, the purpose of these statistical analyses is to offer an understanding of the correlation between variables and the elements affecting the smoothness of payments among the members of KSPPS BMT ItQan Unit Soreang.

### 4 Results

#### Test of Logistic Regression Classification Accuracy

This test is conducted to determine the predictive value of the dependent variable indicated by observed values, as shown in Table 1 below:

**Table 1 Logistic Regression Classification Table**

Classification Tables					
	Observed		Predicted		Percentage Correct
			Y		
			UNSMOOTH	SMOOTH	
Step 1	Y	UNSMOOTH	29	17	63.0
		SMOOTH	14	41	74.5
	Overall Percentage				69.3

Source: Processed questionnaire data (2024)

Based on the above Table 2, shows a classification accuracy value of 69.3%, indicating that the logistic regression model's classification accuracy can predict the influence of

independent variables (Character, Capacity, Capital, Collateral, and Condition of Economic) on the dependent variable of payment smoothness with categories "Current" and "Not Current." The total sample consists of 101 beneficiaries of murabahah financing from KSPPS BMT ItQan Unit Soreang, where those categorized as not current in paying installments total 46 individuals (29 + 17). Among them, 29 individuals truly did not pay installments on time, and 17 individuals predicted as not current turned out to be current in paying installments. Additionally, there are 55 individuals categorized as currently paying installments (14 + 41), with 41 individuals truly paying on time and 14 individuals predicted as current but turned out to be not current in paying installments for the murabahah financing provided by KSPPS BMT ItQan Unit Soreang.

To demonstrate that the regression model meets the test criteria, it can be shown through the Iteration History Table Block 1 by examining the last -2 Log Likelihood value < Chi Square Table, as indicated in Table 2:

**Table 2. Iteration History**

Iteration		-2 Log likelihood	Coefficients				
			Constant	Character	Capacity	Capital	CoE
Step 1	1	110.946	-5.455	.287	.190	.029	.176
	2	109.725	-7.022	.354	.248	.042	.239
	3	109.706	-7.254	.363	.257	.045	.249
	4	109.706	-7.258	.363	.257	.045	.249
	5	109.706	-7.258	.363	.257	.045	.249

Source: Processed questionnaire data (2024)

Based on Table 3, shows that the model has met the test criteria with the condition of meeting the test requirement, i.e., by observing that the last -2 Log Likelihood value is < chi-square table. This is determined by calculating the chi-square table value using the formula  $Df = N - K - 1$ , where N is the total number of samples taken, and K is the number of variables x used. Consequently, the last -2 Log Likelihood value is smaller than the chi-square table, i.e.,  $109.706 < 119.870$ .

**Feasibility Test of Regression Model**

According to Hakim & Santoso (2023), the feasibility of a regression model is assessed by examining it using the Hosmer and Lemeshow’s Goodness of Fit Test to test whether the data is considered suitable and consistent with the regression model or whether there is no difference between the model and the data. This test helps determine the fit of the model with the value of  $Df = K - 1$  to determine the chi-square table value, which is found to be 9.348. The results are shown in Table 3 below:

**Tabel 3. Hosmer and Lemeshow Test**

Hosmer and Lemeshow Test		
Chi-square	df	Sig.
6.386	8	.604

Source: Processed questionnaire data (2024)

Based on Table 3, it is indicated that the logistic regression model is suitable or acceptable and can be continued for further research processes because the calculated chi-square value, 6.386, is less than the chi-square table value, 9.348, and the significance level is 0.604, which is greater than 0.05.

**Wald Test (Partial)**

This test is conducted in logistic regression analysis to determine the significance of independent variables, namely Character, Capacity, Capital, Collateral, and Condition of Economic, individually on the smoothness of murabahah financing payments at KSPPS BMT ItQan Unit Soreang. The criteria are outlined as follows: if the significance value (Sig) exceeds 0.05, the null hypothesis is accepted, and the alternative hypothesis is rejected. This implies that the independent variable does not exert a significant impact on the dependent variable. Conversely, if the obtained Sig value is less than 0.05, Ho is rejected, and Ha is accepted, indicating a significant effect of the independent variable on the dependent variable. The results are presented in Table 4 below:

**Table 4 Wald Test**

B		S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	Character	.363	14.758	1	.000	1.438
	Capacity	.257	5.721	1	.017	1.293
	Capital	.045	.241	1	.623	1.046
	CoE	.249	5.867	1	.015	1.282
	Constant	-7.258	15.328	1	.000	.001

Source: Processed questionnaire data (2024)

Based on Table 5, shows that there are several significant variables based on a significance value of less than 0.05. Notable variables include Character with a significance of 0.000, Capacity with a significance of 0.017, and Condition of Economics with a significance of 0.015. The Odds Ratio or Exp(B) values aim to indicate the magnitude of the effect obtained, as shown in Table 5.32 for each impact on each variable as follows:

- a. Character has an Odds Ratio / Exp(B) value of 1.438, indicating that the Character of KSPPS BMT ItQan Unit Soreang members has an impact on payment smoothness 1.438 times compared to other variables.
- b. Capacity has an Odds Ratio / Exp(B) value of 1.293, suggesting that the Capacity of KSPPS BMT ItQan Unit Soreang members has an impact on payment smoothness 1.293 times compared to other variables.
- c. Capital has an Odds Ratio / Exp(B) value of 1.046, indicating that the Capital of KSPPS BMT ItQan Unit Soreang members has an impact on payment smoothness 1.046 times compared to other variables.



- d. Collateral does not produce a value due to the questionnaire test results, where the same value is obtained for all respondents. This is because KSPPS BMT ItQan does not request collateral from its members.
- e. Condition of Economic has an Odds Ratio / Exp(B) value of 1.282, indicating that the Condition of Economic or the members' financial capability at KSPPS BMT ItQan Unit Soreang has an impact on the smoothness of murabahah financing payments 1.282 times compared to other variables.

**Omnibus Test of Model Coefficients (Simultaneous)**

This test is conducted to determine whether or not an independent variable, specifically Character, Capacity, Capital, Collateral, and Condition of Economics in this study, collectively influences the smoothness of murabahah financing payments at KSPPS BMT ItQan Unit Soreang. The criteria are as follows: if the calculated chi-square value is > the tabled chi-square value using the formula  $df = K$  and the significance level (Sig) is < 0.05 (5%), then  $H_0$  (null hypothesis) is rejected and  $H_a$  (alternative hypothesis) is accepted. The results are presented in Table 5 below:

**Table 5 Omnibus Test of Model Coefficients**

Chi-square		df	Sig.
Step 1	Step	29.506	.000
	Block	29.506	.000
	Model	29.506	.000

Source: Processed questionnaire data (2023)

Using the information from Table 6, the computed chi-square value is 29.506, surpassing the critical chi-square value of 7.814. Additionally, the significance level is 0.000, which is below the 0.05 threshold. Consequently, the conclusion drawn is that the combined independent variables exert a statistically significant influence on the dependent variable.

**Coefficient of Determination (Pseudo R Square)**

This test is used to determine the percentage of the contribution of the independent variables (Character, Capacity, Capital, Collateral, and Condition of Economics) included in this study to the dependent variable, which is the smoothness of payments. The results are presented in Table 6 below:

**Table 6 Coefficient of Determination (Pseudo R Square)**

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	109.706 <sup>a</sup>	.253	.339

Source: Processed questionnaire data (2023)

Based on Table 6, the Nagelkerke R Square value is 0.339, indicating that the independent variables can explain the dependent variable by 33.9%, and the remaining 66.1% is explained by other variables. This result of the research is driven to bring the implications for financial institutions to consider better either it is Character, Capacity, Capital or Condition of Economic of each customer to minimize the occurrence of non-compliance with customer's payments on Murabahah financing provided by KSPPS BMT ItQan. Based on the facts found by the author, that there are still customers who are not smoothly paying bill installments on the financing they get, either for economic reasons or attitude. So the author argues that the application of the 5C analysis is very necessary when the prospective customer submits a financing request.

## **5 Discussion**

### **a. The Partial Influence of Character, Capacity, Capital, and Condition of Economic on the Smoothness of Murabahah Financing Payments at KSPPS BMT ItQan Unit Soreang**

**Character:** The results show that the alternative hypothesis is accepted, and the null hypothesis is rejected. This indicates that character significantly influences the smoothness of Murabahah financing payments at KSPPS BMT ItQan Unit Soreang, with a significance level of  $0.000 < 0.05$ . The research findings consistently align with Rosyalina A. Patmanegara's (2018) study, stating that Character significantly affects payment smoothness.

**Capacity:** The results indicate that the alternative hypothesis is accepted, and the null hypothesis is rejected. This implies that capacity significantly influences the smoothness of Murabahah financing payments at KSPPS BMT ItQan Unit Soreang, with a significance level of  $0.017 < 0.05$ . However, this result contradicts the findings of Rosyalina A. Patmanegara (2018), who concluded that Capacity does not significantly affect payment smoothness.

**Capital:** The results show that the alternative hypothesis is rejected, and the null hypothesis is accepted. This suggests that capital does not significantly influence the smoothness of Murabahah financing payments at KSPPS BMT ItQan Unit Soreang, with a significance level of  $0.623 > 0.05$ . This finding aligns with Rosyalina A. Patmanegara's (2018) research, indicating that Capital does not significantly affect payment smoothness. The assessment of capital is more focused on the amount of personal funds or initial business capital owned by financing members.

**Collateral:** Collateral did not appear in Table 4.32 because no responses indicated that collateral has an impact on the smoothness of Murabahah financing payments at KSPPS BMT ItQan Unit Soreang. This is due to KSPPS BMT ItQan Unit Soreang's overall practice of not requesting collateral from its members. This decision is based on the belief that shared responsibility, mandatory savings, and the major cash are sufficient to minimize payment smoothness issues. Financial institutions refrain from extending loans to MSMEs due to a lack of confidence in their ability to repay the loans promptly. To mitigate this risk, numerous financial institutions require collateral as a prerequisite for credit applications (Meivita & Farida, 2021).

Condition of Economic: The results indicate that the alternative hypothesis is accepted, and the null hypothesis is rejected. This suggests that the condition of the economy significantly influences the smoothness of Murabahah financing payments at KSPPS BMT ItQan Unit Soreang, with a significance level of  $0.015 < 0.05$ . The research findings emphasize the significant impact of the economic condition on the smoothness of Murabahah financing payments at KSPPS BMT ItQan Unit Soreang.

### **b. The Simultaneous Influence of Character, Capacity, Capital, Collateral, and Economic Condition on the Smoothness of Murabahah Financing Payments at KSPPS BMT ItQan Unit Soreang**

Based on the result, it is indicated that the alternative hypothesis is accepted, stating that Character, Capacity, Capital, Collateral, and Economic Condition collectively influence the smoothness of Murabahah financing payments at KSPPS BMT ItQan Unit Soreang. This is derived from the chi-square value of 29.506, which is greater than the chi-square table value of 7.814, and the significance level of 0.000 is less than the significance level of 0.05.

The first crucial step for a financial institution that will entrust its members with financing assistance is to conduct a thorough financing analysis to make decisions that are expected to bring benefits to both the benefactor and the beneficiary. The diversity of characteristics among prospective members is a key factor that must be observed in providing financing. The reflection of a member's character is related to their capacity, or the ability of a member to repay the financing. However, a member's capacity is also related to their capital or the assets they possess to make payments, including their income and savings, which can be used as collateral. This encompasses the economic conditions of a customer.

The selection and identification of MSME participants eligible for capital funds should be more rigorous, incorporating the 5C approach. Additionally, consolidating installment repayments under a single agency, as opposed to the previous requirement of navigating through two or more entities, can streamline the process for MSME participants. Therefore, an analysis of the 5C principles is necessary, as they are interconnected and collectively influence the smoothness of member installment payments (Reniaty et al., 2023).

## **5 Conclusion**

Murabahah financing, aligned with Sharia principles, provides an effective solution for addressing the capital challenges of MSEs at KSPPS BMT ItQan Unit Soreang. Unlike conventional interest-based financing, murabahah operates on a cost-plus-profit basis, which adheres to Islamic finance principles. This research emphasizes the importance of the 5C credit analysis (Character, Capacity, Capital, Collateral, and Condition of Economic) in determining member eligibility and ensuring smooth payment processes. In the end, this research is being conducted to evaluate how the 5C principles impact the smoothness of murabahah financing payments at KSPPS BMT ItQan Unit Soreang. The phenomenon that is often encountered is that there are many members who reason that they cannot pay

the installments in the middle of the road for various reasons, both economic and intentional, which can be seen from the frequency of members running away when the payment is due.

Collectively, these findings highlight that integrating the 5C principles into credit analysis ensures ethical and financially sound practices, enhances risk management, and informs policy development. This comprehensive approach improves the smoothness of Murabahah financing payments by reducing default risks, ensuring borrower commitment, and aligning financing practices with Shariah principles. Reviewing these studies supports the study's aim to develop a robust evaluation framework that maintains financial prudence and ethical standards in Islamic finance. With findings: Character has a significant positive impact on payment smoothness, with a significance level of 0.000 and a positive coefficient B value of 0.363. Capacity also shows a significant positive influence, with a significance level of 0.017 and a positive coefficient B value of 0.257. Economic Condition positively affects payment smoothness, with a significance level of 0.015 and a positive coefficient B value of 0.249. Capital shows a positive but not significant effect on payment smoothness. Collateral was not analyzed due to insufficient data.

The study concludes that murabahah financing is particularly suitable for lower-middle-class MSMEs with unstable economic conditions. The cooperative approach within KSPPS BMT ItQan allows members to support each other during payment difficulties, contrasting with the rigid repayment demands of conventional credit systems. This research provides valuable insights for improving the implementation of murabahah financing at KSPPS BMT ItQan and highlights the potential for broader application in various economic contexts. The limitation of the research that the author realizes is that the scope of respondents is only a small part of the number of units from KSPPS BMT ItQan which allows for differences in results obtained due to differences in situations and conditions.

In practice, the 5C principles can be used to develop more effective and Shariah-compliant credit analysis processes, reducing default risks and enhancing repayment rates in Murabahah financing. Theoretically, this research contributes to the literature by integrating ethical and financial criteria, enhancing risk management, providing a framework for policy development, offering a holistic approach to credit analysis, and empirically validating the effectiveness of these principles. This dual impact ensures that Islamic finance can maintain its ethical foundations while achieving financial stability and sustainability.

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