



Analysis of Financing Risk Management Implementation at Baitul Maal Wat Tamwil

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Abstract

Purpose - This study aims to analyze the implementation of financing risk management in Sharia Cooperatives at BMT UAS Pamotan.

Method - The method uses a qualitative approach, using primary data from interviews with the finance staff and reading from various references.

Result - The implementation of financing risk management at BMT UAS Pamotan is through two approaches, namely internal and external. Internal approach by anticipating various possible risks, namely through management audits and evaluations. Meanwhile, externally through service maximization, and tightening 5C (Character, Capacity, Capital, Collateral, and Conditions).

Implication - There needs to be a closer method between the BMT and partners (customers) so that the possibility of financing risks arising can be minimized.

Originality - Analyzing qualitatively related to existing financing in Islamic microfinance institutions.

Keywords: risk management, non-performing financing, cooperatives.

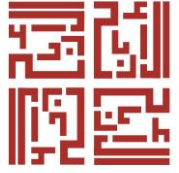


Introduction

In the State of Indonesia, including the majority population of Muslims. Indonesian people cannot be separated from the economic system. Thus, Islamic banking or Islamic financial institutions are a component of the economy of Muslims in Indonesia. Cooperatives are non-bank financial institutions that already have legal entities (Mansur, 2018). Law of the Republic of Indonesia No. 25 of 1992 Article 1 paragraph 1 concerning Cooperatives is formulated that cooperatives are business entities consisting of people or cooperative legal entities based on their activities based on cooperative principles as well as a people's economic movement based on the principle of kinship (Hidayat & Trisanty, 2020). One of the cooperative businesses is a savings and loan cooperative. With the formation of savings and loan cooperatives to direct their members to be able to drive economic activity by providing effective and efficient services (Wagiyo, 2016).

Savings and loan cooperatives According to PSAK No. 27, Savings and Loans Cooperatives are cooperatives whose main activities or services are providing storage and borrowing services for their members (Farida et al., 2022). Cooperatives actually operate in the form of business entities with capital from members' savings and then loaned to members in an easy and targeted way with the aim of productivity for financial institutions and welfare for members (Fikruddin & Mufid, 2015). Law of the Republic of Indonesia No. 25 of 1992 Article 3 states "Cooperatives aim to promote the welfare of the community in general and participate in building the national economic order in the context of realizing an advanced, just and prosperous society based on Pancasila and the 1945 Constitution" (Wibowo, 2015).

One of the functions of Islamic financial institutions is to provide credit/financing to their members to run businesses to improve the standard of living of their respective members (Zulfa, 2014). The policy of Islamic financial institutions to provide credit to members is not based on the rate of paying interest (Subaidi & Ikmalul Ihsan, 2019). However, the business prospects run by the members are prioritized to develop the economy (Abdul



Djalil & Munir, 2019). However, an Islamic financial institution is not as easy as giving credit to members but must be able to manage risks in managing various types of financial risks so as not to cause a loss to Islamic financial institutions. Risks in Islamic financial institutions certainly exist and cannot be avoided but can be reduced (Dinata, 2021; Susilo & Septiarini, 2015).

An Islamic financial institution must take risks to get a profit in the institution. By means of Islamic financial institutions to minimize risk by managing risk management. The risk that is often experienced by Islamic financial institutions is bad credit. Based on the description above, the purpose of this study is to analyze the implementation of financing risk management in Sharia Cooperatives at BMT UAS Pamotan.

Literature Review

Management

Management is the art of getting work done through other people. Mary Parker Follet's definition means that a manager is in charge of organizing and directing others to achieve organizational goals. Ricky W. Griffin explained that management is a process of planning, organizing, coordinating, and controlling resources to achieve goals effectively and efficiently. Effective means that goals can be achieved by planning, while efficient means that the existing tasks are carried out correctly, organized, and according to a predetermined schedule.

The word Management comes from the Old French *ménagement*, which means "the art of executing and managing." In Italian (1561) *maneggiare* which means "to control," especially in the context of controlling a horse, which comes from the Latin *manus* which means "hand." The French then adopted this word from English to *ménagement*, which means the art of carrying out and managing. The management function is the basis that will always exist and is inherent in the management process which will become a reference for managers in carrying out activities to achieve goals. The management function was first introduced by a French industrialist named Henry Fayol in the early 20th century. At that time he mentioned five management functions, namely



designing, organizing, commanding, coordinating, and control. But now, the five functions have been condensed into three, namely: Planning is thinking about what to do with the resources you have. Planning is done to determine the overall goals of the company and the best way to meet those goals. Organizing is done with the aim of dividing a large activity into very small activities. Organizations make it easier for managers to supervise and determine the people needed to carry out tasks that have been divided according to the capacity of each person and according to the abilities of people. Directing is an action to ensure that all group members strive to achieve goals in accordance with managerial planning and efforts to ensure proper direction.

Sharia Cooperative

A sharia cooperative is a financial institution that uses an Islamic basis. This cooperative is in great demand in various communities because not only does it provide good service to members of this institution, it also provides many benefits for its members. Sharia cooperatives or financial institutions are cooperative business entities that carry out their business activities based on sharia principles. All business units, products, and operations of this cooperative are carried out in accordance with the fatwa of the National Sharia Council (DSN) of the Indonesian Ulema Council. This BMT or Baitul Maal wa Tamwil activity has profit-oriented and social-oriented activities. Aiming profit oriented, namely BMT must also be able to run based on economic rules that have been regulated, as well as being able to generate income that can cover all the costs needed to run BMT operations. Another characteristic of BMT is that it has a socially oriented function. Conceptually, BMT is an institution which also includes activities to collect various funds from various sources whose use is for social and community interests in their environment. The money collected and distributed by BMT UAS Pamotan is allocated in the form of zakat, infaq, shadaqah, grants, and waqf. Sharia cooperatives are expected to provide many benefits, can bring benefits.



Financing Risk Management

Financing is the distribution of funds for the needs of members, whether for personal use or for business, in the form of goods/assets/services. Widigdo Sukarman defines risk management as the overall risk management and control system faced by banks which consists of a set of tools, techniques, management processes (including authority and operational systems and procedures) and organizations aimed at maintaining the level of profitability and soundness of the bank that has been determined. in the corporate plan or other strategic plans of the company in accordance with the applicable company soundness level. Risk Management Objectives There are several objectives in implementing risk management which are believed to be able to

- 1) Ensure that the risks that exist in the company are identified and assessed, and various action plans have been made to minimize the impact experienced by the company and the possibility of risk occurring.
- 2) Ensuring that the action plan has been implemented effectively and efficiently to minimize the impact and possibility of risk occurring in the company.
- 3) Improving the effectiveness and efficiency of management because all risks that can hamper the company's or financial institution's processes have been identified properly and correctly, including ways to overcome disruptions to the smooth running of the company's processes, so that if any such disturbance occurs, the company is ready to handle it properly. by the rules.
- 4) Assist company management in making decisions by providing information about the risks that exist in the company, both strategic risk and activities of business functions or processes in the work unit.
- 5) Provide more reasonable guarantees for achieving company goals due to more effective and efficient management, improved stakeholder relations, ability to handle company risks which also increases if there are disturbances, including compliance risks and penalties that are regulated and stipulated in the company the.

The benefits of applying risk management are: Make a direct contribution to company profits. Make a direct contribution to corporate profits (or for non-profit organizations in the form of operating efficiency) by reducing costs and increasing revenue at the same time. Make an indirect contribution to the



company's profits. Determine the survival and failure of the company. Some pure risks, such as large liability claims or physical destruction of company facilities, can paralyze a company; without good preparation for these events, the company can go bankrupt.

Methods

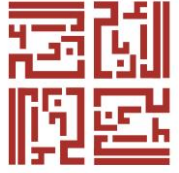
In research to compile this journal using qualitative research and direct field research to obtain data information according to research problems. In addition, researchers also use descriptive to analyze the data that has been collected from the field by means of interviews or direct observation to the financing staff. This study uses primary data can be obtained by observation and interview techniques. Observation is to make direct observations and record all the problems studied. Interviews, this study uses qualitative research in this method is very suitable because researchers can dig up a lot of information.

Results and Discussion

Risk management in banking or non-bank financial institutions such as the BMT UAS sharia cooperative is absolutely essential. Risk can arise from various sources. One of them is the risk of financing. The problem is how to overcome these risks. With risk management, at least it can overcome if there is a problem so that it can continue to compete with other cooperatives. The risk is predictable and unpredictable which can have a negative impact on income and capital.

Implementation of financing risk management

Financing or credit, namely funds obtained from members after being received by the sharia cooperative, after the submission of guarantees (marhun). In addition, financing can also be interpreted as the provision of funds based on an agreement between the cooperative and the member party which requires the financed party (member) to return the money or bill according to a specified period of time. Funding is provided by the cooperative on the basis of trust in members. This means that financing is given to



members who are truly believed to be able to return the money lent according to the time period agreed between the two parties.

Credit or financing risk arises due to a member's failure to fulfill its obligations to return the agreed money. On the other hand, the risk arises because of the cooperative's functional activities. If the member cannot fulfill the obligations according to the agreement from the beginning, the cooperative will pay attention not to the finances and value of the collateral submitted but also to the character of the member. Credit or financing control aims to ensure that maintaining and supervising credit or financing as a cooperative asset is carried out properly so that it does not cause credit risk due to irregularities due to various things. Cooperatives need to carry out risk management on credit risk which is a major problem in a banking or financial institution such as the BMT UAS Pamotan cooperative by monitoring, identifying, controlling credit risk and ensuring capital security in cooperatives. Cooperatives must be able to develop a credit risk management strategy and the level of profit derived from credit risk that may occur. And one of them is making a strategy according to the current economic cycle.

BMT UAS Pamotan sharia cooperative must identify and analyze credit risk for all products and activities carried out. Identify members by looking at their character and what business they are doing. The BMT UAS Pamotan sharia cooperative must ensure that the risks contained in the new product or activity are covered in the identification process. Measurement of credit risk must take into account the nature and specifics of the credit itself. Member's financial condition and terms in the credit agreement. The process of measuring credit risk is highly dependent on the quality of management information. Therefore, quality, detail and timeliness are very important for a financial institution or cooperative.

Internal factors

BMT UAS also continues to make efforts to anticipate the emergence of credit risk by Carry out regular landing section meetings which are held once a month to exchange information on field conditions and discuss solutions for



handling problematic financing. This is also supported by a manager's forum meeting which is also held once a month. With the aim of minimizing the risks experienced by the UAS BMT office. The existence of a financing audit, this audit is carried out at the beginning of every month by the audit management team at BMT UAS. This is done to control the administration of financing so as to minimize the possibility of credit risk arising. Evaluation of policies and procedures for providing financing, if in the two ways above it is found that there are deficiencies or errors in policies and procedures for providing financing, the management will immediately revise the policy.

External Factors

Credit services or financing services. BMT UAS is quite good in terms of improving the people's economy in the Pamotan area and its surroundings. Moreover, because BMT UAS has also made its institution a da'wah institution for members and provides financing to businesses, both small and large, BMT UAS also conducts guidance and development of HR in the SME sector so that they can manage their business in the future better.

Financing Risk Management. Seeing today that currently the competitors of BMT UAS in financing services are not only fellow financial institutions or sharia cooperatives but also banks. Therefore, BMT UAS must be extra careful in providing credit or financing so as not to pose a risk to BMT UAS Pamotan. It is undeniable that until now BMT UAS still faces several problems and risks in handling the provision of financing to small and medium enterprises. Both these problems occur because the SMEs being financed have a low level of eligibility or because they have not been able to meet the technical requirements of the UAS BMT, for example, those relating to the provision of permits and guarantees.

In this case, BMT UAS has a way to control credit so as not to experience credit risk problems, namely by using the following methods: Assessment before granting credit using the 5C principles, namely: a) Character: BMT UAS analyzes prospective members of the financing to determine the character,



nature, and the extent of the honesty of members when asked at the office and then matched by conducting a direct survey to the field. From the financing section, conduct a direct survey to the member's place to find information whether it is appropriate or feasible or not to get a loan that is submitted to the BMT UAS office. b) Capacity, BMT UAS assesses the extent to which the business results are obtained to pay off obligations on time according to the agreement or contract that has been determined. Before disbursing funds, you must find out whether or not the business is feasible with the submission submitted to BMT UAS to be able to fulfill its obligations later in order to pay bills. c) Capital, BMT UAS must see the funds or assets that can be seen from the balance sheet before making the disbursement process to members. d) Collateral, BMT UAS must think about the worst possibility so the financing staff asks for guarantees to take care if the business being financed fails or other causes that result in the financing member being unable to pay off their obligations at BMT UAS. If there is a risk that occurs the guarantee can guarantee all the bills given. So if there are bad loans that cannot be resolved, there is a possibility for confiscation, therefore the financing staff must see more clearly whether or not the guarantee is given a loan at BMT UAS as requested. e) Conditions, here looking at the surrounding economic conditions is very important to influence a person's level of effort in determining business progress.

After carrying out the 5C process, BMT UAS will still process financing applications from prospective financing members by holding a meeting with the manager. With this, the manager provides a disbursement according to the amount of funding proposed by prospective members. If the financing is below 100 million, the disbursement is carried out at the branch office with the chairman of the 'branch manager'. Meanwhile, financing of 100 million and above is carried out at the head office with the head of the 'central manager'. So all financing has been arranged according to the level of application of the funds according to each office.

From the results of the survey analysis previously carried out by the financing staff and the results of the meeting of prospective financing members



being declared eligible, financing will be given according to what was proposed, however BMT UAS still continues to supervise the financing members by continuously monitoring members' checking accounts and occasionally checking directly with the members. fields related to health and business continuity. Because the BMT UAS does not immediately leave the hand after the disbursement in order to avoid unwanted risks.

If any financing member is unable or unwilling to pay in installments, BMT UAS will take several rescue actions for the loaned funds as follows: a. At the initial stage, BMT UAS will provide guidance to members so that their credit does not experience problems that can harm both parties. For example, by being given understanding by telephone, visits or letters of reprimand. So that members can find out if there are arrears on their loans. b. Furthermore, if there is a notification to the financing member showing good faith in the effort to pay off the financing, then BMT UAS will reschedule, namely by extending the credit period and extending the installment period. All of this is done to make it easier for members to have a longer period of time in recovering their business or economic condition and in repaying credit according to a predetermined contract. Usually, BMT UAS advises to re-contract so that between BMT UAS and members of the financing there can be no harm. The members also get additional time to pay off and the BMT is also not harmed. c. If deemed necessary, BMT UAS can take reconditioning actions, namely by changing the terms that have been previously agreed upon. For example, by lowering the percentage of profit sharing ratio. Or by delaying the payment of margin or profit sharing and only prioritizing the payment of the principal so as not to object. If this is still burdensome for financing members, BMT UAS will take steps with margin exemptions or profit sharing with many considerations that financing members are really unable to pay credit so there is a possibility of default. d. If the action still does not provide a solution to the credit problems experienced by members, then BMT UAS will take action to add all or part of the arrears into the new financing principal accompanied by rescheduling and re-conditions. So that at least from the BMT to provide relief to members. e. The last resort if the financing member does not have good faith or is really no



longer able to pay his debts, then BMT UAS will confiscate the collateral for further auction because the member does not want to pay his dependents in BMT UAS. then BMT UAS will take action to add all or part of the arrears to be the principal of the new financing accompanied by rescheduling and re-conditions. So that at least from the BMT to provide relief to members.

Conclusion

Sharia cooperative financial institutions are currently the choice of most small and medium economic communities in supporting their business activities. Therefore, responding to trends in the community and providing maximum service, BMT, especially BMT UAS Pamotan, must be really serious in cultivating credit or financing services. This can be done by continuously improving the quality of management. Especially in credit risk management. If risk management is managed properly, so that the possibility of bad loans can be overcome, then it is not only BMT UAS Pamotan who will get the good impact. However, the community and the government will also feel the impact because the economy can run smoothly, BMT activities run smoothly. Institutions need to further improve employee performance and most importantly improve the quality of management, especially risk management. For further researchers, it can be studied comprehensively, especially by quantitatively measuring the effectiveness of risk management in Islamic microfinance institutions.

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