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IMPLEMENTATION OF RISK MANAGEMENT OF THE MUDARABAH CONTRACT AT BMT UGT NUSANTARA BONDOWOSO KOTA BRANCH

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Abstract

This study aims to explain the implementation of risk management in the mudarabah contract at BMT UGT Nusantara Bondowoso Kota Branch, especially in financing the agricultural sector. Qualitative methods are used to collect data through interviews, observations, and documentation studies. The results of the study show that the financing risks at BMT include payment congestion due to crop failures and customer dishonesty in reporting business results. The risk management implemented involves risk identification using the 5C principle (Character, Capacity, Capital, Collateral, Condition), risk measurement based on collectibility categories, risk monitoring through direct supervision and evaluation of customer finances, as well as risk control through warning letters and collateral confiscation. Although risk management at BMT UGT Nusantara Bondowoso Kota Branch is quite good, there are still shortcomings in socialization to customers about the importance of risk management. Increased accuracy in analyzing financing and training to customers is expected to minimize the risk of problematic financing for mudarabah.

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INTRODUCTION

In meeting their living needs, people are now increasingly active in engaging in business activities. As a result, many have ventured into business and managed the agricultural sector to fulfill their livelihood requirements. However, not everyone has sufficient capital to develop their business and increase productivity, leading the farming community to seek assistance by collaborating with banks and cooperatives. The role of banks as intermediary institutions between financial entities and the community is

crucial in collecting funds from the public and redistributing those funds back into the community.(Febrianto, Widad, et al., 2022)

Baitul Maal wa Tamwil (BMT) is a sharia-compliant microfinance institution with a cooperative legal status, functioning as a producer, consumer, service, and savings and loan cooperative. BMT not only operates as a savings and loan institution but also serves as a supporting body for small-scale community economic activities based on sharia principles. The services provided by BMT are accessible to everyone, regardless of their religious affiliation.(Nurfitri, 2016)

Risk refers to uncertain situations faced by individuals or companies that can have adverse consequences. This potential risk is also present in both Islamic and non-Islamic financial institutions. It is not uncommon for the funds disbursed to customers to encounter issues. This typically arises from customers who are unable to meet their financing obligations within the agreed-upon timeframe. These challenges can be addressed by implementing effective risk management strategies that minimize the risks associated with financing.(Febrianto, Jadid, et al., 2022)

RESEARCH METHODS

This study employs a qualitative research approach, focusing on collecting and analyzing data through various techniques, including observation, interviews, and documentation studies. The process of data analysis is conducted systematically, involving several key steps: data reduction, data display, and drawing conclusions. Each of these steps plays a crucial role in ensuring that the findings are well-organized and meaningful.(Murdayanti & Indriani, 2019)

The research was carried out at the BMT UGT Nusantara Bondowoso Kota Branch office, located in Kotakulon, Bondowoso, East Java Province. The subjects of this study were the employees of BMT, who provided insights into the practical implementation of risk management strategies. Specifically, the research centers on the risk management practices associated with the mudarabah contract at this branch of BMT. The object of this research is the actual implementation of risk management within the context of mudarabah contracts at BMT UGT Nusantara. Mudarabah is a form of partnership where one party provides the capital, and the other offers expertise or labor, with profits shared according to a pre-agreed ratio. Given the unique nature of mudarabah, effective risk management is essential to mitigate potential financial risks and ensure the partnership's success. To ensure the completeness and validity of the data, in-depth interviews were conducted with relevant stakeholders at BMT. These interviews were designed to capture detailed information regarding the procedures, challenges, and outcomes related to the implementation of risk management for mudarabah contracts. Following data collection, the data was systematically inventoried, processed, and analyzed to derive meaningful insights.(Susana et al., 2011)

The systematic approach to data inventory involves organizing the collected data in a way that facilitates easy retrieval and analysis. Data processing then involves refining and categorizing the data to identify patterns and themes relevant to the research objectives. Finally, data analysis is performed to draw conclusions that answer the research questions, providing a clear understanding of how risk management practices are implemented and their effectiveness in managing the risks associated with mudarabah contracts at BMT UGT Nusantara Bondowoso Kota Branch.

RESULTS AND DISCUSSION

1. Implementation of risk management of the mudarabah contract

The implementation of risk management is very important for Islamic financial institutions, including BMT UGT Nusantara Bondowoso Kota Branch which uses mudarabah contracts for financing. Customers who want to use this contract must meet certain conditions, such as owning a business and submitting a business result report. Mudarabah financing at BMT UGT Nusantara is mainly used in the agricultural sector with a mudarabah muqayyadah contract. (Manajemen et al., 2020)

Financing risks arise if customers fail to meet their obligations, which can result in losses for the company. The problems faced by BMT UGT Nusantara Bondowoso Kota Branch are as follows:

- a) Poor financing deposits due to crop failure
- b) The high number of dishonesty of customers in reporting business results.

2. Risk mitigation strategy for mudarabah contracts

The Law of the Republic of Indonesia Number 21 of 2008 concerning Sharia Banking, along with related regulations, mandates that Sharia Banks and Sharia Business Units (UUS) implement comprehensive risk management practices. These practices are designed to uphold the principles of knowing customers and ensuring customer protection, which are central to the stability and integrity of sharia-compliant financial institutions. (Dr. Samsurijal Hasan, S.P et al., 2012)

In the context of the mudarabah contracta partnership agreement where one party provides capital and the other offers expertise or labor, with profits shared based on a predetermined ratio the risk management process is crucial to safeguarding the interests of both parties and ensuring the contract's successful execution. The risk management process for mudarabah contracts at BMT UGT Nusantara is systematically structured into four key stages:

a. Risk Identification

Risk identification is the first and most critical step in the risk management process. BMT employs the 5C principle to assess potential customers before entering into a mudarabah contract. The 5C principle includes: Character: Evaluating the integrity and reliability of the potential customer, Capacity: Assessing the customer's ability to manage and grow the business, Capital: Considering the customer's financial strength and investment in the business, Collateral: Reviewing any assets or guarantees that the customer can provide to secure the financing, Condition: Analyzing the overall economic environment and specific industry conditions that could impact the business. By using these criteria, BMT aims to identify potential risks early on and select customers who are likely to fulfill their obligations under the mudarabah contract. (Inti et al., 2012)

b. Risk Measurement

Once risks are identified, the next step is to measure the severity and potential impact of these risks. BMT categorizes risk into several areas:

- Smooth Payment: Evaluating the likelihood that the customer will make regular and timely payments.
- Dishonesty in Business Results Reports: Assessing the risk that the customer might misreport business profits, which could affect profit-sharing calculations.
- Payment Bottlenecks: Identifying potential issues that might cause delays or defaults in payment.

This measurement process allows BMT to quantify risks and prioritize them based on their potential impact on the institution's financial health.

c. Risk Monitoring

Ongoing risk monitoring is essential to ensure that any emerging issues are identified and addressed promptly. BMT monitors risks through:

- Phone Calls: Regular communication with customers to discuss their business performance and any challenges they might be facing.
- Direct Surveys: Conducting on-site visits to the customers' places of business to observe operations and verify the accuracy of reported information.
- Evaluation of Account Mutations: Regularly reviewing account transactions to detect any unusual or concerning patterns that could indicate financial distress.

This continuous monitoring helps BMT stay informed about the customer's business health and intervene early if problems arise. (Aryan, 2018)

d. Risk Control

If risks are identified during the monitoring process, BMT takes steps to control and mitigate these risks. Some of the risk control measures include:

- **Warning Letters:** Issuing formal warnings to customers who are not meeting their obligations under the mudarabah contract. These letters serve as a first step in addressing issues before they escalate.
- **Other Mitigation Measures:** Depending on the severity of the risk, BMT might implement additional measures, such as restructuring the contract terms, offering financial counseling, or in extreme cases, taking legal action to protect its interests.

These risk control actions are designed to minimize the impact of any adverse events and ensure that the financing provided under the mudarabah contract remains secure. In summary, the risk management process for mudarabah contracts at BMT UGT Nusantara is a comprehensive approach that involves careful customer assessment, ongoing monitoring, and proactive measures to mitigate risks. This structured process is aligned with the regulatory requirements and helps maintain the stability and integrity of BMT's financial operations while fostering trust and reliability in its customer relationships.

CONCLUSION

Risk management is very important for Islamic financial institutions such as BMT UGT Nusantara Bondowoso Kota Branch. Financing with mudarabah contracts, the majority of which is used for the agricultural sector, requires members to own a business, submit a report on business results, and submit certain documents. Risks include bottlenecks due to crop failures and dishonesty in business reports.

Risk management involves risk identification with the 5C principles (*Character, Capacity, Capital, Collateral, Condition*), risk measurement based on the smoothness category, monitoring through surveys and evaluations, and control through warning letters (SP). Although risk management at BMT UGT Nusantara is quite good, there needs to be an improvement in socialization to financing members.

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