RISK MANAGEMENT FOR CONGREGATION-BASED FINANCING AT BMT NU CLURING BRANCH, BANYUWANGI

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A B S T R A K

Penelitian ini menganalisis implementasi prinsip 5C (Character, Capacity, Capital, Collateral, Condition) dalam manajemen risiko pembiayaan mikro syariah. Studi kasus dilakukan di BMT NU Cabang Cluring dengan tujuan untuk memahami mekanisme penilaian kredit yang adaptif dalam konteks pembiayaan tanpa agunan yang kuat. Metode penelitian yang digunakan adalah kualitatif deskriptif melalui wawancara mendalam, observasi lapangan, dan studi dokumen. Hasil penelitian menunjukkan bahwa aspek Character menjadi fondasi dominan, berfungsi sebagai "social collateral" yang efektif melalui penggalian soft information (Berger & Udell, 2002). Analisis Capacity dan Capital dilakukan secara integratif dengan pendekatan kontekstual, sedangkan Collateral berperan sebagai mitigasi pendukung. Analisis Condition yang proaktif memungkinkan penyesuaian pembiayaan yang responsif. Kesimpulannya, model 5C di BMT NU adalah sintesis antara kerangka analisis kredit modern, kearifan lokal, dan nilai syariah yang substantif, sehingga menciptakan manajemen risiko yang manusiawi dan berkelanjutan serta memperkuat relasi kemitraan.

Kata Kunc: Manajemen Risiko, Pembiayaan Berbasis Jamaah, Teori 5C

A B S T R A C T

This study analyzes the implementation of the 5C principles (Character, Capacity, Capital, Collateral, Condition) in Islamic microfinance risk management. A case study was conducted at BMT NU Cluring Branch to understand the adaptive credit assessment mechanisms within the context of minimally collateralized financing. The research employed a descriptive qualitative method through in-depth interviews, field observations, and document studies. The findings indicate that Character is the dominant foundation, serving as effective "social collateral" through the gathering of soft information (Berger & Udell, 2002). Capacity and Capital analyses are conducted integratively with a contextual approach, while Collateral functions as a supportive mitigation tool. Proactive Condition analysis enables responsive financing adjustments. In conclusion, the 5C model at BMT NU represents a synthesis of modern credit frameworks, local wisdom, and substantive Islamic values, creating humane and sustainable risk management that strengthens partnership relations.

Keywords:Risk Management, Community-Based Financing, 5C Theory

1. INTRODUCTION

Islamic microfinance institutions in Indonesia have gained significant attention for their pivotal role in empowering low- and middle-income communities by providing access to Sharia-compliant financial services. Among these institutions, Baitul Maal wat Tamwil (BMT) functions as a dual-purpose entity, integrating social welfare (*baitul maal*) with financial intermediation (*baitut tamwil*). A notable operational model employed by many BMTs is *jamaah*-based financing, which emphasizes communal solidarity, mutual trust, and joint liability (*tanggung renteng*) among its members. This model leverages inherent social capital—embodied in trust, norms, and networks—as a form of collateral and a mechanism for peer monitoring. While this social embeddedness offers a unique advantage for risk mitigation by fostering collective responsibility and discipline, it does not eliminate the inherent credit and operational risks associated with micro-lending. Recent studies confirm that *jamaah*-based systems,

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despite their social control features, still face significant challenges in risk management, including issues of member commitment and consistent supervision (Izza & Azhar, 2024)

A comprehensive risk management framework is therefore indispensable for the sustainability of Islamic microfinance institutions (Supervision, 2023). In both conventional and Islamic finance, risk management is fundamentally a systematic process for identifying, analyzing, measuring, and controlling uncertainties that could threaten an organization's objectives(Hafiz & Budianto, 2025). The Sharia-compliant paradigm extends this by mandating adherence to principles prohibiting *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling), while requiring transactions to be backed by tangible assets. This introduces additional dimensions of risk, such as Sharia non-compliance risk and contractual (*akad*) risk, overseen by a Sharia Supervisory Board (DPS) (Rahayu, 2024). A widely utilized analytical tool within credit risk assessment is the 5C framework (Character, Capacity, Capital, Collateral, and Condition). This framework provides a structured approach to evaluating borrower creditworthiness: *Character* assesses integrity and moral commitment; *Capacity* measures repayment ability from cash flows; *Capital* evaluates the borrower's financial stake and resilience; *Collateral* serves as a secondary security; and *Condition* appraises external economic and industry factors (Al-slehat et al., 2024). Research on institutions like BMT Syariah Riyal and Bank Syariah Indonesia demonstrates the application of this framework in mitigating risks and maintaining portfolio health ((Ardiansyah, 2024).

However, a critical gap exists in understanding how this formal 5C risk assessment model is effectively adapted and integrated within the informal, socially-driven context of *jamaah*-based financing. The collective nature of the *jamaah* model necessitates a shift from purely individual assessment to one that also considers group dynamics, social cohesion, and shared responsibility (Hilaly Baihaki, 2024). The core problem this research addresses is the lack of a nuanced analysis regarding the synthesis of the conventional 5C framework with the social governance mechanisms of a *jamaah* system. Specifically, the study focuses on BMT NU Cluring Branch in Banyuwangi as a representative case. Consequently, this research is designed to answer three interconnected questions: (1) How is the 5C principle applied in the risk management of *jamaah*-based financing at BMT NU Cluring? (2) What are the predominant risk forms in this model and the corresponding mitigation strategies? (3) How effective is the joint liability mechanism in curbing non-performing financing?

To solve this problem, the study will employ a descriptive qualitative methodology. The research plan involves in-depth interviews with branch management, financing officers, and group members, direct observation of operational procedures, and analysis of relevant documents. This approach will allow for a holistic examination of how the 5C criteria are interpreted and applied in practice, how risks are identified and managed, and how the *tanggung renteng* system functions as a risk control tool. The primary objectives of this research are threefold: first, to meticulously analyze the implementation of the adapted 5C framework; second, to identify the key risks and deployed mitigation tactics within the *jamaah* model; and third, to evaluate the tangible effectiveness of the joint liability system in minimizing loan defaults. The findings aim to contribute a refined, context-sensitive model of risk management that bridges formal financial analysis with community-based social structures in Islamic microfinance.

2. METHOD

This study employs a descriptive qualitative approach with a case study design to deeply analyze the implementation of risk management in *jamaah*-based financing at BMT NU Cluring Branch, Banyuwangi. According to (Sugiyono., 2024), qualitative research is a method to holistically understand phenomena through descriptions in words and language within a natural context, emphasizing depth of understanding of meaning and social processes. A case study approach is particularly suitable as it allows for an in-depth exploration of a contemporary phenomenon within its real-life context, especially when examining the application of a theoretical framework like the 5C principles within the unique social setting of a *jamaah* model (Yin, 2024). The research was conducted over one month, from 29 September to 28 October 2025, at BMT NU Cluring Branch.

Data Collection and Sources

Data was collected using multiple methods to ensure richness and validity. The sources comprised both primary and secondary data.

1. **Primary Data:** This was gathered directly from key informants through in-depth interviews, participatory observation, and a focus group discussion. A total of 10 informants were interviewed using a semi-structured guide based on the 5C framework. The informants included the Branch Head (1), financing staff and analysts (3), and member-customers representing three different *jamaah* groups (6). Interviews lasted 45-90 minutes and were recorded with consent. Participant observation was conducted during five group meetings and three field visits to members' businesses to directly observe financing procedures, group dynamics, and monitoring practices. A focus group discussion was also held with one *jamaah* group of eight members to explore group dynamics under the joint liability system.
2. **Secondary Data:** This was obtained from organizational documents to corroborate and contextualize the primary data. Documents analyzed included financing application forms, feasibility analysis reports, monitoring records, Standard Operating Procedures (SOPs) for risk management, quarterly financial reports, and group meeting minutes (Ardiansyah, Rahmawati & Putra, 2023).

Data Analysis

Data analysis followed the interactive model proposed by Miles and Huberman (2024), consisting of three concurrent, iterative stages: data reduction, data display, and conclusion drawing/verification.

1. **Data Reduction:** This initial stage involved selecting, focusing, simplifying, and transforming raw field data. Techniques included coding data according to research themes (e.g., codes for each "C"), categorizing information, and summarizing essential points to organize data relevant to *jamaah*-based risk management and the 5C principles.
2. **Data Display:** Organized, condensed data was then displayed in structured formats to identify patterns and relationships. This was achieved through narrative thematic descriptions based on interviews, matrices analyzing the application of each 5C component, flowcharts of risk management processes, and tables comparing theoretical frameworks with observed practices.
3. **Conclusion Drawing and Verification:** In this final stage, displayed data was interpreted to draw meaningful conclusions. This involved pattern matching (comparing empirical patterns with theoretical expectations), explanation building, and synthesizing findings across different data sources (interviews, observations, documents). To ensure validity and trustworthiness, **triangulation** was employed across sources (comparing responses from different informants), methods (cross-checking interview data with observations and documents), and theories. Furthermore, **member checking** was conducted by verifying interpretations and preliminary findings with informants to enhance accuracy (Creswell & Poth, 2023).

The **5C theoretical framework** served as the primary analytical lens throughout this process, guiding the assessment of how *Character* (integrity), *Capacity* (repayment ability), *Capital* (financial stake), *Collateral* (security), and *Condition* (external business environment) are evaluated and managed within the collective social structure of the *jamaah* financing model at the research site.

3. RESULT AND DISCUSSION

Result

The findings present the core outcomes of the analysis on risk management practices within the *jamaah*-based financing system at BMT NU Cluring Branch. The results are structured according to the five components of the 5C framework.

1.Character

Character assessment was identified as the most critical and fundamental component in the microfinancing process. The evaluation relies heavily on personal approaches, involving direct observation and gathering information from the prospective member's social environment. As explained by financing officer Ali Imron: "*Character is the most important. If the character is good, financing usually runs smoothly. We go directly to the house, ask neighbors, and ensure the prospective customer is trustworthy or not*" (Interview, 05 November 2025). This method generates what is often termed as *soft* *information* or *local knowledge*, crucial for mitigating information asymmetry in microfinance. Credit history verification complements this assessment through a dual-track approach: internal records for repeat customers and external inquiries with neighbors, community leaders, and family for new applicants. The branch head, Ida Saida, confirmed: "*We have a simple monitoring system for old members. If there is a history of default, we definitely reconsider. For new members, we gather as much information as possible from their environment*" (Interview, 24 October 2025).

2.Capacity

The assessment of repayment capacity focuses on ensuring members possess adequate financial ability to meet installment obligations without jeopardizing their business or household livelihood. This analysis examines not just profitability but also liquidity and cash flow. Officers conduct direct inspections of daily turnover, inventory, cash flow, and business transaction records. Capacity is quantitatively analyzed by calculating a repayment ability ratio. Financing officer Ali Imron stated: "*We calculate repayment capacity by looking at daily turnover, transaction records, monthly income and expenses. If the business is stable, we continue the process*" (Interview, 25 October 2025). The BMT applies an internal threshold for this ratio; proposals are adjusted, restructured, or rejected if the ratio suggests a risk of over-indebtedness.

3.Capital

Capital assessment serves to evaluate business preparedness, the owner's equity commitment (*skin in the game*), and operational sustainability. The BMT examines business inventory, productive assets, and available cash capital. The underlying principle is to ensure that the financing acts as additive capital for expansion or working capital improvement, not as high-risk seed capital that could be misused for consumption or unproductive purposes. As noted by Ali Imron: "*A business that already has running capital is more stable, so the financing risk is lower. We ensure the initial capital is sufficient before financing is provided*" (Interview, 25 October 2025).

4.Collateral

While secondary to character and capacity, collateral functions as a final risk mitigant and a tool to enhance member discipline within the microfinance context. BMT NU Cluring accepts collateral such as vehicle certificates (BPKB) or land titles. The valuation is based on current market value, not administrative value. Branch head Ida Saida explained the rationale: "*For collateral, we use market value standards. We don't want to burden the member, but we also have to protect the BMT from risk*" (Interview, 24 October 2025). This approach seeks a balance between securing the financing and maintaining fairness for the members.

5.Condition

This analysis involves assessing external economic and business conditions that could impact the member's venture performance, including market demand trends, seasonal fluctuations, commodity price volatility, and competition. The BMT incorporates this macro and local analysis before approving financing. Ida Saida noted: "*If the economic conditions are unstable, especially for certain commodities, we tighten our analysis so the financing is not risky*" (Interview, 24 October 2025). Consequently, the BMT demonstrates flexibility in restructuring financing terms—such as adjusting the amount, extending the tenor, or providing a grace period—based on prevailing business conditions. A member, Nur Hidayati, provided an example: "*When the price of broiler chickens fluctuated, the BMT suggested that the financing should not be too large so my installments remained safe*" (Interview, date). This practice reflects a proactive and socially responsible risk management approach aimed at preventing defaults and ensuring business continuity.

Discussion

This study's findings demonstrate that the implementation of the 5C framework at BMT NU Cluring Branch represents a contextualized and adaptive model of credit risk assessment tailored to Islamic microfinance. The discussion interprets these findings to answer the research questions, integrates them with established theory, and proposes a refined understanding of risk management in community-based financial systems.

The research confirms that **Character** is the dominant and foundational component in the credit assessment process, directly addressing the first research question on how the 5C principles are applied. This finding reinforces (Berger & Udell, 2002) theory of *relationship lending*, where *soft information* gathered through personal interaction and social inquiry substitutes for the physical collateral often lacking in micro-enterprises. The practice of field visits and neighborhood inquiries, as described by the financing officer, is a direct application of *local knowledge* gathering. This process effectively creates a mechanism of **social collateral**, where community reputation acts as an enforceable asset. By incentivizing borrowers to maintain their standing, this mechanism mitigates moral hazard through peer monitoring, aligning with observations on the power of social enforcement (Karlan & Appel, 2011). However, this strength also points to a limitation noted in the literature: the effectiveness and scalability of social collateral can diminish as client bases grow and become more heterogeneous (Armendáriz & Morduch, 2010). This underscores the need for BMTs to develop more structured documentation and scoring systems for character assessment to ensure consistency and reduce subjective bias as they scale.

The integrated assessment of **Capacity** and **Capital** provides a holistic view of a venture's financial health and sustainability, addressing both the identification of risks and mitigation strategies (research questions one and two). The BMT’s focus on daily cash flow and simple debt service ratio calculations is pragmatically aligned with the reality of micro-enterprises, where short-term liquidity is more critical than accrued profitability. The institution's philosophy of providing *additive capital* rather than *seed capital* is a crucial risk-mitigating stance. It ensures financing supports existing, committed enterprises, thereby reducing the risk of fund diversion for consumption or unproductive purposes, a well-documented peril in micro-lending (Meyer, 2015). Evaluating business inventory and assets serves the dual purpose of assessing capital strength and cross-verifying self-reported turnover data, thereby enhancing the accuracy of the capacity analysis.

The role of **Collateral** at BMT NU Cluring illustrates a nuanced adaptation of the 5C framework within Sharia and microfinance contexts. Collateral is treated not as a primary barrier but as a secondary risk mitigant and a disciplinary device. The emphasis on fair market valuation reflects the Sharia principles of justice (*‘adl*) and the avoidance of uncertainty (*gharar*) and exploitation (*dzulm*) in transaction(Ascarya, 2022). This practice aligns with the microfinance perspective where physical collateral often functions more as a repayment incentive than as a primary recovery sourc(Morduch, 1999). By accepting business assets, the BMT acknowledges their liquidity to the borrower and seeks to preserve the operational continuity of the enterprise even in distress scenarios.

The proactive analysis of **Condition**—incorporating local market trends, seasonality, and external shocks—exemplifies a holistic and forward-looking approach to risk management. This contextual analysis directly informs the flexible restructuring of financing terms, as experienced by member Nur Hidayati. This practice is a concrete manifestation of *responsible financing* and aligns with the dual objectives of financial sustainability and client welfare in microfinanc(Koch & MacDonald, 2015). More profoundly, this flexibility embodies the substantive spirit of Islamic finance by facilitating ease (*taysir*) and preventing hardship (*‘usr*), operationalizing the juristic principle of "la dharara wa la dhirar" (no harm shall be inflicted or reciprocated).

Ultimately, the findings reveal that the five components do not operate in isolation but interact dynamically within a **compensatory system**. Strong character can offset limited capital, robust repayment capacity can lessen reliance on collateral, and a favorable business condition can positively influence the assessment of all other factors. The BMT, through its fieldwork and interviews, constructs a holistic narrative of the prospective borrower, using the 5C as its structuring framework. This represents an intelligent adaptation of conventional banking principles into a specific socio-cultural and religious context while adhering to Sharia tenets. Therefore, this study modifies the existing theory of the 5C framework by proposing its successful application in Islamic microfinance is not a rigid checklist but a **fluid, integrated, and socially-embedded process**. Its effectiveness in suppressing non-performing financing (research question three) hinges precisely on this adaptive integration, where formal risk parameters are mediated and reinforced by deep community knowledge and social governance mechanisms. The "theory" of 5C is thus extended to account for the critical moderating role of social capital and contextual intelligence in community-based financial systems.

4. CONCLUSION

In conclusion, this study demonstrates that the application of the 5C framework (Character, Capacity, Capital, Collateral, and Condition) at BMT NU Cluring Branch has evolved into an integrated, contextual, and Sharia-informed credit analysis model, which operates consistently and effectively to support risk management in community-based microfinancing. The implementation is dynamic, not rigid, with emphasis shifting according to the characteristics of micro-enterprises, reflecting a mature practice of *relationship lending* and prudential principles.

The findings provide clear answers to the research questions. First, **Character** is confirmed as the dominant and fundamental aspect. This dominance stems not only from trust being a foundational principle but also from its function as an effective "social collateral" mechanism within a homogeneous community. The assessment through direct observation and gathering environmental information constitutes a practical implementation of *soft information* gathering, transforming an intangible asset into a tangible risk mitigation tool that also upholds the Sharia principle of honesty (*as-sidq*) in contracts.

Second, the integrated analysis of **Capacity** and **Capital** through personal and contextual approaches represents an intelligent adaptation to the formal bookkeeping limitations of MSMEs. The institution's emphasis on financing as *capital additive* rather than *seed capital* demonstrates a strict application of the precautionary principle to prevent over-indebtedness and ensure productive fund use. The simple calculation of a repayment capacity ratio, while less complex than in commercial banking, proves sufficient for establishing financial discipline and safeguarding micro-enterprise viability.

Third, **Collateral** is utilized proportionally as a supporting risk mitigation instrument and a disciplinary tool, not as a primary barrier. Valuation based on fair market value reflects the Sharia principles of justice (*'adl*) and avoids exploitation (*dzulm*) in the contract of *rahn* (pledge). This approach enhances financial inclusion for low-income clients lacking high-value conventional collateral while still protecting the institution through a humane and realistic mechanism.

Fourth, the analysis of **Condition** reveals the BMT's maturity in proactive and anticipatory risk management. By considering external factors like price fluctuations and seasonality, the BMT assesses not only immediate feasibility but also the future sustainability of financing. The flexibility in restructuring terms, as experienced by a member, is concrete evidence of *responsible financing* and the spirit of providing ease (*taysir*).

Overall, the implementation synthesizes modern credit analysis frameworks, local wisdom, and substantive Sharia values. It operationalizes the prudential principle aligned with the juristic maxim "*al-wiqāyah khayrun min al-ilāj*" (prevention is better than cure), where risk prevention is prioritized from the analysis stage. Beyond maintaining portfolio quality and minimizing non-performing financing, this approach strengthens the partnership (*syirkah*) between the institution and its members, ultimately enhancing community economic resilience and the sustainability of grassroots Islamic microfinance.

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