RISK MAPPING ON LENDING METHOD OF SHARIA MICRO FINANCING INSTITUTIONS (INDONESIA EVIDENCE)

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A B S T R A C T

The purposes of financing method are to maintain the smoothness of financial return and to mitigate the risk of default, especially for microfinance institutions. It is similar to the 5Cs in banking. However, Islamic microfinance institutions have quite striking differences in practice. This research aimed to analyze the risk management of financing method on Sharia Micro Financing Institutions (SMFIs) in Indonesia with ERM (Enterprise Risk Management) approachclassifying the risks become 4 part; strategic risks, operations risks, reporting risks, and compliance risks. The research method was a qualitative descriptive study by breaking down risk events into 2 categories, namely the financing process and the financing actors. The financing process was divided into 3 stages, namely pre-processing, processing, and post-processing. While, the financing actors were debtors, creditors, and funding source institutions.The data collection methods were observation, in-depth interview, and library research. This research identified64 risk events. The risk that most often faced by financing actors was the one inherent in the debtor. While, the risk that mostly faced by creditors was during the pre-financing process. The highest undesirable risks were debtor's misunderstanding of sharia and interest-based contracts, misassessment of the company propriety, and difficulty in insurance claims.

INTRODUCTION

Sharia Micro Financing Institutions (SMFIs) is a financial institution specifically established to provide business development services and community empowerment, either through loans or financing in micro-scale businesses to members and communities, deposit management, and the provision of business development consulting services that are not solely for profit and its operational principles are interest-free. Currently the function of microfinance can be used to meet various customer needs for example for the need to be careful, for consumption needs, and also the need to overcome business and personal liquidity difficulties. SMFI in Indonesia is usually in the form of sharia cooperatives or baitul maal wat tamwil (BMT). The fundamental difference between sharia cooperatives and BMT is the existence of social fund collection and distribution activities (zakat, infak, shodaqah) in BMT that are not found in sharia cooperatives. The number of sharia cooperatives in 2020 reached 4046 units and BMT has reached 4500 in 2018. The rapid development of BMT in Indonesia due to the segmentation of the BMT market is very large ranging from low income to high income. If there is a problem of payment to people who are unable to pay off and do not have collateral, then BMT can take from zakat funds to help with the payment (Wulandari and Kassim 2016).

To distribute funds from SMFIs to customers needs special methods because SMFIs community are different from micro-banking community. Credit nominal or credit plafond on MFIs is also lower than which on microfinance banking. In banking, the ability to analyze the eligibility of customers is known as 5Cs. While in SMFI 5Cs can not be applied accurately as in a bank. Thus SMFIs using lending method inspite of using 5Cs method. Lending method is a way how loan/ financing services are offered to the community. Thus, lending method is how customers are identified, selected, grouped, and which methods chosen for their financing services. There are two methodologies that can be used namely individual financing methodology and group financing methodology.

Micro Financing Institutions (MFIs) that use an individualized approach, usually referred to as microbanking, because the individual approach adapts the methodology of the banking world. Individual approaches are more popular than group approaches. This is because banking is growing first compared to micro financing. Therefore, it is no wonder many parties involved in the world of microfinance, its way of thinking, methodology and many other things, are still influenced by the banking world that uses an individual approach. This is often happened, although it states the approach is a group approach. However, in reality, it still uses an individual approach. Therefore, it is important to understand the fundamental differences of these two approaches.

SIMILIARITIES AND DIFFERENCES BETWEEN FINANCING METHOD AND 5CS

Several similarities between the financing method and the 5Cs and some differences between the two methods (Table 1).

Variable	5Cs	Lending Method
Purpose	Ensuring that returns are smooth	Ensuring that returns are smooth
Collateral	The main factor in lending policy (conventional banks) is that it is an item that can be sold / economically value / liquid	Collateral doesn't have to have an economic value.
Capacity	The capacity of prospective customers is a condition that must be met before the approval of the financing application by the credit committee.	Creditors conduct an analysis of customer capacity before the agreement and help building customer capacity after financing through business development and training programs.
Capital	The ability of business capital becomes an important consideration to disburse financing.	The ability of initial business capital is not the main consideration. It could be that micro finance institution actually helps the customer's business capital from the beginning of the establishment

		of the business and provides consultants for customer business development.
Character	Becomes the main consideration in providing financing	Becomes the main consideration in providing financing
Condition of economic	It depends on economic factors, namely economic growth, inflation, and interest rates. But Islamic banks are more stable faster when inflation occurs than conventional banks (Widokartiko 2016)	Only inflation has a significant effect on microfinance. (Rinofah 2015)

Table 1 Similarities and differences between financing methods and 5Cs in Islamic financial institutions

A Micro Financing Institutions (MFIs) is considered using a group approach instead of individual approach whether its borrowers (debtors, members) are collected in groups or not. In addition, indicators of whether a program or MFIs use a group approach instead of on the administrative records of its borrower list are recorded in a group or recorded individually. It could be, an MFI listing borrowers is in the names of groups, not individual names, but the financing methodology is actually individual. But on the contrary, it could be that the recording in the list of borrowers is the names of individual or individual borrowers, but the financing methodology actually uses a group approach.The individual approach and group approach have their own unique characteristics, so MFIs need to consider the suitability of the financing method approach to character of its market as well as the grouping of business types.

However, although MFIs/SMFIs have implemented their respective lending methods, the default risk faced remains high and the number of microfinance institutions that went out of business before their business had developed for example in 2014 the ministry of cooperatives and SMEs has closed 40,013 cooperatives (conventional and sharia) in Indonesia due to the total cooperative reform program. This is certainly different from banks that are more able to survive, one of which is because it applies collateral in its 5Cs for the analysis of financing feasibility so that default can be covered through the sale of collateral goods. And this is very different from MFI/SMFI which sometimes does not require collateral for its customers so this research aims to map what risks faced by Sharia Micro Financing Institutions (SMFIs) in Indonesia when implementing lending method thus efficient risk mitigation can be found through proper lending methods.

This article adopts Enterprise Risk Management (ERM) defined by the Committee of Sponsoring Organizations (COSO) as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that mayaffect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives (D'Aquila, 2013).

Risk Identification

Teknik data processing in this research is based on eight main components of ERM. The first thing to do is to collect data about the internal environment, objective setting, and event identification. On the stage of the event identification step by step of the business process in the lending method of SMFIs is started from the beginning to the end of bussiness process. Then make the lists of risks from the identified risks that may occur at each stage of the business process. Techniques that can be used in risk identification are brainstorming and interviews with respondents that have been selected,and historical information from various sources about the company. In this case we breakdown financing activities bocome two part. Those are financing process and financing actor. Financing process i.e. process in pre-financing, within financing, and post-financing. Financing actors are the SMFIs, source fund institutions (usually banks or bigger financing institution), and deposit fund institutions (the SMFIs need to save their organitation fund in a save place like banks or another bigger financing institution). Collecting data from official SMFIs website and ministry of small medium Enterprise adn cooperatives in indonesia and conducting quistionnaires for experts in SMFIs or MFI in indonesia.

Measurement And Risk Mapping

According to Godfrey (1996), risk can be measured in two perspectives, i.e. based on probability and impact. The value of risk is the multiplication of probability and impact with formula.

R = P x I

R = The rate of risk

P = Possible risk

I = Impact if the risk actually happened

Aproximation Method

Approximation method is how to determine the probability and impact of risk by asking the probability and impact of a risk to others . It is called the method of approximation (roughly) because the information obtained is an estimate or approximation. Used to estimate the probability and impact.

Risk Management

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Scale	Category	Respond
1-2	Neglected	Retain
3-4	Acceptable	Reduce
5-12	Undesirable	Transfer
>12	Unacceptable	Avoid

Table 2. Risk respond (sample table)

This article focuses on two main points. Firstly, identifying risks on lending method used the sharia micro financing institution (SMFIs) in Indonesia. Secondly, the discussion will coverthe risks and how to respon it. Finally, this article concludes with the general strategy to manage the risks.

INTERNAL ENVIRONMENT

Risk Management strategy conducted by the SMFI has included the determination of the 4P (product, price, position, and promotion or products/services, price, positioning, and promotion). Meaning that the financial service authority Regulation number 1/POJK.05/2015 is about "Application of Risk Management For Financial Services Institutions Non-Banks".

OBJECTIVE SETTING

Objective setting a SMFI can be seen from the four sides of the priority and the target company, taking into account the potential risks. The four sides of these priorities is as follows.

Strategic objective: SMFI consistently remain focused on its vision and mission by innovation of product development and customer servicein order to expand the segment of services.

Operating objective: Sustainably the SMFI must make improvement of operational processes to improve the effectiveness and efficiency of work processes and cost. In addition perform regular evaluation of the work process that had previously been applied. As for how to achieve above include by system improvements and infrastructure to be integrated with each other. Provide training about the method of micro financing to members and staff, perform repair services to customer, as well as doing improvements on the managerial and bureaucratic organization. Reporting objective: To provide report transparent and accurate for internal parties and external parties of the institution is so necessary that the company can take appropriate steps to decision-making and as an accountability to each stakeholder.

Compliance objective: to comply with the regulations set by the government and the regulator (ministry of cooperative and Financial Services Authority) or the rules that apply in regional and international order in line with the business plan of the organization.

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EVENT IDENTIFICATION

The process of risk identification in the application of the lending method in SMFI in Indonesia was made based on the regulation number 1/POJK.05/2015 about "Application of Risk Management For Financial Services Institutions Non-Banks", Risk Management for islamic financinginstitutions can be applied to (1) strategic risk (2) operational risk (3) asset and liability risk (4) management risk (5) governance risk (6) capital risk (7) credit/financing risk

1. Strategic risk is the risk that arises due to the failure to establish the right strategy in order to achieve the main goals and targets of sharia micro financing institution in Indonesia
2. Operational risk is the risk that arises as a result of impropriety or failure of internal processes, humans, information technology systems and/or events originating from outside the institutional environment.
3. Asset and liability risk is a risk that arises as a result of asset and liability management failures
4. Management risk is the risk that arises as a result of the failure of Islamic microfinance institutions in maintaining the best composition of their managers, namely directors and board of commissioners, or equivalent, who have high competence and integrity.
5. Governance risks are risks that arise due to potential failures in the implementation of good governance of Sharia cooperatives, inaccuracies of management style, control environment, and behavior of any party directly or indirectly involved with Islamic microfinance institutions
6. The risk of fund support is the risk that arises due to the insufficiency of funds / capital in KBMT SMFI, including the lack of additional access to funds / capital in the face of unexpected losses or funds / capital needs. The risk of funding support stems from low funding capabilities and weak additional funding.
7. Financing risk is the risk that arises due to the failure of the debtor and/or other parties in fulfilling obligations to the financing company.

Based on the results of the types of risks identified, strategy risks are 6 risks, operational risks are 36 risks, asset and liability risks 11 risks, and financing risks 11 risks. The total of all risks is 64 risk events. The full data can be seen on the Table 3.

No	Risk Events	Type of Risk
A. Pre-Financing Risk		
A.1. Pre-financing risks to debtors		
1.	Negative campaign about SMFI	R. Operational
2.	Negative issues about SMFI	R. Operational
3.	Competition risk from similar financing	R. Operational

	institutions / fintech (conventional / sharia)	
4.	Provision of financing based on personal preferences	R. Financing
5.	Staff service is less friendly	R. Operational
6.	Miscommunication about product knowledge	R. Strategy
7.	Debtor's incomprehension of sharia and interest-based agreements	R. Strategy
8.	People are more interested in conventional products.	R. Strategiy
9.	Customer camouflages financing filing documents	R. Operational
10.	Documents do not belong to customer originally	R. Operational
11.	Falsificationabout information of the use of financing funds	R. Operational
12.	Risk of uncertainty of customer's residence	R. Operational
13.	Customer dissatisfaction with account officer service	R. Operational
14.	Prospective customers do not believe that the agreement carried out is in accordance with sharia.	R. Strategy
15.	Prospective customers have poor behavior at work	R. Operational
A.2.	**Pre-financing Risks to Creditors**	
1.	SOPs used in customer eligibility assessments are not appropriate	R. Operational
2.	Customer business feasibility assessment is error	R Operational
3.	No HR training for account officers	R. Operational
4.	Incompetence of account officers on sharia and non-sharia agreements	R.Operational
5.	Mark up administrative costs are not in accordance with procedures for the benefit of personal staff	R. Operational
6.	Falsification of customer documents by account officer / administrative staff	R. Operational
7.	Nominal Financing exceeds the terms	R.Asest and Liability
8.	Contract recording error	R. Operational
9.	Not performing the contract in front of debtors	R. Operational
10.	Required documents incomlete prior to liquid financing	R. Operational
12.	Political uncertainty	R. Strategy
13.	Uncertainty of economic stability	R. Strategy
14.	Risk of disaster on the road such as accidents, floods, robberies; etc.	R. Operational
15.	Account officers are difficult to reach prospective customers because of locations that are difficult to	R. Operational

	access	
16.	Conflict of interest between managers / members / staff with prospective customers	R. Operational
17.	Account officer strikes work	R. Operational
18.	The fault of determining the financing period	R. Operational
19.	The fault of determining financing plafond	R. Operational
20.	The fault of determining number of installments	R. Operational
21.	Account officer can not collect payment because of the malicious consensus of customers who	R. Operational
22.	work with people in their environment to harm	R. Financing
23.	account officers	R. Financing
	Collateral Risk	
	Discontuity of costumer's worl	

A.3. Pre-Financing Risks to Funding Sources		
1.	SMFI bancrupt	R. asset and Liability
2.	Negative issue about SMFI	R. Strategy
3.	Fraudin SMFI	R. Operational
B. Risks of the Financing Process		
B.1. Risk of financing process to debtor / customer		
No	Risk Event	Risk Types
1.	Risk of layoffs	R. Financing
2.	Debtors moral hazard	R. Financing
3.	Customer income risk decreases or delays	R. Financing
4.	Customers is moving house/ esscaping	R. Financing
5.	The risk of customers moving workplaces	R. Financing
6.	Customers pay off the debt at the beginning	R. Financing
7.	Belumada*consumer scoring model*	R. Operational
8.	The customer is financing not for himself	R. Financing
B.2. Risk of financing process to creditors / SMFI		
1.	Risk of cheating in showing authenticity of customer installment evidence	R. Operational
2.	Staff do not archive financing documents that was over	R. Operational
3.	No availability credit data when needed	R. Operational
4.	Risk of embezzlement of installment funds by admin/treasurer	R. Operational
5.	Risk of lack of management control over administrative staff	R. Operational
6.	The security risk of liquidating SMFI in the event of liquidation against the bank where SMFI deposited its assets.	R. Asset and Liability

7.	Security risks of liquidating banks funding sources	R. Asset and Liability
8.	IT system error	R. Operational
9.	customer documents lost	R. Operasional
B.3.	**Risks of financing process to banks / funding sources**	
1.	Installment payments to funding source institutions/ shariah bank are not on time	R. Asset andLiability
C. Post-Financing Risk		
1.	In the event of bad credit, customer does not have source of payment other than the customer's basic income	R. Financing
C.2.	**Post-financing risks to creditors / SMFI**	
1.	SMFI is unable to pay off short-term debt to funding source institutions	R. Asset and Liability
2.	SMFI is unable to pay off long-term debt to banks	R. Asset and Liability
3.	Insurance claims/ takaful difficult / not liquid	R Asset and Liability
4.	Expected loss costs are unable to cover factual losses	R. Asset and Liability
5.	Exceptional loss risk	R. Asset and Liability
C.3.	**Post-financing risks to banks/sources of funds**	
1.	In the event of bad credit, SMFI do not have collateral to pay installmentsto the bank/ funding source institution	R. Asset andLiability

Table 3: Risk Event

RISK ASSESSMENT

Risk assessment based on likelihood and impact. Classification of risk categories based on likelihood of occurrence are divided into 5 scales, namely very low, low, medium, high, and very high. Such indicators are obtained on the basis of historical data of events in a period of approximately two years which is based on audit data complaints clients, and data complaint to the bank-related IT systems. Indicators classification of risk SMFIs on the probability basis can be seen in the table 4.

No	Category	Guideline	Scale
1.	Improbable	≤10 event/yr	1
2.	Rarely	11 - ≤ 20 event/yr	2
3.	Occasionally	21 - ≤ 30 event/yr	3
4.	Probable	31 - ≤ 40 event/yr	4
5.	Frequent	>40 event/yr	5

Table 4 . Indicator Classsification of Risks (Sample Table)

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Classification of risk categories based on the impact of divided into 5 scales, i.e., small, medium, large, and very large (Godfrey, 1996). Impact indicators are used based on the criteria and indicators set by the SMFIs. The indicator is set based on the 5 guidelines i.e. financial, regulator, reputation, legal, and information security . Each of these guidelines has weight the impact of the risk according to the target business carried out each SMFIs. Example for Impact indicators can be seen on table 5.

No	Category	Indikator					
		Financial	Regulator	Reputation	Legal	Information secure	Scale
1	*Negligible*	Profit minus by <10%	No rebuke from the regulator	- No complaints from the local and national media - complaints from customers increased by 10%	-There is no error in clause agreement - No lawsuit from the customer	- Classification of data or information of the internal - Leakage of data or information that does not provide benefits to internal parties	1

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2	*Marginal*	Profit minus 10% - 20%%	There is a warning from the regulator orally	- The submission of complaints from local and national media, the maximum of one media - customer Complaints increased 10.1%-20%	- The presence of flaws in the clauses of the treaty (minor) -No offense of law -No lawsuit from the customer	- The classification of data or information of the internal - Leakage of sdata or information that provides benefits to the internal	2
3	*Serious*	Profit minus 20% - ≤ 30%	- there is a warning from the regulator in writing - No penalty	- The submission of complaints from the local media daan national maximum of two media. - Customer complaints increased 20.1%-30%	- The presence of errors in the clauses of the agreement. - No violations of the law - there is No lawsuit from a customer	- Classification of data or information of the internal. - Leakage of data or information that does not provide benefits to external parties.	3

4	*Critical*	Profit minus 30% - ≤ 40%	-There is a rebuke of the regulator in writing. maximum one time - here is penalty	- Submission of complaints from local media daan a maximum of two national media. - Customer complaints increased 30.1%-40%	-Existence of errors in the clauses of the Covenant (mayor) -no offence -no lawsuits from clients	- The classification of the data or internal - Information leakage of data or information that gives benefits to external parties	4
5	*Catastrophic*	Profit minus > 40%	- There is a rebuke of the regulator in writing > 1 time - There is a penalty	- Submission of complaints from local media up to three national media. - Customer complaints increased 40% >	- There's no law violation - There’s no lawsuits from clients	- Classification of data or confidential information -Leakage of data or information that gives benefits to internal and external parties	5

Table 5: Impact indicator (sample table)

Potential risks that have been identified are grouped according to category of risk is then assessed based on the indicators of probability and impact. The magnitude of the risk value is calculated by multiplying probqqqqqqability and impact. Risk assessment is also conducted to determine the risk level of each potential risk that is catastrophic, serious, marginal and negligible. The results of the risk assessment based on likelihood and impact according to 5 categories are used, as well as the classification of the level of risk on SMFI.

RISK RESPONSE

Sharia Micro Financing Institutions in Indonesia mitigate risks at all levels. The main priority of risk mitigation is sequentially made from extremelevel to high level to moderate level and tolow level. Risk response to identified risks at the SMFI is explained as follows.

Strategy risk

•Response to the extreme risks; No
•Response to the risk of high

Uncertainty risk of the stability of the economy can be mitigated by means of the work unit compliance monitoring may there is a change of government policy, conducting a study of the economy situation change with the readiness the institintions to adapt to the changes that occur. In order to informthe direction of situation to be known. The entire board and members need to do regular meeting of annually and monthly to discuss changes in strategic policy direction. Hence it can adjust with changes in the national economy and each region generally.

If after review and coordination with all related units The institution is not ready in terms of both the readiness of business processes, system readiness, the readiness of the rules, as well as the readiness of the infrastructure to follow the changes that occur the institutions need to discuss with relevant authorities.Forming a special group of social media which consists of all members, staff, administrators and supervisors. Thus managers and supervisors can directly develop performance of staffs and employees and simultaneously engage in strategic decision-making through communication in the group.

Response to the moderate risk

The risk of miscommunication about the product knowledge can be mitigated by Providing training of human resources periodically to the account officer and monitoring the performance of HR marketing.

Potential customer less believe that the contract that is conducted according to the sharia law can be mitigated by way of contract in front of the customer and read its provisions in front of the customer and give evidence of the halal contract based on the decree of the sharia supervisory board.

The negative issue about the institutions can be mitigated by confirming to public that the activities of the institutions are halal and lawful with applicable regulations, Providing human resource training periodically to all staff and members to make the performance getting better and monitoring the performance of human resources especially training onmarketing teams.

The risk of political uncertainty can be mitigated in the same way with the risk of economic uncertainty that supervisors and managers monitorize

changes in government policy and conduct a study to the politic situation compared with institution readiness to adapt to the changes that occur. Then form a special group in one of the social media which consists of all supervisors, administrators and staff members to be able to do intensive communication so that each unit of work be aware of any changes that occur and coordinate with the related work units on the readiness of business processes, system,rules, and infrastructure.
• Response to the low risks; No

Operational risk
• Response to the extreme risk; No
• Response to the risk of high risk
Competition from similar institutions/ fintech (conventional/islamic) can be mitigated by socialization about the value preposition of the product for example the quick process of funds disbursement and low cost.
The risk of Falsification of filling documents by the customer and the risk of documents not belonging to the prospective customer himself can be mitigated with the account officer assesing documents carefully before giving disbursement recommendations of financing to the finance committee.
The risk of the uncertainty customer adress and risk customerescaping when in the installment financing can be mitigated by means of Account Officer checking the customer location and his neighborhood to understand customer character through the people closed to him. Then the institutions save customer's notable certificates such as Social security card as the collateral.
Bad financing in the future can be mitigated by approaching family's customer.
The risk of errors assessment of the feasibility of the company can be mitigated by Specifying the SOP for assessment of the feasibility of the company in detail and perform a selection of plated against the feasibility of the company. The risk of the presence of mark up the cost of administration accordingly inappropriate to the procedure for the benefit of the personal staff, the risk of falsification documents of the customer by the account officer/ administrative staff, the risk of embezzlement of funds installment by staffs/ treasurer, Staff the risk of cheating in showing the authenticity of the evidence required, and all forms of fraud in the BMT can be mitigated by providing training of human resources periodically. Then monitoring HR performance and Providing strict sanctions against the perpetrators of fraud as well as disseminate to all staff/ memberofficials about the fraud and the penalties for the culprit.The risk of account officer gets insident on the road such as accidents, flood, robbery, etc. Can be mitigated by the Providing life insurance foraccount officer on duty, then make the features of online transactions as the main feature in the financing service and maintain the security of the server or the device IT supports system network that supports the financing process.

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Customer has bad conspiration with the genk arround his living place to restrict account officer asking for payment can be mitigated by implementation of zonation system to differ between safe and danger area.

Response to the moderate risk

The risk of a negative campaign about sharia micro financing institutioncan be mitigated by Informing the public that the activities of the BMT legally and in accordance with the principles of sharia.

Accounts officer does not really understand sharia contracts and non-sharia contracts can be mitigated by providing training and installing islamic values to all account officer, staff/ management/ members.

The risk of staff members of the BMT less friendly, the Risk of dissatisfaction of the customer towards the service of account officer as well as other risks caused by lack of training of human resources to the account officer so as make the performance of the account officer considered less good in the eyes of the customer can be mitigated by Providing training of human resources periodically, monitoring the performance, implementing standard of procedure to give services and providing strict sanction to account officer/staff who against the law.

The risk of the Prospective customer has an unfavorablebehavior in the workplace can have an impact on the sustainability of the work of the customer. Because employees behaving bad would cause resentment from the partners or from the company management thusit may not only effectto the customer income but also effect to financing payment . If the prospective customer has a behavior like this then account officer should be more meticulous in providing the assessment and have the categorization of the character (character scoring) for the assessment of the customer.

The absence of Standard Operational Procedure (SOP) in the assessment of the feasibility of the customer and the company can be mitigated by way of the superintendent and director conduct regular meetings with members/ staff/ account officer to manufacture SOP and renew the SOP regularly to follow world changing and uncertainty.

The risk of not carrying out the contract in front of the debtor can result in the risk of recording errors contract can be mitigated by making the SOP on procedures for recording contract letter directly and face-to-face between account officers with the customer.

Documentsincomplete can be mitigated by determining the SOP about complete documents as a condition of disbursement, provide training to the account officer to verify the documents and verify the documents-plated to the level of the finance committee and giving sanction to the account officer or the finance committee that proved careless in performing the assessment.

Account officer is difficult to reach prospective customers because of the location of the workplace that are difficult to reach. That can be mitigated by making the features of online transactions as the main feature

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in the financing security service. Server or the device IT supports system network supports the financing process.

Conflict of interest between the executive board/ members/ staff with prospective customers can be mitigated by finance committee perform tightening assessment when a potential customer who indicated to have a close relationship with the account officers or instruct another account officer and who do not have the emotional closeness and kinship with the prospective customer and provide strict sanctions against the account officers commit acts of fraud.

There has been no consumer scoring models can be mitigated by forming the risk management team related to risk financing/ credit for compiling consumer scoring, develop consumer scoring models for mikrofinance by adopting the model that has been applied by microfinance institutions or other consultation with the financial professional consultants to build consumer scoring model.

Staff do not archive the document of financing which is already liquid completely, neat, and safe can be mitigated by Providing training of human resources periodically, monitoring the performance of the HR administration as well as warning cheating/ sloppy administrators and provide strict sanctions against administrators who break the law.

The risk of staff is less controlled. That can be mitigated by dividing the tasks and responsibility to several people in senior management (board and superintendent), provide training to some employees who are considered competent to exercise control over the administrative staff.

Risk disorders system IT can be mitigated by working with vendor provider of IT systems that are credible, provide a special budget for the development and improvement of IT systems.

Response to the low risk

Adulterating allocationof funds financing can be mitigated by that account officer assess document carefully before giving disbursementrecommendation to the financing committee.The fault in determining time period of installment,credit limit, the number of instalments can be mitigated by Management/ credit committee must ensure the suitability of assets and liabilities so as not to impact the business negatively.Risks of the absence of credit availability of data inattentive when needed can be mitigated by archiving credit data with neat as well as a copy of any changes on the transaction in the drive of large capacity.

Risk of asset and liability

•Response to the extreme risk; No

•Response to the high risk

Respond for the risk of bankruptcycan be mitigated by using of mudharaba contract or by transferring the risk through insurance products.

•Response to the moderate risk

Nominal Financing is over the stipulation. That can be mitigated by evaluating health institutions rank periodically, the profits obtained must be allocated and distributed appropriately to business units so that not bring possibility of the occurrence of the risk support Funds (Capital), mapping the asset to determine the assets that are more liquid and using hedging system to absorb the risk.
Unable to pay off short-term and long term credit to the funding source institutions or islamic banks can be mitigated by Management/ credit committee ensuring the suitability of assets and liabilities so as not to negatively impact the business.
The cost of expected loss are not able to cover the factual lost and the occurrence of the risk of exceptional loss can be mitigated by means of periodically calculating the ratio the financial health of, make investment planning annual/ periodic, using the services of the insurer, have the ease in access to the capital market, shareholders or affiliated parties in order to increase/ strengthen the capital.
Insurance claim hard to liquid. it can be mitigated by choosing trusted insurance agencies and ensuring the operational capital adequate.

Risk to the low Risk
The security of the liquidation where the institution deposited assets and the security risks the liquidation of the source funding institutions can be mitigated by management/ credit committee ensuring the suitability of assets and liabilities so as not to negatively impact the business, mapping and assessing asset and planning the annual investment.

1. Management Risk

No

2. Governance Risk

No

3. Capital risk

No

4. Credit risk

•Response to the extreme risk
No
•Response to the high risk
The risk of the factory/workplace where customers work bankrupt can be mitigated by conducting assessment to the factory/ land/ workplace feasibility before the assessment of customer feasibility and negotiating to the clients and families related to the settlement of financing.
Risk the absence of the source of payment beside of basic income can be mitigated by arranging document guarantee in savings and BPJS/ Jamsostek and negotiating with the customer and family for the completion of the financing.
•Response to the moderate risk
Customers laid off from workplace, customer changing job, customer financing for other person and any potential moral hazard can be mitigated making a cooperation agreement, which contains agreements among

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customer, customer's family and account officer then keeping social insurance card (or the same important things as insurance card) for collateral.

Response to the low risk

Collateral risk can be mitigated by way of Management/ credit committee must ensure the suitability of assets and liabilities so as not to impact the institution business then ask the customer for important documents which can be binding on the customer such as savings books and social insurance card as well as the approval letter from the partner and family of the customer therefore account officer can discuss with the customer's family to cover it.

The customer wants to make payment in the beginning to be mitigated by explaining the terms of the contract that the contract does not distinguish the total amount of installments paid in instalments or paid in cash because its fixed. However, SMFI may be providing a special policy to give a certain discount of the total financing.

CONCLUSION

Financing business industry has a very large risk that requires a strong risk mitigation system and applies the precautionary principle. One form of application of the precautionary principle is the 5Cs (character, capacity, capital, condition, and collateral). The 5Cs principle is generally applied by banking and non-banking financial institutions including SMFIs. However, the strategy of lendingdistribution haschanged after implementation the rent-dependent system in lieu of collateral for micro financing in Bangladesh. Thus microfinance observers realize that financing distribution requires a special method known as lending method or financing method in the context of Islamic finance.Characteristics of each micro-society are different in each country, it cannot be equated with lending methods for one country with another unless the country has the same characteristics. Therefore, this research only limits the mapping of lending method risks in Indonesia.

This research found that the risks of the distribution of financing funds in Indonesia will be faced by creditors, debtors, and fund source institutions. But the many risks faced can be mitigated by the good relationship between the account officer (creditor) and customers (debtors). The account officer must really recognize his customer personally and his family environment thus default can be mitigated. This research has limitations on its scope that only maps the risks in the lending method, so that further research is still carried out to map the risks in its internal business processes.

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