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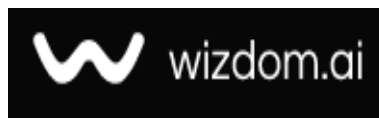
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Education Level and Financial Management in Micro, Small, and Medium Enterprises Using Mudharabah Financing

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Abstract

General Background: Micro, small, and medium enterprises (UMKM) are key drivers of local economic growth, yet often face financing challenges. **Specific Background:** In East Lombok, Baitul Maal wa Tamwil (BMT) institutions provide mudharabah financing, where educational background is used as a determinant of financial eligibility. **Knowledge Gap:** However, limited studies have explored how educational attainment affects financial management and risk mitigation in sharia-based financing. **Aim:** This study investigates the role of education level in improving financial management and reducing financing risks in BMT Tunas Harapan Syantara Montong Gading. **Results:** Using qualitative methods through interviews, observations, and documentation, findings reveal that prioritizing clients with at least secondary education significantly reduced non-performing loans from 30% in 2021 to 4.6% in 2024, while membership grew from 465 to 1,181. **Novelty:** Unlike conventional post-default approaches, this study highlights a preventive model where borrower education is integrated into risk assessment and Islamic governance practices. **Implications:** The results underscore that education-based financing strategies strengthen financial literacy, ensure business sustainability, and contribute to inclusive sharia economic development at the micro level.

Highlights:

- Education-based eligibility reduces financing risks.
- Non-performing loans declined sharply (30% → 4.6%).
- Preventive model strengthens sharia financial sustainability.

Keywords: Education Level, Financial Management, UMKM, Mudharabah Financing, Risk Mitigation

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Introduction

In mudharabah financing, there is the provision of working capital with a short term, usually a maximum of one year. Not all financing applications can be accepted even after undergoing a feasibility analysis study of the prospective member. The financing feasibility analysis is conducted to ensure that the Mudharabah financing provided to customers runs smoothly and to minimize the occurrence of financing risks such as non-performing loans or default.

Financing risk is the risk that arises due to the failure of customers or other parties to fulfill their obligations to the bank in accordance with the agreed-upon agreement. Risk in strategic planning is the process of incorporating risk analysis and management into every stage of planning and decision-making within an organization. The goal is to ensure that risks that could affect the achievement of organizational objectives are identified, evaluated, and well-managed. One type of financing risk is concentration risk, which occurs because the provision of funds is concentrated with specific parties or groups of parties, such as specific industries, sectors, or geographic regions. This risk has the potential to cause significant losses and could threaten the operational stability of the bank.[1]

In conducting business activities, Baitul Maal wal Tamwil, as one of the micro-enterprises developing in East Lombok, minimizes concentration risk by tightening customer criteria. In the Montong Gading area, this method is applied by standardizing the education level of potential customers. For example, BMT Tunas Harapan Syantara requires a minimum education level of completion of high school for prospective customers. This decision was made by BMT Tunas Harapan Syantara because a business needs to effectively and efficiently manage the allocation and acquisition of funds. This is the structure of financial management activities. In every business, such as UMKMs, they essentially exist because of a management structure that works to run the company's activities, especially financial management.[2] On this side, risk in strategic planning is the process of incorporating risk analysis and management into every stage of planning and decision-making within an organization. The goal is to ensure that risks that could affect the achievement of organizational goals are identified, evaluated, and well-managed.

Method

This research employs a qualitative method with a sociological approach. This interaction-focused approach is part of field studies, where research is conducted systematically by gathering data from the field. Field research is a type of research that studies phenomena in their natural environment.[3] With this research, the author can interact or make personal contact with the relevant institutions being studied. The sociological approach is chose to maintain the natural setting in the research and to obtain the necessary data or information. As for the advantages of this field research, the data obtained will be more accurate and up-to-date because it is collected directly from the target object.

The data sources in this study use primary and secondary data. Data collection techniques are observation, interviews, and documentation. The data analysis technique used is descriptive analysis, which serves to describe or provide an overview of the research object through the collected data or samples as they are. In other words, descriptive analytical research is conducted to address a problem or focus attention on existing problems at the time the research is carried out. The results of data collection are then processed and analyzed to draw conclusions.[4] Advantages of this descriptive analysis are its ability to present data comprehensively and in-depth. This method collects and analyzes data in detail to provide a complete picture of the phenomenon being studied, as well as to identify relationships between existing variables.[5]

Results and Discussion

A. Customer Education Level and the Development of BMT Tunas Harapan Syantara

Baitul Mal wal Tanwil Tunas Harapan Syantara is located in Montong Gading, East Lombok. This area is known as an agricultural region with a community actively engaged in trade and shopkeeping. The people of Montong Gading are also known for the diversity of small and medium-sized businesses, with most residents having completed their education at the high school level.

[Table 1 . about here]

BMT Tunas Harapan Syantara prioritizes prospective customers who have completed at least high school, considering the high number of such individuals. This step was chosen to reduce the risks faced when dealing with small and micro business owners in the Montong Gading area, East Lombok

[Table 2. about here]

From the table above, it can be seen that the development of membership numbers and credit quality from 2021 to 2024 shows a positive trend. The number of members increased significantly from 465 in 2021 to 1,181 in 2024. Additionally, the percentage of non-performing loans (NPL) experienced a drastic decrease, from 30% to just 4.6%. The number of members facing bad debt also decreased, from 140 to 55 people. This data reflects changes in risk management and healthy growth within financial institutions related to pre-bad debt decisions made through customer education level classification. This condition differs from the general resolution method for non-performing loan cases in other BMTs, which use a post-non-performing loan scheme.[6]

The handling of non-performing loans by the management of BMT Tunas Harapan Syantara and the selection of BMT prospective customers based on educational background. This is reinforced by provisions in Islamic law. The use of opinions from authoritative Fiqh sources is shared with customers.[7] In this context, it can be said that the decline can be attributed to better risk management strategies, improved quality of assessments of potential debtors, and stricter monitoring of UMKM performance.

Regarding the issue of non-performing loans at BMT Tunas Harapan Syantara, Mr. Husnaidi, the supervisor, stated that the risk of mudharabah financing can have a significant impact on us. First, if a customer fails to pay, it can disrupt the institution's cash flow. Second, if the financing is problematic, it will naturally affect public trust in us. They might become hesitant to invest or borrow from us in the future. Additionally, there are psychological impacts as well, both for the team within the organization and for its members. Tim can feel stressed because the pressure to achieve targets is increasing, while customers who fail can feel pressured and lose motivation. Finally, this risk can also affect our relationships with other institutions, such as banks or investors.[8]

The marketing aspect at KSPPS BMT Tunas is connected with payment and modal saving. Mr. Heriyanto stated that if a customer is in arrears, the payment can be deducted from their savings. This action is taken to anticipate financing arrears. Regarding the strategy for non-performing loan risk, two techniques are used: responsibility for incoming customers is held by the supervisory team. For example, if there are 100 members who are late with their payments, they will be divided into two groups. This step was chosen because there are two people currently active on the supervisory team. They also serve as collectors to remind late members.[9] If there are any delinquent loans, the marketing team is responsible for tracking down the problematic members. In this way, the division of labor can make the transaction process run more smoothly and calmly.

The customers assistance experiencing difficulties related with their businesses and payments. This is also connected with a fairly flexible savings system. Every customer who wants to use mudharabah financing is required to save. This is important because if their efforts are suddenly hampered, they have a backup plan to pay their contributions. Customers can save at any time, every day, week, or month, according to their ability. For example, if they borrow Rp 1,500,000, the managers help them by dividing the amount into several months or even arranging daily payments Rp 10,000 to Rp 20,000 per day.[10] However, if the financing is paid off but the savings are still there, it can become a regular savings account that the customer can withdraw from at any time. On the other hand, if a customer is experiencing difficulties, for example, by rescheduling, the BMT will study the situation of each prospective customer at the time they apply for a loan. For example, if they apply for Rp 1,500,000 and their business suddenly faces problems, the BMT will help the customer to still be able to meet their obligations without being pressured. If a member can no longer pay their installments due to business difficulties, the BMT will reschedule. For example, if a customer has financing of Rp 2,500,000 and is having trouble paying, the BMT will rearrange it so they only need to pay Rp 2,000,000 by writing off Rp 500,000 from the total loan. The principle used in this case is to accept any payment that can be deposited.

In mudharabah financing at BMT Tunas Harapan, there are two types of deposits: weekly and monthly. For weekly, the requirements are quite simple: a National Identity Card, a Family Card, and proof of business. As for monthly memberships, prospective members usually have to provide collateral, such as the BPKB (vehicle registration document) for a motorcycle or car. For example, if a prospective member wants to borrow Rp 10,000,000, their motorcycle collateral is worth approximately Rp 15,000,000. So, if the value of the motorcycle collateral is Rp 10,000,000, the member can borrow Rp 5,000,000. For existing customers, they can get up to 70% of the value of the collateral provided.

For weekly financing, there is a term of 10 to 15 weeks with a profit rate of 1.6% per week. So, the customer will pay 1.6% of the loan amount as profit sharing. Then, for monthly financing with a maximum term of 12 months and a profit of 2%, the member will pay 2% of the loan amount each month as profit sharing. The profit-sharing system has also been established with a profit rate of 1.6% per week for weekly financing for 10-15 weeks and 2% per month for monthly financing with a maximum term of 12 months. This approach ensures that the financing not only helps members meet their capital needs but also provides flexibility according to the customer's ability and capacity.

B. Credit Risk Prevention from Educated Customers

Risks are related to cases where the objective or subjective probability of potential outcomes can be determined, allowing for quantification. Uncertainty refers to cases of complete ignorance about any potential outcomes, making it impossible to quantify or make rational decisions. The implication is that in the case of risk, the unknown can potentially be controlled by applying the right knowledge. In uncertainty, the unknown is random and cannot be predicted or estimated, whether expected or unexpected, which negatively impacts the bank's income and capital.[11]

At the macro level, a country hopes its trade balance will always be positive. Conducting business activities in an enterprise requires the effective and efficient allocation of funds. Therefore, these actions are inseparable from the structure of activities in the field of financial management. In the effort to earn a living, a Muslim is faced with uncertainty about what will happen. We can plan a business activity or investment, but we cannot guarantee what we will get from the results of that investment.[12] At the micro level, a business group strives to improve its sales balance sheet by effectively allocating funds at smaller group levels. This business development pattern is chosen by many micro-level business groups, including KSPPS BMT Tunas Harapan Syantara, to mitigate the risks they encounter.

One of the risks that KSPPS MBBT faces is:

1. Credit risk is the main risk faced by BMT Tunas Harapan Syantara. This happens when a customer is unable to repay the

financing that has been provided. Although this institution conducts rigorous feasibility analyses, this risk remains due to uncertainty in economic conditions that can affect the customer's ability to meet payment obligations.

2. Market risk is related to changes in economic conditions that can affect the customer's business. For example, a decline in commodity prices can reduce the customer's income, which in turn will impact their ability to repay the financing. BMT Tunas Harapan Syantara must always monitor market conditions to anticipate this risk.

3. Operational risk includes internal issues faced by institutions, such as errors in fund disbursement processes and data management. Inefficient processes can negatively impact customer satisfaction and the financial health of the institution. Therefore, it is important to have a good and efficient operational system.

4. Reputational risk arises when customers are dissatisfied with the service provided or when negative issues related to the institution appear in the media. This can damage the image and public trust in KSPPS BMT Tunas Harapan Syantara, which will ultimately affect potential customers' decisions to invest or borrow in the future.

Better risk management strategies involve a series of effective actions to identify and thus reduce the negative impact of potential risks. Risk mitigation is carried out by BMT Tunas Harapan Syantara, such as the Community-Based Approach, and the institution also strives to build close relationships with members, providing guidance and assistance in business management. In this way, customers feel more responsible and motivated to maintain the continuity of their businesses. In addition, there is also strict supervision of the financing process and education provided to members on good financial management. Surveys at the business locations of prospective members to ensure that the businesses truly exist and can generate sufficient income to repay the financing. To anticipate the occurrence of bad debt, one of the steps taken is to require every member who wishes to apply for mudharabah financing to open a savings account. Members are encouraged to make daily savings of a certain amount, which will later be used for financing installments. This savings amount is an option offered by BMT and serves as a reserve to pay financing installments if a member experiences difficulties in their business. In this way, the savings system becomes an important part of the strategy to reduce non-performing mudharabah financing.

Exploring financial management strategies implemented by BMT Tunas Harapan using sharia financing, emphasizing the importance of cash flow management. Default risk is one of the impacts of risk management; default risk from customers can disrupt the institution's cash flow. In financial management theory, cash flow is a crucial aspect that must be managed well. When members fail to meet their payment obligations, the institution will struggle to carry out its daily operations and meet other financial obligations.[13] If BMT Tunas Harapan is unable to implement this, it can impact their reputation, which will naturally affect public trust in them. In the context of reputation theory, the reputation of financial institutions is built through consistent positive experiences. When problems arise, people tend to become skeptical and hesitant to invest or borrow funds, which can ultimately reduce the institution's growth potential.

In every good financing, whether it's working capital or consumer financing, the quality of the assessment of the prospective borrower's educational background must be tightened further to avoid undesirable outcomes. Although a feasibility study has been conducted on potential customers, it doesn't rule out the possibility of future defaults or non-performance. Before providing financing, the institution conducts a thorough analysis of potential customers and their business prospects. This includes background checks and a review of their well-developed business plans. In this analysis, the institution applies the 5C principles, which include Character, Capacity, Capital, Collateral, and Condition.[14] These principles are used to thoroughly evaluate the potential and needs of customers. This assessment process allows us to ensure that the loans provided can be repaid well and also reduces the risk of problems arising in financing. In this way, the institution can offer loans that are appropriate and responsive to customer needs. In investment analysis theory, feasibility evaluation aims to ensure that the investment will yield satisfactory returns.

The business mentoring provided not only supports the financial aspect but also the development of BMT Tunas Harapan management skills. This creates synergy between financial management theory and practice in the field. This training is important for improving financial literacy, which is the foundation for good financial decision-making. Providing support in marketing strategies and periodic evaluation can help SMEs adapt to market changes. This is an important element in marketing and management theory.[15] BMT Tunas Harapan Syantara implements a comprehensive financial management system that integrates aspects of education level, financing, and business development. This approach not only helps MSMEs with funding but also with sustainable business capacity development, creating an ecosystem that supports inclusive and sustainable economic growth. This reflects relevant financial and management principles in the context of BMT development.

Conclusion

The mudharabah financing risks found at Baitul Maal wa Tamwil Tunas Harapan Syantara include credit risk, operational risk, market risk, and reputational risk. The most common risk is credit default risk. This credit default risk can impact cash flow, but with BMT's in-depth strategy, it is able to minimize the occurrence of credit default risk. The strategy used in mudharabah financing is to analyze the feasibility of the financing based on the educational level of the prospective customer and a community-based approach. The purpose of this strategy is to strengthen the relationship between members and the institution, opening accounts at the beginning of financing. The strategies used to handle non-performing mudharabah financing include rescheduling, restructuring, management assistance, collateral seizure, and write-offs. Analysis of financial management at BMT Tunas Harapan Syantara shows that an approach based on customer education

level plays an important role in the stability of BMT Tunas Harapan Syantara's profits. BMT ensures that prospective members with secondary education levels have the ability to meet their payment obligations. Two financing schemes, namely weekly and monthly financing, are designed to provide flexibility suitable for the needs of micro-entrepreneurs, considering fair risks and returns. BMT Tunas Harapan Syantara also sets realistic financing limits and provides business mentoring that covers both financial and managerial aspects. This approach not only supports access to capital but also enhances the capacity of BMTs through training and marketing strategy support. Thus, the implemented financial management system creates a sustainable and inclusive ecosystem, in line with the principles of financial management and BMT development.

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