

## The Role of BMT in the Economic Empowerment of Micro Communities

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### ABSTRACT

*Baitul Maal wat Tamwil (BMT) is a sharia-based microfinance institution that has an important role in strengthening the community's economy, especially for micro, small, and medium enterprises (MSMEs) in Indonesia. BMT has the main task, namely to provide access to funding in accordance with sharia principles, such as mudharabah, musyarakah, murabahah, and ijarah, to support MSME actors to get business capital fairly and without usury. In addition, BMT also conducts coaching, training, and business assistance to strengthen the managerial capacity and competitiveness of business actors. Case studies at BMT Projo Artha Sejahtera Bantul and several other areas show a significant increase in turnover and business quality of financing recipients, which has an effect on job creation, increased independent income, and poverty reduction. Despite facing various obstacles such as lack of capital and human resources, BMT still strives to optimize its function as a social financial intermediation institution that supports inclusive and sustainable economic development. The findings of this study confirm the urgency of support for BMT as the foundation of community economic empowerment and a driver of national economic growth*

**Keywords:** Financial Institutions, Sharia Financing, MSMEs, Economic Empowerment, Inclusive Economy.

### ABSTRAK

Baitul Maal wat Tamwil (BMT) merupakan lembaga keuangan mikro yang berlandaskan syariah dan memiliki peran yang penting dalam penguatan ekonomi masyarakat, khususnya bagi usaha mikro, kecil, dan menengah (UMKM) di Indonesia. BMT memiliki tugas utama yaitu untuk memberikan akses pendanaan yang sesuai dengan prinsip syariah, seperti mudharabah, musyarakah, murabahah, dan ijarah, untuk mendukung pelaku UMKM mendapatkan modal usaha secara adil dan tanpa riba. Di samping itu, BMT juga mengadakan pembinaan, pelatihan, dan pendampingan usaha untuk memperkuat kapasitas manajerial dan daya saing para pelaku usaha. Studi kasus di BMT Projo Artha Sejahtera Bantul serta beberapa wilayah lain menunjukkan adanya peningkatan yang berarti dalam omzet dan kualitas usaha penerima pembiayaan, yang berpengaruh pada penciptaan lapangan kerja, peningkatan pendapatan mandiri, dan pengurangan kemiskinan. Walaupun menghadapi berbagai kendala seperti kurangnya modal dan sumber daya manusia, BMT tetap berusaha

mengoptimalkan fungsi sebagai lembaga intermediasi keuangan sosial yang mendukung pembangunan ekonomi yang inklusif dan berkelanjutan. Temuan penelitian ini menegaskan urgensi dukungan bagi BMT sebagai fondasi pemberdayaan ekonomi masyarakat dan pendorong pertumbuhan ekonomi nasional

**Kata kunci:** *Lembaga Keuangan, BMT, Pembiayaan Syariah, UMKM, Pemberdayaan Ekonomi, Ekonomi Inklusif.*

## **INTRODUCTION**

The economic empowerment of micro communities is one of the important focuses in economic development in Indonesia, considering the large contribution of the micro, small, and medium sectors (MSMEs) in absorbing labor and supporting national economic growth. However, micro business actors often experience difficulties in accessing adequate financial services, especially those in accordance with sharia principles. This condition creates the need for alternative financial institutions that can bridge these limitations in a fair and sustainable way.

Baitul Maal wat Tamwil (BMT) is present as a solution for Islamic microfinance institutions that offer financing and empowerment services for MSME actors, especially low-income people. BMT is a financial institution that combines social and commercial functions through the collection of social funds such as zakat, infaq, alms, and waqf, as well as the distribution of financing funds based on the principles of profit sharing, buying and selling, and other sharia principles. This institution provides an alternative financing that is free from usury and based on the principle of justice (adl) which is a fundamental value in Islamic economics.

Historically, BMT has developed as an institution that is not only profit-oriented, but also acts as an agent of economic empowerment of the ummah with a holistic approach. In its operations, BMT complies with laws and regulations in the field of cooperatives, Islamic finance, as well as sharia fatwas and principles outlined by the National Sharia Council-Indonesian Ulema Council (DSN-MUI). This makes BMT an institution that has dual legitimacy, namely positive state law and Islamic sharia law, so that it is able to answer the economic needs of people who need financial services in accordance with their beliefs.

The various programs run by BMT not only include the provision of working capital or investment financing for MSMEs, but also capacity building and sustainable business development. This approach includes entrepreneurship training, technical guidance, and product marketing support so that micro businesses can grow and compete in a wider market. Thus, BMT has the potential to be a driving force for an inclusive economy that is able to significantly improve people's welfare and reduce economic disparities.

However, behind this strategic role, BMT also faces various challenges, ranging from limited professional human resources, suboptimal capital, to public perception of sharia products that still need to be strengthened through education and transparency. Therefore, efforts to strengthen and innovate in the management of BMT are very important to ensure the sustainability and effectiveness of this institution in supporting inclusive and sustainable national economic development.

This article will comprehensively describe the role of BMT in the economic empowerment of micro-communities, discuss its products and operational principles, contribution to the development of MSMEs, and the challenges and opportunities faced by this institution. With a deeper understanding of BMT's dynamics and strategies, it is hoped that various stakeholders can take appropriate policy steps to optimize BMT's role as an Islamic microfinance institution oriented towards social justice and people's welfare.

## **METHODOLOGY**

This research applies a qualitative approach based on literature studies, which is considered most appropriate to comprehensively investigate and understand various products, operational patterns, contributions, and challenges faced by Baitul Maal wat Tamwil (BMT) in efforts to empower the community's economy, especially in the Micro, Small, and Medium Enterprises (MSMEs) sector. This method is designed not only to map the facts, but also to conduct an in-depth analysis and critical interpretation of various key literature related to Islamic financial institutions.

The main source of research data is literature with a high level of academic credibility, including national and international journals, books with the theme of Islamic finance and Islamic institutions, fatwa documents and DSN-MUI standards, along with other relevant articles that support the sustainability of research. The selection of sources is strictly based on two main considerations, namely the direct relevance of the content to the research problem and the priority release period in the last ten years to maintain contextual relevance.

Data collection is carried out with a systematic and tiered documentation procedure. The first step is to identify literature from various online platforms such as Google Scholar, ScienceDirect, DOAJ, Sinta, and other scientific databases. After that, the references obtained are selected based on the topic of discussion and the credibility of the source. Furthermore, the selected literature is grouped into four central themes, namely: BMT's products and operational principles, the role of BMT in the development of MSMEs, the challenges and opportunities faced by BMT, and case studies and empirical evidence.

The data analysis process is carried out by thematic content analysis method. The initial stage is in the form of data reduction to sort out the most relevant information according to the research objectives. The data that has been reduced is categorized based on the main theme of the research, making it easier for researchers to synthesize information into a holistic understanding and in harmony with the framework of Islamic economic theory. The results of this synthesis are then analyzed in depth until a complete conclusion is presented regarding the strategic role of BMT, as well as the challenges and opportunities for strengthening the institution.

To strengthen the validity of the research results, the source triangulation technique is used by comparing and confirming the results of the analysis from various trusted references. This approach is expected to be able to strengthen academic reliability and the accuracy of study results. With such a methodology, this research is targeted to be able to contribute valuable knowledge in the field of Islamic finance and present a new perspective for optimizing the role of BMT in improving community welfare.

## **RESULTS AND DISCUSSION**

### ***Baitul Maal wat Tamwil (BMT)***

BMT has two different meanings, and from two different languages. In Indonesian, BMT stands for Integrated Independent Business Center, which is a business institution engaged in the small people's economic sector. This institution consists of individuals and legal entities that have a common goal of building and developing a fair economic system in civil society, by prioritizing equal distribution of welfare for all its members. Meanwhile, in Arabic, BMT is short for Baitul Maal wat Tamwil, which is a financial institution that operates based on Islamic sharia principles and based on cooperative values (Sudjana & Rizkison, 2020).

According to Isna (2023), Baitul Maal wat Tamwil (BMT) consists of two words, namely Baitul Mal and Baitul Tamwil. Literally, Baitul Maal means a house of funds, while Baitul Tamwil means a house of business. These two terms have different meanings and influences. In terms, Baitul Maal is a place to manage assets collected from zakat, infaq, and alms for social purposes according to sharia rules. Meanwhile, Baitul Tamwil is a place that manages community funds or people in the form of savings which are then distributed for commercial purposes. If these two meanings are combined, BMT is a microfinance institution that operates based on a profit-sharing system, aiming to develop micro and small businesses and improve the dignity and welfare of the poor and poor.

Based on the above opinion, BMT is a microfinance institution (MFI) whose activities include collecting funds from members and redistributing the funds to members by following sharia principles and profit-oriented, with the main goal of developing micro-businesses. Legally, BMT in Indonesia is usually in the form of a cooperative legal entity. Therefore, BMT is obliged to comply with laws and regulations such as Law Number 25 of 1992 concerning Cooperatives, Government Regulation Number 9 of 1995 which regulates the implementation of savings and loan businesses by cooperatives, and Ministerial Decree Number 91 of 2004 concerning Sharia Financial Services Cooperatives (Ekawati & Kusumaningtias, 2024). However, in the implementation of its operations, BMT can be in the form of a sharia cooperative, such as Sharia Savings and Loan and Financing Cooperatives (KSPPS) or Sharia Microfinance Institutions (LKMS). BMT in the legal form of KSPPS is under the supervision of the Ministry of Cooperatives and SMEs, while BMT in the form of MFI is supervised by the Financial Services Authority (OJK).

BMT which is in the form of a sharia cooperative has almost a similar function, especially in the collection and utilization of funds, as well as the membership system. The difference lies in the management of social funds (ziswaf). BMT manages zakat, infaq, alms, and waqf (ziswaf), while sharia cooperatives are only allowed to manage waqf as nazirs in accordance with the provisions of BWI Regulation No. 1 of 2020. Currently, sharia cooperatives have been authorized to carry out BMT functions based on Government Regulation No. 7 of 2021 and Law No. 4 of 2023. BMT (Baitul Maal wat Tamwil) operates on two legal foundations, namely sharia law and positive law. The sharia law is sourced from the Qur'an, Hadith, DSN-MUI fatwas, as well as applicable laws and regulations in Indonesia. Although there is no

specific regulation that regulates BMT separately, this institution follows the same legal basis as sharia cooperatives. Therefore, most BMTs in Indonesia choose to have a legal entity of sharia cooperatives compared to the form of Limited Liability Companies (PT) as Sharia Microfinance Institutions (LKMS).

One of BMT's sharia policies is QS. Shad verse 24 which emphasizes the importance of justice in partnership: "Indeed, most of those who are in association, some of them do wrongs to others, except those who believe and do righteous deeds, and their number is very few...". In addition, QS. al-Maidah verse 1 is also an important foundation that reads: "... Fulfill all the contracts...". In the hadith, the Prophet said that Allah said: "I am the third of two people who are united as long as one does not betray the other. If one betrays, then I am no longer with them." (HR. Abu Daud).

These postulates show that BMT's business activities involve relationships between individuals through partnerships (*shirkah*), financial transactions (such as financing), and social interaction in the management of social funds (*baitul maal*). All of these activities are mandatory to follow sharia principles, which reject all forms of tyranny and unfair taking of property. BMT is also obliged to be guided by the DSN-MUI fatwa and other fatwas relevant to its practice. In addition, BMT carries out its operations by referring to laws and regulations, including Laws, Government Regulations, Regulations of the Minister of Cooperatives and SMEs (specifically for BMT with KSPPS legal entity), as well as regulations from the OJK. Further elaboration of this legal basis will be discussed in the operational concept of BMT (Alimusa, 2024).

BMT was established with the main objective of improving the quality of economic business, in order to encourage the welfare of its members in particular, and the wider community in general (Sudjana & Rizkison, 2020). BMT's main focus is on improving living standards, with the hope that its members will be able to improve their economic conditions through business development supported by capital provision (Muljadi, 2017). As a business institution, BMT grows independently and is professionally managed. *Baitul Maal* functions to support the welfare of members through the collection of halal funds such as *zakat*, *infaq*, *alms*, and *waqf*. This BMT is here to answer the needs of the community that has not been served by formal Islamic financial institutions such as Islamic banks or BPRS, by adopting an operating system based on the principle of profit sharing, buying and selling transactions (*ijarah*), deposits (*wadiah*) and so on (Dasopang, 2022).

BMT is expected to be an institution that plays a role in supporting the economic activities of low-income communities. Unlike conventional financial institutions that rely on the interest system, BMT implements a sharia-based economic system. The interest system in conventional institutions is considered contrary to Islamic economic principles because it contains an element of usury, which is a profit obtained without risk or effort, and only depends on the passage of time. This practice is considered unfair because the creditor still earns profits in the form of interest, regardless of whether the business run by the customer experiences profits or losses. In contrast, the system implemented by BMT emphasizes the principles of fairness and risk-sharing, so that it favors the interests of small communities (Sudjana & Rizkison, 2020).

### ***BMT Products and Operating Principles***

Baitul Maal wat Tamwil (BMT) is an Islamic microfinance institution that plays a strategic role in providing financial services in accordance with Islamic principles for micro, small, and medium enterprises (MSMEs) in Indonesia. BMT is present as an alternative solution for people who have not been reached by the conventional banking system, especially in areas with limited financial access. The existence of BMT provides an opportunity for microeconomic actors to obtain financing that is not only fair and free of usury, but also supported by the principles of justice (adl) and social responsibility (takaful).

Financing products refer to the provision of funds or claims provided to customers based on agreements or agreements between banks and other parties. In accordance with the agreement, the party receiving the financing is required to return the funds or claims according to a certain time schedule, with a profit-sharing system (Masruroh et al., 2024). The financing products offered by Baitul Maal wat Tamwil (BMT) are generally based on sharia principles and are tailored to the needs of micro and small businesses. According to (Satriana et al., 2024), these types of financing include:

#### **1. Mudharabah Financing (cooperation).**

Mudharabah is a business cooperation agreement between the bank as the owner of the funds (shahibul maal) and BMT or the fund manager. In this case, BMT can act as the owner of the fund or the fund manager, so the funds distributed are called mudharabah financing (Hutagalung & Firdaus, 2024). If BMT is the fund manager, the funds received can be divided into two, namely mudharabah muthlaqah (unbound investment) and mudharabah muqayyadah (tied investment).

#### **2. Murabahah Financing**

Murabahah financing found in Islamic banks or financial institutions and others. Some examples of murabahah financing in Islamic financial institutions, especially BMT, are working capital (working capital in the form of goods). Financing for working capital can be done on the principle of murabahah financing. Since 1984 in Pakistan, murabahah financing has accounted for eighty-seven percent (87%) of the total financing in PLS deposit investments. Meanwhile, at Dubai Islamic Bank, murabahah financing accounted for 82% of the total financing during 1989. Even at the Islamic Development Bank (IDB), for more than 10 years of financing period, 73% of all financing was murabahah.

The dominance of murabahah financing shows that this financing has many advantages for Islamic banks. First, buyer certainty, where Islamic banks will not buy an item unless there is already a buyer. Second, the certainty of profits, where Islamic banks can ensure profits on the goods they sell. Third, murabahah financing is easier to apply at this time.

#### **3. Financing of Musyarakah.**

Musharakah financing is financing in the form of capital or funds provided by BMT to be managed by customers in a halal business and has been mutually agreed. In this financing,

the customer and BMT agree to share the profits of the business income. Musyarakah financing at BMT Insan Madani is financing in the form of capital provided by BMT to customers to be used as halal business capital and which has been agreed upon by both parties.

#### 4. IMBT (Ijarah Muntahiyah Bit Tamlik).

Ijarah Muntahiyah Bit Tamlik (IMBT) or lease agreement that ends with ownership is basically a modern term that does not exist among the fuqaha first. Ijarah al muntahiyah bit tamlik has an arrangement of words consisting of "al-ta'jir, al-ijarah and at tamlik". At-ta, jir according to the language is taken from the word al-ajr, which is a reward for a work, and is also meant by reward. As for al-ijarah the name for wages, it is something that is given in the form of wages for work. While at-tamlik linguistically means to make a person possess something. As for the Zanjani (2024), Ijarah Mumtahiyyah Bittamlik is a lease agreement between the owner of the rental object and the tenant to get compensation for the rental object he rents with the option of transferring ownership of the rental object at a certain time in accordance with the rental agreement.

In carrying out its operations, BMT contracts are similar to those found in Islamic people's financing banks. In BMT's operational system, fund owners put their money in BMT without the intention of earning interest, but to gain profit from profit sharing. In a study conducted by Azzahro et al, (2025) Fundraising products at Islamic financial institutions include:

- 1) Wadiah Giro, is a savings product that can be withdrawn at any time. Customer funds are stored in BMT and can be managed. The customer has the right to withdraw his funds at any time and can also receive a bonus from the profits of the management of current accounts by BMT. The amount of the bonus is not predetermined and is entirely at BMT's discretion. However, the nominal is tried to remain competitive.
- 2) Mudharabah Savings, funds deposited by customers will be managed by BMT to earn profits. The profits obtained will be given to the customer in accordance with the applicable agreement. The client acts as Shahibul Maal, while Islamic financial institutions act as Mudharib.
- 3) Mudharabah Deposit, BMT has the freedom to run a business that does not contradict Islamic principles and develop it. BMT has flexibility in managing funds (Mudharabah Mutagah). In this case, the BMT functions as the Mudharib and the customer as the Shahibul Maal. There are also funds saved by customers for certain purposes. The customer provides restrictions on the use of the funds for a specific type and location, this is referred to as Mudharabah Muqayyada.

As an Islamic financial institution, Baitul Maal wat Tamwil (BMT) carries out its activities based on the profit-sharing system and Islamic economic principles. In managing funds, BMT strives to create a balance between productive business activities and social values. According to Nurhidayah et al, (2025) There are several main principles that are the basis for BMT's operations.

- a. The principle of profit sharing (Mudharabah), which is that every business activity carried out jointly between BMT and customers will result in profit sharing in

accordance with the initial agreement. This mechanism reflects the spirit of justice and togetherness in sharing business results, without the element of usury.

- b. The principle of buying and selling (Murabahah), where BMT acts as the buyer of goods on behalf of the customer, then resells the goods with an additional profit margin that has been agreed. In this system, the customer acts as an authorized agent to purchase goods on behalf of BMT, and the profits obtained will be shared with the fund provider according to mutual agreement.
- c. The principle of non-profit (Qardhul Hasan), which is financing that is social and not profit-oriented. In this scheme, customers are only required to return the principal of the loan, without additional interest or rewards, because the main purpose is to help people in need.
- d. The financing principle, which is the provision of funds or bills based on an agreement between BMT and other parties in the form of loans and borrowings accompanied by the obligation to repay according to time and a profit-sharing agreement. Through this principle, BMT plays an active role as a financial intermediary institution that distributes public funds to productive sectors while still being based on sharia values.

By applying these four principles, BMT not only functions as a financial institution that seeks profits, but also as a means of economic empowerment of the people. These operational principles reflect the balance between the business, social, and spiritual aspects that characterize Islamic financial institutions.

### ***BMT's Contribution to the Development of MSMEs***

Baitul Maal wat Tamwil (BMT) has a very important and diverse contribution to the development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. As a microfinance institution based on sharia principles, BMT provides easy, affordable, and non-usury-based access to capital, making it the main solution for MSME actors who find it difficult to obtain financing from conventional banks due to complex requirements and guarantees that are difficult to fulfill. BMT has successfully managed public funds effectively to encourage national economic growth. The function of Baitul Maal is focused on providing financial assistance to the poor, in order to ensure that the distribution of funds is carried out fairly and not centralized to certain groups. Meanwhile, Baitul Tamwil plays a role in developing community funds as the economic foundation of Muslims, with management guided by sharia principles.

In an effort to empower MSMEs, it is important to pay attention to the classification and stages of development of business actors. Therefore, BMT needs to continue to provide easy access to financing and assistance to its members so that the empowerment process is not hampered and can run effectively (Oktiawati, 2024). Thus, BMT is not only a financial institution, but also a comprehensive economic empowerment agent for the advancement of micro businesses and community welfare. According to Faisol (2021), BMT empowers MSMEs through various activities:

- a. Financing

BMT plays an important role in providing easy and affordable access to financing for small traders and lower-middle-class communities who have often experienced difficulties in obtaining capital from formal financial institutions. With the principle of riba-free Islamic finance, BMT offers various financing products such as murabahah (buying and selling with profit margin), musyarakah (business partnership), ijarah (rent) to qardhul hasan (interest-free loan) that are flexible according to the working capital and investment needs of each MSME actor. The distribution of financing funds is carried out with a prudent approach and feasibility analysis so that the funds provided can be used optimally for business development, as well as minimizing the risk of default. This scheme is very helpful for MSME actors in obtaining business capital without burdensome usury burdens.

b. Coaching

In addition to financing, BMT is also active in coaching and assisting MSME actors so that they are able to manage their businesses well, be responsible for loan funds, and increase business capacity in a sustainable manner. Coaching activities in the form of entrepreneurship training, financial management, marketing strategies, and even operational technical assistance have become routine programs of BMT. Through this guidance, MSME actors can improve their professionalism, efficiency, and competitiveness, as well as build a positive mentality and attitude in entrepreneurship.

c. Product/Service Marketing

To support the business sustainability of the financing recipients, BMT also plays an active role in helping to expand the market reach of its fostered MSME products and services. BMT promotes products through various media and marketing channels, as well as collaborates with various parties to open wider market access. This approach is very important so that MSME products not only survive in the local market, but can also penetrate regional and even national markets. With effective marketing, the turnover of MSME businesses can also increase so that it has a direct impact on improving the economy of business actors and the welfare of their families.

Through this activity, BMT offers a holistic and sustainable model for empowering MSMEs. This approach is not only limited to providing business capital, but also aims to encourage independent and productive business growth. This contribution strengthens the microeconomic sector in Indonesia and plays a role in job creation and poverty reduction, while remaining grounded in Islamic finance principles.

In providing empowerment to small and medium enterprises (MSMEs), BMT has a number of main objectives. These goals include:

- a. Actively contribute to efforts to empower and improve the welfare of members.
- b. Encourage the development of productive business activities.
- c. Assisting MSME actors in obtaining access to capital.
- d. Improving the quality and capacity of MSMEs both in the surrounding environment and at the community level at large.

MSMEs themselves have a strategic role in helping the underprivileged, encouraging economic growth for vulnerable groups, and increasing domestic income. According to research Sihombing (2024), MSMEs have a very important role in creating community welfare, among others through wider job creation and increasing independent income, which is clear evidence of their contribution to the national economy.

Baitul Maal wat Tamwil (BMT) implements various strategies and forms of mentoring as an effort to develop Micro, Small, and Medium Enterprises (MSMEs). The strategy includes three main aspects, namely communication, development, and supervision (Bariroh, 2023).

a. Communication

The first step in the mentoring process is carried out through effective communication to attract the attention of MSME actors to be interested in joining and taking advantage of the financing services offered by BMT. The purpose of this communication is so that MSMEs that obtain financing can develop their businesses optimally. The form of communication used includes the distribution of brochures by Account Officers (AO) to business actors around BMT's operational area, inviting the public in activities such as recitations organized by BMT, as well as the use of digital media, such as websites, which contain product information and financing mechanisms with easy-to-understand explanations.

b. Development

BMT is also responsible for the development of MSMEs of its fostered partners (Khairy, 2021). This development is carried out through training activities and grouping business actors based on the type of business being run. The grouping aims to simplify the mentoring process while increasing its effectiveness, as well as encouraging professionalism and productivity of MSME actors. In addition to training, BMT also provides product marketing support, both offline and online. This support helps expand the marketing reach of MSME partners' products. Although offline and online marketing methods have different mechanisms, they both aim to expand the distribution of information and product promotion more widely to the public.

c. Controlling

In strengthening the empowerment process, BMT also supervises the business activities of its fostered partners. The purpose of this supervision is to ensure that business activities are carried out in accordance with the initial agreement and remain based on sharia principles. Although it is supervisory, this approach is not intended to limit the space for MSMEs, but to keep their business running in a healthy, productive, and in accordance with sharia regulations. Thus, the supervisory function is one of the important aspects in ensuring the sustainability and progress of BMT's fostered partners' businesses.

Thus, the mentoring strategy carried out by Baitul Maal wat Tamwil (BMT) in developing MSMEs reflects a comprehensive and sustainable empowerment-oriented approach. Through three main strategies, namely, communication, development, and supervision. BMT not only

provides access to financing, but also ensures the development, capacity building, and supervision of businesses in accordance with sharia principles. This approach shows that the role of BMT is not limited to financial functions alone, but also as a strategic partner in encouraging the economic growth of the people through the micro and small business sectors. This strategy is expected to be able to strengthen the community's economic independence and create a productive, fair, and sustainable business ecosystem.

### ***Challenges and Opportunities for BMT Strengthening***

Islamic microfinance institutions such as Baitul Maal wat Tamwil (BMT) have a main mission to support the economic independence of low-income communities through the implementation of a sharia-based financial system. However, in its realization, BMT faces a number of significant challenges both internally and externally that directly affect the optimization and sustainability of the institution's operations.

One of the main problems is the quality aspect of human resources (HR). Many BMT managers have not mastered the principles of Islamic finance, risk management, and marketing strategies well. Limited training and human resource development due to limited funds add to the complexity of this problem. In addition, BMT employees are generally recruited from the surrounding environment who do not necessarily have a background in finance, so they need additional guidance to increase professionalism. The inability to manage the organization optimally has an impact on BMT's low competitiveness compared to other financial institutions.

Capital problems are also a fundamental challenge. BMT's capital is mostly sourced from members' deposits as well as social and religious-based donations. If this fund decreases, BMT's ability to distribute financing will be affected, hampering sustainable operations. To maintain stability and sustainability, BMT needs to seek financing innovations through productive cash waqf schemes or sharia partnerships to be more resistant to capital fluctuations.

In addition, the high margin or profit sharing set by BMT in order to cover operational expenses often causes BMT's products to be considered uncompetitive when compared to conventional institutions. The lack of financial literacy of the public causes some people to not understand the fundamental difference between the sharia profit-sharing system and bank interest, so there are obstacles in expanding the market share of new customers.

On the regulatory side, BMT is under the legal umbrella of sharia cooperatives and does not yet have strong banking equivalent regulations. This results in limited supervision and protection guarantees for customers. The absence of guarantee institutions often causes inconvenience for people to entrust their deposits to BMT.

In addition to supervision from state authorities, BMT also requires internal supervision from the Sharia Supervisory Board (DPS). However, not all BMTs have competent or active DPS, so the application of sharia principles is often inconsistent between policies and practices. The absence of supervision makes BMT's credibility as an Islamic financial institution potentially decline if aspects of sharia ethics and justice are not properly enforced.

High operational costs are also a burden on BMTs, especially since they operate in regions with a wide reach and relatively small amount of financing. Dependence on government or donor assistance increases operational risks if the assistance is stopped at any time. Therefore, BMT must try to improve efficiency and find new sources of income so that it can survive independently.

Increasingly intense competition between BMTs, especially in urban areas, is not accompanied by collaboration or synergy between institutions, thus hindering the improvement of efficiency and competitiveness collectively. The lack of trust of some people in the professionalism and transparency of fund management at BMT is also a challenge in itself. In the case of failure of one institution can have an impact on lowering the image of another BMT, so efforts to build public trust through transparent and accountable management are very important.

From the customer side, financing collectibility problems still often occur, such as delays or defaults. Many customers use funds not for productive activities, so the burden of bad loans is high and disrupts the institution's cash flow. The absence of supervision and coaching for customers causes some of them to fail to manage their business properly. To overcome this problem, BMT needs to increase assistance and education so that the funds distributed really encourage productive and sustainable economic activities.

### ***Case Studies and Empirical Evidence***

Recent empirical research shows that BMT's role in microeconomic empowerment is very positive in various regions in Indonesia. A case study in Probolinggo by (Kartikawati 2023) at BMT Capem Gending shows that BMT's financing products and coaching programs play a significant role in building the trust and welfare of MSME customers. Research has found that customers feel helped by easy access to capital and intensive mentoring so that micro businesses become more sustainable development. This analysis was supported by quantitative data collection and in-depth interviews with beneficiaries.

Based on the results of research conducted by Angriyani (2018) regarding the effectiveness of BMT sharia financing Amanah Ray and its impact on the empowerment of micro businesses in Medan, it shows that there is an increase in the ability of MSMEs to manage their businesses after receiving financing and assistance from BMT. A comprehensive coaching approach is an important factor in the success of community-based economic empowerment. On the other hand, research conducted by Esnawati & Sartini (2019) at BMT Projo Artha Sejahtera showed that after receiving financing from BMT, there was a significant increase in MSME sales turnover. This proves that the access to capital provided by BMT is able to encourage the development of micro businesses in the area in a real and sustainable manner. In addition, the coaching and training programs provided also contribute to improving the quality of business management of MSME actors.

Research conducted by Happy (2023) in Sukabumi also corroborates these findings, where BMT Ibaadurrahman has proven to be effective in developing micro and small businesses through financing products that are in accordance with sharia principles. In addition to financing, BMT provides capacity building training and facilitates the marketing of MSME

products to reach a wider market, thereby having a positive impact on increasing the income of business actors. In the Yogyakarta area, Fadhilatin (2017) found that BMT Bina Ummah contributes to increasing MSME capital while strengthening social and religious values in economic empowerment. This holistic approach helps MSMEs in building businesses that are not only economically profitable but also ethical and sustainable.

Overall, Baitul Maal wat Tamwil (BMT) has proven to play a central role in empowering the micro-economy in Indonesia through the provision of financing in accordance with sharia principles, accompanied by comprehensive business coaching and assistance. Case studies in various regions show that this comprehensive approach not only increases access to capital for MSMEs, but also strengthens management and marketing capacity, thereby encouraging sustainable business development. The positive impact of BMT empowerment includes improving the welfare of MSME members, reducing poverty rates, creating jobs, and strengthening social and religious values in the economic life of the community. Therefore, BMT is an effective social technology financial institution in supporting inclusive and equitable economic development in Indonesia. This success is an important model that needs to be supported and further developed by various stakeholders to maximize the contribution of MSME empowerment nationally.

## **CONCLUSION**

BMT is an Islamic microfinance institution that plays an important role in strengthening the community's economy, especially micro, small, and medium enterprises (MSMEs) in Indonesia. BMT provides access to funding in accordance with sharia principles such as mudharabah, musyarakah, murabahah, and ijarah, which allows MSME actors to get business capital fairly without usury. In addition to financing, BMT also conducts coaching, training, and mentoring that strengthens the managerial capacity and competitiveness of micro businesses. Case studies show increased turnover and business quality, contributing to job creation, increased self-sufficiency, and poverty reduction.

Although BMT faces obstacles such as limited capital and human resources, the institution still strives to be a social financial intermediary that supports inclusive and sustainable economic development. The support and strengthening of BMT is very important as a foundation for community economic empowerment and a driver of fair and equitable national economic growth. Legally and operationally, BMT is based on sharia principles and laws and regulations related to cooperatives and Islamic finance, making it a legitimate and trusted institution by people who need financial services according to their beliefs. With a holistic and sustainable approach, BMT plays a strategic role in improving the welfare of low-income communities through the development of independent and productive micro-businesses

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