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# Actualization of Obstacles in the Implementation of Baitul Mal Wat Tamwil (BMT) in Micro-Enterprise Capital Financing

**Nur Indah[1], Muhammad Achyar Hamid[2], Rahmatullah[3]**
[1]Islamic University DDI AGH. Aburarahman Ambo Dalle, Indonesia; [2]STAI Alfurqan, Makassar, Indonesia; [3]UIN Sunan Kalijaga, Yogyakarta, Indonesia
nurindahpolman@gmail.com; mayar.pph@gmail.com

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**Abstract**

Institutions that collect and distribute financing play a strategic role as funding pillars for micro-entrepreneurs, particularly for communities requiring business development support through accessible requirements and financing schemes that avoid excessive interest burdens. In the context of an expanding Muslim market segment, cooperatives and BMT represent microfinance institutions whose values are closely related to the ethical foundations of the Islamic economic system, which are derived primarily from the Qur'an and Sunnah and supported by *ijma*, *qiyas*, and other secondary sources of Islamic jurisprudence. This study aimed to examine the duties and functions of cooperatives and BMT in order to clarify their institutional roles and ensure that each operates in accordance with its respective principles. This study employed library research by reviewing written sources, including scientific journals, reference books, literature, encyclopedias, academic articles, scholarly works, and other relevant sources related to cooperatives, BMT, Islamic economics, and community-based economic development. The findings indicate that cooperatives and BMT both serve as important instruments for


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strengthening community finance, supporting micro-entrepreneurs, and advancing MSME development, yet they differ in institutional orientation, operational principles, and ethical foundations. The study concludes that a clear understanding of the distinct functions of cooperatives and BMT is essential to prevent overlapping roles and to optimize their contribution to economic development. These findings contribute to the literature on Islamic microfinance and people-centered economic systems, while offering practical implications for policymakers, cooperative managers, BMT administrators, and community economic actors in strengthening inclusive and ethically grounded financing institutions in Indonesia.

**Keywords**: Cooperatives; BMT; Islamic Economics; Islamic Microfinance; People's Economy

## INTRODUCTION

The Industrial Revolution 4.0 requires skills, awareness, and knowledge of financial management, not only at the business level but also at the individual level. Prosperity can be achieved, and the quality of decision-making can improve, when financial literacy is strong. Demand for financial goods and services will continue to grow. At present, financial products and services are connected to almost every aspect of life. Therefore, users must have comprehensive awareness of financial systems, products, and services. This issue has received significant attention from the Financial Services Authority (OJK). In order to build a high-quality society and prudent financial management, OJK, as the institution entrusted with the mission of supervising financial services, continues to improve its services.

Non-bank financial institutions can help address the problems faced by entrepreneurs in the agricultural sector who have limited capital. Cooperatives are one type of non-bank financial institution that is relatively familiar to farmers. In Indonesia, cooperatives operate across various sectors to advance community welfare, one of which is agriculture. Considering that most Indonesians work as farmers, the participation of cooperatives in the agricultural sector significantly supports farmers' interests. Cooperatives were also among the business entities affected by Covid-19. According to data, 1,785 cooperative units across Indonesia were affected by Covid-19. Consumer cooperatives were the most severely affected, accounting for 45 percent, or 781 units; service

cooperatives accounted for 8 percent, or 158 units; and producer cooperatives accounted for 7 percent, or 152 units. The development of cooperatives in Indonesia has shown positive progress from year to year. Based on data from the Ministry of Cooperatives, there were 143,117 active cooperative units in Indonesia in 2013. In 2014, this figure increased to 147,249 active cooperative units. In 2015, the number increased again to 150,223 active cooperative units. Around 1.5 percent, or 2,253 units, of all active cooperatives were sharia-based savings and loan cooperatives.

Sharia Savings, Loan, and Financing Cooperatives, hereafter referred to as KSPPS, are organizations that conduct business activities based on sharia principles through financing, loans, and savings. Given the importance of cooperatives for the Indonesian economy, cooperative operations require continuous guidance and supervision in order to improve cooperative performance. Sharia cooperatives are one type of cooperative with a strong performance record. Studies indicate that the primary purpose of performance measurement is to motivate employees to achieve organizational goals and uphold predetermined behavioral standards that produce the actions and results desired by the organization. Performance evaluation also functions as a diagnostic tool and as a procedure for assessing the development of individuals, teams, and organizations.

Human beings, as creatures of Allah, are destined to live by helping one another. As social beings, humans contribute to and receive contributions from the lives of others, interact with each other to meet life's needs, and seek progress in life. To achieve progress and life goals, good cooperation among human beings is required. Among the many aspects of cooperation, the economic aspect is one of the most important. Islam is dynamic in relation to space and time because Islam is rahmatan lil alamin. Islam regulates its economic system through a distinctive method. Islam does not view economic matters from a capitalist or socialist perspective. Instead, Islam recognizes individual rights without damaging society. The concept of Islamic economics places both moral and material aspects of life as the foundation for building economic strength on moral values.

Thus, the uniqueness of the Islamic approach lies in its value system, which shapes economic behavior and life and includes basic values derived from tawhid. In economic life, the emphasis is placed on both vertical and horizontal dynamics. Islam affirms that the absolute owner of nature and everything in it is Allah SWT. Humans, as khalifah, are given

conceptual capabilities so that they can manage and utilize nature and its contents to create shared welfare and prosperity.

Allah has made wealth one of the means for upholding human welfare in this world. Allah SWT also states that trade is one way to realize such welfare. Welfare cannot always be achieved easily, especially through violence and oppression. Violence and oppression are unjustified acts. Therefore, there must be a system that enables every person to obtain what they need without resorting to violence and oppression. Islam prohibits every form of economic activity that contains coercion, mafsadah, and gharar. The concept of Islamic economics offers a balance between individual and societal values and encourages individuals to be creative and active without harming the interests of others.

Based on the above explanation regarding the economic empowerment of humanity, cooperatives and BMT are highly appropriate platforms for economic empowerment according to Islam because they emphasize human values, family values, mutual cooperation, and mutual assistance. Therefore, as human beings destined to live side by side, we are obliged to create an economy that embodies the values found in cooperatives and BMT. This study aims to determine the role and urgency of cooperatives and BMT as institutions that collect and distribute financing to community micro-enterprises in developing their businesses, especially in the post-Covid-19 period.

## METHODS

This study uses a qualitative research design with a library research approach. This approach was selected because the focus of the study is directed toward a conceptual analysis of the actualization of obstacles in the implementation of Baitul Mal wat Tamwil (BMT) and cooperatives in micro-enterprise capital financing. This research does not emphasize direct field data collection. Instead, it focuses on tracing, reviewing, and analyzing various written sources relevant to cooperatives, BMT, Islamic economics, microfinance institutions, and the empowerment of community micro-enterprises.

This study is descriptive-analytical in nature. Descriptively, it explains the position of cooperatives and BMT as microfinance institutions that play a role in collecting and distributing funds to the community, especially micro-entrepreneurs. Analytically, it examines various obstacles that arise in the implementation of BMT and cooperatives,

including institutional, regulatory, human resource, financing, supervisory, and sharia-principle implementation aspects in their operational practices.

The data source used in this study is secondary data obtained from various scientific literature and supporting documents. These data include reference books, scientific journals, academic articles, laws and regulations, institutional reports, cooperative statistical data, and other written sources directly related to the discussion of cooperatives, BMT, KSPPS, Islamic economics, and micro-enterprises. The literature used was selected based on its relevance, credibility, and connection to the main research problem.

Data collection was carried out through documentation, namely by tracing and collecting various written materials related to the research object. The data obtained were then classified based on major themes, such as the concept of cooperatives, the concept of BMT, the legal basis for cooperative and BMT implementation, the role of Islamic microfinance institutions in micro-enterprise financing, and the obstacles faced in their implementation practices.

The data analysis technique used in this study is content analysis with deductive and interpretive reasoning. The analysis was conducted by reading, understanding, comparing, and interpreting various literature sources to identify the relationship between theory, regulation, and the reality of cooperative and BMT implementation in supporting micro-enterprise capital financing. Through this analysis, this study seeks to explain the extent to which cooperatives and BMT can function as alternative financing sources for the community while identifying obstacles that reduce the effectiveness of their role.

To maintain data validity, this study uses source triangulation, namely by comparing information from various literature sources, regulations, statistical data, and previous research findings. In this way, the discussion is not merely theoretical but also grounded in strong arguments that are relevant to the development of cooperatives and BMT as Islamic microfinance institutions in Indonesia.

## RESULTS AND DISCUSSION

### Cooperatives

Cooperatives are commercial entities that support the economy of Indonesian society. In 2019, Indonesia had 123,048 cooperatives with 22 million registered members,

according to the Ministry of Cooperatives and SMEs. The term cooperative originates from the English word "cooperation," which means working together. Law Number 25 of 1992 defines a cooperative as a people's economic movement based on kinship and as a business organization consisting of a group of individuals whose activities are based on cooperative principles. According to Mohammad Hatta, who is known as the father of Indonesian cooperatives, a cooperative is a joint business entity that applies family values and mutual cooperation.

Globally, the cooperative movement began in the late eighteenth and early nineteenth centuries. At that time, cooperatives were still referred to as pre-industrial cooperatives. This movement emerged from the Industrial Revolution, which failed to fulfill the motto Liberte-Egalite-Fraternite, meaning freedom, equality, and fraternity. The first cooperative was established in Rochdale, England, in 1844. This cooperative, which consisted of 28 members, was able to grow and was considered successful because it was built on strong solidarity and the willingness to conduct business together. Its members gathered to discuss how to organize the necessary processes to create a business unit that could be managed collectively. In practice, they formulated Standard Operating Procedures and work rules. All these efforts were intended to help them achieve their goals and vision. Eventually, the Rochdale Equitable Pioneers Cooperative Society was established.

Cooperatives clearly have objectives and roles. Their main objective is to improve and develop the potential and skills of their members as well as society in general. Another objective is to ensure the social and economic welfare of the wider community. Cooperatives also actively improve the quality of society and its human resources. The economy benefits from the improvement of human resource quality. A third objective of cooperatives is to strengthen the resilience of the people's economy. By placing cooperatives as the main pillar, this function can be understood as the foundation of national economic resilience and strength. By applying the concepts of economic democracy and kinship, cooperatives also contribute to realizing and developing the national economy. Their mission is to improve the financial welfare of members and the surrounding community, assist the government in promoting fair economic welfare, strengthen the national economy as a core pillar, support producers by providing better price offers, support consumers through relatively lower prices, and assist micro and small business units through financing loans. Cooperatives are legally permitted commercial

entities because they have a legal basis. Several legal foundations of cooperatives include the following:

1. Law Number 25 of 1992 concerning Cooperatives.

2. Government Regulation Number 17 of 1994 concerning the dissolution of cooperatives by the government.

3. Government Regulation Number 4 of 1994 concerning the requirements and procedures for ratifying deeds of establishment and amendments to cooperative articles of association.

4. Government Regulation Number 9 of 1995 concerning the implementation of savings and loan business activities by cooperatives.

5. Government Regulation Number 33 of 1998 concerning equity participation in cooperatives.

6. Ministerial Decree of the Ministry of Cooperatives and SMEs Number 98 of 2004 concerning notaries authorized to draw up cooperative deeds.

7. Regulation of the Ministry of Cooperatives and SMEs Number 10 of 2015 concerning cooperative institutions.

8. Regulation of the Ministry of Cooperatives and SMEs Number 15 of 2015 concerning savings and loan businesses by cooperatives.

9. Regulation of the Ministry of Cooperatives and SMEs Number 9 of 2018 concerning the implementation and development of cooperatives.

10. Ministerial Decree Number 22 of 2020 concerning procedures for submitting cooperative debtor data in relation to interest subsidies or margin subsidies for micro, small, and medium enterprise credit or financing in support of the national economic recovery program.

**Baitul Mal wat Tamwil (BMT)**

BMT stands for Baitul Mal wat Tamwil, also known as an Integrated Independent Business Center, and has two main functions: Baitul Mal and Baitul Tamwil. The collection of ZISWAF funds, consisting of zakat, infaq, shadaqah, waqf, and fidyah, as well as other social funds and their management according to applicable rules and mandates, represents the Islamic social finance service provided by Baitul Mal. Baitut Tamwil activities are

classified as Islamic commercial financial services. These activities include, among others, investment in the development of micro and small economic activities by encouraging saving behavior and facilitating financing to support business activities. Previously, BMT was specifically regulated by Decree of the State Minister of Cooperatives and Small and Medium Enterprises Number 91/Kep/M.KUKM/IX/2004 concerning Guidelines for the Implementation of Sharia Financial Services Cooperative Business Activities, in addition to general cooperative regulations. Under this policy, the Ministry of Cooperatives and Small and Medium Enterprises became responsible for supervising and establishing BMT. Under cooperative law, BMT may take the form of a Sharia Village Unit Cooperative, Sharia Multipurpose Cooperative, or Sharia Savings and Loan Cooperative, as well as an independent business unit of cooperatives such as KUD, Kopontren, or other cooperatives.

*Baitul Maal Wat Tamwil (BMT), as an Islamic financial institution, has several objectives. Funds are collected, distributed, and managed through BMT to connect surplus units, namely parties with additional funds, and deficit units, namely parties that need funds. As a creator and provider of liquidity, BMT can provide lawful financial resources that may be used to fulfill the obligations of institutions or individuals. BMT can also generate funds to employ and compensate staff. In addition, BMT educates the public about opportunities and risks related to institutional profitability while serving as an Islamic microfinance institution capable of financing cooperatives and micro, small, and medium enterprises without requiring heavy collateral from MSMEs. Based on these objectives, BMT was established to create employment and assist communities and micro-entrepreneurs who need funds to expand and develop their businesses.*

The purpose of BMT in society is to improve professionalism, salaam values, meaning safety, peace, and prosperity, as well as the trustworthiness of members, administrators, and managers so that they are better able to work and strive as a form of worship in facing worldly challenges. BMT also coordinates and mobilizes resources to optimize community finance inside and outside the organization for the public interest, increase employment opportunities, strengthen and expand markets for members' products and the business environment, and improve the quality of many community economic and social institutions.

The profit-sharing principle means that BMT receives a share of financing outcomes. Contracts such as al-musaqah, al-mudharabah, and al-musyarakah use the profit-

sharing mechanism. In the sale and purchase system, customers may be appointed as agents by BMT so that they can purchase goods on behalf of the institution and then act as sellers by reselling those goods with a markup. Later, the fund provider receives a portion of BMT income. Bai al-murabahah, bai as-salam, bai al-istishna, and bai bitsaman ajil are examples of contracts used in sale and purchase transactions.

The nonprofit framework refers to a form of social and nonprofit financing that is often called benevolent financing. Customers are required to return only the loan principal. This function is carried out through al-qardhul hasan. In business arrangements, corporate contracts are agreements between two or more parties in which each party contributes capital in various forms and agrees to share profits and losses. Al-musyarakah and al-mudharabah are examples of such contracts.

Financing products include al-murabahah financing (MBA), al-bai bitsaman ajil financing (BBA), al-mudharabah financing (MDA), and al-musyarakah financing (MSA), which are provided based on financing or loan agreements between BMT and other parties. These agreements require the borrower to repay the debt and share profits after a certain period.

BMT can be developed as a system that combines Islamic commercial financial services and Islamic social financial services through Baitut Tamwil and Baitul Mal. Several models can be used to achieve this, including:

1. Pesantren-based BMT model. Several pesantren, including BMT Maslahah and UGT Sidogiri, BMT As-Sa'diyah Wajo, BMT Al-Idrisiyah Tasikmalaya, BMT La Tansa Lebak, and BMT Nurul Lombo Hakim Tengah, have inspired the development of BMT.
2. Mosque-based BMT model. This model includes BMTs based in mosques, such as Baiturrahman Mosque in Aceh, Mujahidin Mosque in Pontianak, Al-Kautsar Samarinda, BMT BKPRMI Asy-Syabab Pinrang, and several mosque-based sharia cooperatives in Bandung.
3. Campus-based BMT model. Examples include BMT Universitas Muslim Indonesia Makassar, Universitas Muhammadiyah Yogyakarta, Abada Unair Surabaya, and UINMA Digital of UIN Mataram.
4. Corporate-based BMT model. This model includes BMTs operating in corporate environments, such as BMT Al-Ittihad in the Chevron Pekanbaru Company Complex and BMT at PT Kondur Petroleum.

5. Agricultural business-based BMT model. Based on the definition of Agricultural Microfinance Institutions (LKMA) in the Agricultural Agribusiness Development Program (PUAP) of the Ministry of Agriculture, this model refers to BMTs based on farmer groups.
6. Urban village or rural village-based BMT model. This model includes village-based BMTs such as those found in villages or nagari in Agam Regency, villages in Padang City, BMT Bumdes Mekarjaya Ciamis, and others.
7. Transmigration-based BMT model. This model refers to regional BMT or transmigration units, such as BMT Trans Mekarsari KTM Telang Banyuasin, BMT Trans UPT Muara Enim, BMT Trans UPT Tebingtinggi III Tanjung Jabung Barat, BMT Trans UPT Muktitama Luwu Utara, BMT Trans UPT Tunas Walue Buton, and BMT Trans UPT Kolam Kiri Barito Ku.
8. Social conflict-prone area BMT model. This model operates in economically disadvantaged areas, suburban areas, and exurban areas. Examples include BMT initiatives developed together with the Ministry of Social Affairs, BMT Mandiri Sejahtera Gresik, BMT Kube Pondok Kelapa, Srikaton and Sri Kuncoro Bengkulu, BMT Kube Colomadu Karanganyar, BMT Kube Banyuraden, Tlogoadi and Sendangadi DIY, BMT Kube Makassar, BMT Kube Sampit, and BMT Kube Pos.
9. Micro Waqf Bank (BWM) model. This BMT model limits capital programs to donated funds or waqf, provides financing only to the poor through benevolent loan agreements, and invests most of the remaining funds to meet operational needs. Together with OJK and LAZNAS BSMU, BWM has been developed throughout Indonesia.
10. Dhuafa-owned BMT model. In this model, aghniya and/or social institutions based in poor villages act as partners of BMT, whose members are dominated by dhuafa. A memorandum of understanding was signed on November 17, 2021, by the Cirebon Kasepuhan Waqf Foundation (YBWKC) and the Nusantara Palace Forum (FSKN), and this model is intended as a pilot for villages assisted by palaces across the Indonesian archipelago.

**Growth of Cooperatives and BMT**

The current economic system, especially since 1966 during the New Order era, has often been considered less just than the Islamic economic system. The New Order had capitalist and increasingly liberal characteristics, and after its collapse in 1997, it erupted like a time bomb. In addition to reducing the number of banks from 240 to fewer than 100, the

monetary crisis that devastated the modern banking industry also significantly reduced the role of banks in the national economy. In this respect, the Pancasila economic system is clearly directed toward ethics, the principle of belief in the One and Only God, and humanity, through a nationalistic and people-oriented approach aimed at realizing social justice for all Indonesian people as reflected in the fifth principle of Pancasila and democracy. Overall, Pancasila reflects a cooperative, familial, and supportive exchange system.

The rules of the game must be changed to become fairer when the people of a society, state, or nation feel that the economy is moving in an unjust direction. Only then can the economy advance social and economic justice. Employee participation and profit sharing are important in this process. A number of developed welfare states have implemented principles of profit sharing and employee participation, which are also consistent with the Islamic economic system and the Pancasila economic system. These countries believe that applying profit-sharing principles and employee participation creates greater peace and stability in business and ensures business sustainability. Industrial democracy refers to the idea of worker participation in corporate decision-making and employee involvement in control processes within firms. Economic democracy is generally used to refer to various forms of employee participation in company ownership and in the distribution of economic rewards.

Although the definition of economic democracy is certainly broader than industrial democracy, both can be used as management principles or styles within an organization. When both are applied with strict discipline, they can lead to the satisfaction of all stakeholders involved in the organization. This implies, to some extent, a neoliberal or reformist response to the weaknesses of capitalism because owners of capital are no longer regarded as the most important actors in the company but are positioned equally with workers.

The idea of profit sharing is closely related to the idea of employee involvement, especially labor participation in corporate decision-making. When labor is involved in company decision-making, employees also share responsibility for profit or loss outcomes.

The most prominent example of the use of profit-sharing principles and employee participation is the creation of cooperative enterprises, including producer cooperatives and consumer cooperatives, especially in Scandinavian countries.

In Indonesia, there were 127,124 cooperatives in 2020. Compared with the previous year, this figure increased by 3.31 percent. East Java had 22,464 cooperatives, or around 17.6 percent of all cooperatives, making it the province with the highest number of cooperatives. West Java had 14,706 units, while Central Java had 12,190 units. In Indonesia, the number of cooperatives reached its highest level in the previous 15 years in 2017, with 152,174 units. However, it declined significantly in 2018 to 126,343 units and decreased again in the following year to 123,048 units. According to the Ministry of Cooperatives and SMEs, the cooperative sector is expected to contribute 5.5 percent to the country's Gross Domestic Product (GDP) by 2024. At present, cooperatives contribute only around 5 percent of GDP.

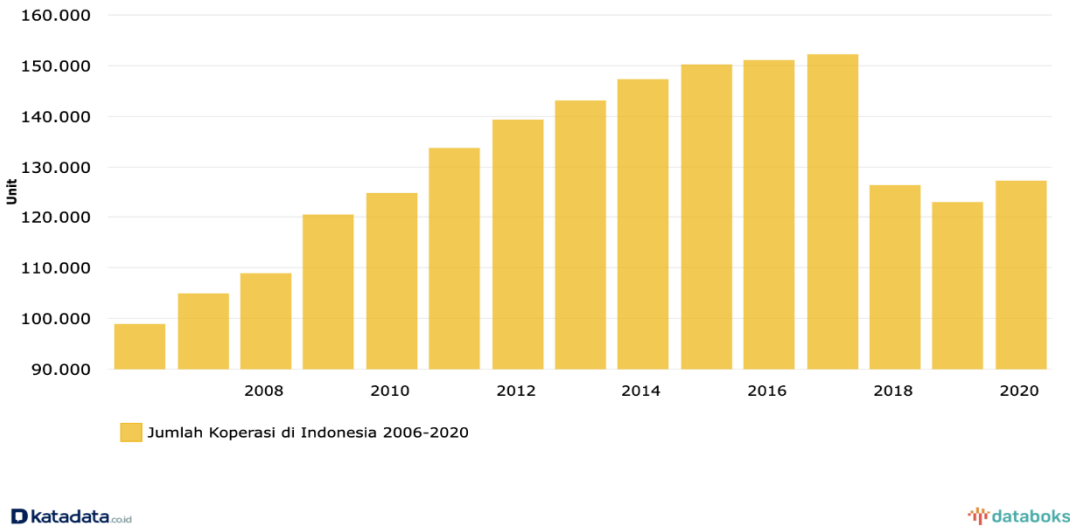


**Figure 1. Number of Cooperatives in Indonesia, 2006-2020**

The growth potential of sharia cooperatives and BMT remains very large in various regions of Indonesia. Based on the data above, the number of cooperatives and BMT in Indonesia tended to increase, although the Covid-19 pandemic in 2019 caused a decline. This indicates that community demand for micro-based financing is highly needed for business capital.

Savings and loan cooperatives and Baitul Maal Wat Tamwil financing institutions, commonly known as BMT or KSPPS, still play a relatively small role in the economy. In addition, the number and distribution of BMT are currently not known accurately. According to the BMT Association, there were 4,500 BMT units in Indonesia in 2015. Based on data from the Ministry of Cooperatives and SMEs, Indonesia had 150,223

cooperative business units, of which 1.5 percent were cooperatives operating as KSPPS or BMT-based cooperatives.

**The Existence of Cooperatives and BMT as Sources of Funds for Public Welfare**

Cooperatives, which represent John Commons' institutional economics, prioritize membership based on business ownership regardless of how small the business is. Unlike capital-based organizations, cooperatives are associations of individuals or legal entities. Only open, honest, and sincere participatory management can ensure cooperative success. Because economic models are often designed as ideal models of competition rather than perfect cooperation, economists emphasize the concept of kinship when examining the formation of cooperative enterprises. Neoclassical economics states that perfect competition is the only way to achieve high efficiency. This marked the beginning of the ideology of economics, which neglected the teachings of Max Weber, the German sociologist and founder of economic sociology. Weber's teaching was in fact consistent with the early ideas of Adam Smith and the institutional economics lectures of John Commons at the University of Wisconsin. Concern over the prevalence of social injustice and inequality in all aspects of national life should encourage social scientists, not only economists, to conduct in-depth research to identify its causes. This difficulty is especially apparent for economists because during the New Order era, economists were often viewed as highly successful in convincingly promoting economic growth and transforming Indonesia from a low-income country into a middle-income country.

From various perspectives and theories of economists, fundamental and significant reform of the system is needed to build the type of economy that has long been advocated. However, this shift can occur only if it is not opposed by the majority of the nation's constituents, especially those who have the authority to carry out development in Indonesia. The data on cooperative development from year to year show positive progress.

**Table 1. Number of Active Cooperatives by Province (Units), 2019-2021**

| Province | Number of Active Cooperatives by Province (Units) | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| Aceh | 4115 | 4176 | 4102 |
| North Sumatra | 4199 | 4593 | 5033 |
| West Sumatra | 1919 | 2047 | 2200 |
| Riau | 2946 | 3150 | 3248 |
| Jambi | 2540 | 2190 | 2046 |

| | | | |
|---|---|---|---|
| South Sumatra | 3888 | 4102 | 3992 |
| Bengkulu | 1883 | 1948 | 1983 |
| Lampung | 2075 | 2088 | 2282 |
| Bangka Belitung Islands | 651 | 676 | 711 |
| Riau Islands | 884 | 929 | 982 |
| Special Capital Region Of Jakarta | 3447 | 4150 | 4542 |
| West Jawa | 13247 | 14706 | 15621 |
| Central Jawa | 13164 | 12190 | 10270 |
| Special Region Of Yogyakarta | 1751 | 1820 | 1853 |
| East Jawa | 21757 | 22464 | 22845 |
| Banten | 3881 | 4047 | 4216 |
| Bali | 4244 | 4193 | 4193 |
| West Nusa Tenggara | 2396 | 2479 | 2622 |
| East Nusa Tenggara | 2697 | 2808 | 2874 |
| West Kalimantan | 2935 | 2904 | 3142 |
| Central Kalimantan | 2510 | 2633 | 2921 |
| South Kalimantan | 1721 | 1824 | 1875 |
| East Kalimantan | 2906 | 3036 | 3067 |
| North Kalimantan | 476 | 558 | 612 |
| North Sulawesi | 3620 | 3722 | 3668 |
| Central Sulawesi | 1429 | 1405 | 1435 |
| South Sulawesi | 4966 | 5057 | 4535 |
| Southeast Sulawesi | 3051 | 3009 | 2413 |
| Gorontalo | 884 | 928 | 975 |
| West Sulawesi | 837 | 909 | 862 |
| Maluku | 2373 | 2430 | 2488 |
| North Maluku | 917 | 997 | 1081 |
| West Papua | 608 | 663 | 723 |
| Papua | 2131 | 2293 | 2434 |
| Indonesia | 123048 | 127124 | 127846 |

Based on the data above, as a large nation rich in resources, Indonesia can realize a people's economy that is consistent with the Islamic economic system for the prosperity of all components of the nation without discriminating on the basis of ethnicity, race, or religion. Over time, the number of financial institutions has continued to increase each year and spread throughout Indonesia to meet community needs in managing micro-scale

financing. Thus, during the last few years when Indonesia was affected by Covid-19, cooperatives and microfinance units were among the sectors that were still able to withstand the downturn.

Moreover, it is clear that sharia cooperatives and BMT still have very high growth potential in many Indonesian provinces. For example, East Java Province, which combines the financial and real sectors based on the people's economy with medium and large enterprises, has committed to becoming the largest Islamic economic region in Indonesia. The Surabaya Declaration, signed on November 5, 2014, by the East Java Provincial Government, Bank Indonesia, the Financial Services Authority, and 17 pesantren representatives in East Java, demonstrates a shared commitment to this objective. BMT remains crucial for communities in various areas of East Java. In the real sector, BMT develops small entrepreneurs in management, technical marketing, and other fields to improve professionalism and productivity so that these economic actors can contribute proportionate benefits. In the financial sector, BMT provides financing facilities to micro and small entrepreneurs using sharia concepts and encourages customers with surplus funds to save, thereby building financially sustainable institutions. In the religious sector, BMT distributes ZIS to eligible recipients and offers qardhul hasan financing options, while encouraging Muslims to actively pay zakat, give infaq, and make charitable donations.

The West Java Provincial Government also gives significant attention to the growth of Savings and Loan Cooperatives (KSP) and KSPPS. The efforts of the West Java Provincial Cooperatives and MSMEs Office to develop KSP/KSPPS are reflected in programs and activities that improve KSP/KSPPS management capacity. These activities include advocacy for strengthening KSP/KSPPS businesses, technical guidance for KSP/KSPPS business management, assistance for KSP/KSPPS businesses, and literacy programs on the use of information and communication technology for KSP/KSPPS businesses.

In addition, the West Java Provincial Government, through the Cooperatives and MSMEs Office, works with the West Java Sharia Cooperatives Association (Gakopsyah) to provide education and training to improve human resource competence in cooperative business development. The Cooperatives and MSMEs Office also periodically conducts direct supervision of KSPPS and BMT to assess the feasibility of their business activities. Based on information from two provincial governments, BMT plays an important role in

the financial services industry. BMT can focus on financial markets, such as MSME financing, that are not served by the banking industry. Several gaps still exist between banking institutions and MSMEs, creating market opportunities for BMT. Banks are often reluctant to lend to MSME customers because there is a mismatch between the loan size expected by banks and the loan size requested by microfinance institutions. Many MSMEs without business licenses also face difficulty obtaining bank loans because of formal bank requirements, such as business permits and collateral in the form of land certificates. There is also an information gap between what the public understands and what banks require, including requirements related to guarantees, collateral, and high interest rates.

Therefore, realizing healthy and trustworthy cooperatives and BMT is a shared responsibility so that they can truly become appropriate sources of funds for the public interest. In the economy, particularly in business activities involving the production of goods and services, capital is certainly needed, both for investment and working capital. Therefore, non-bank institutions are needed as alternative sources of business financing in accordance with Islamic law. Cooperatives and BMT are solutions among non-bank financial institutions that can become financing sources for business actors in order to achieve welfare in their lives.

Cooperatives and BMT highly respect human values and are strongly aligned with the economic system regulated in Islamic economics. Cooperatives and BMT are far from capitalist and socialist practices because they value individual creativity and ability without sacrificing the public interest, something that is absent in capitalist or socialist systems.

SHU, or residual business surplus, is emphasized in cooperatives rather than profit because these organizations are managed to improve the welfare of their members and society as a whole. If a cooperative holds an Annual Member Meeting (RAT), this system can be demonstrated. In that meeting, the cooperative distributes SHU to its members according to their contributions to the cooperative in the form of business transactions.

Cooperatives can establish savings and loan businesses to meet the wants and needs of their members, both for consumptive and productive loans. Savings and loan cooperatives may take the form of KSP, or Savings and Loan Cooperatives, or USP, or Savings and Loan Units, but both uphold the same guiding ideals of kinship, mutual cooperation, and mutual respect. These are the core values of the cooperative economic

system, which closely resembles the Islamic economic system because both avoid coercion and violence while placing a high priority on human welfare.

On the basis of the Islamic economic system, which also emphasizes respect for human creativity in fulfilling economic needs while avoiding violence, oppression, and intimidation, BMT represents another alternative source of non-bank financing alongside cooperatives for the benefit of the people.

## CONCLUSION

Based on the discussion above, it can be concluded that cooperatives and Baitul Mal wat Tamwil (BMT) have a strategic position in supporting micro-enterprise capital financing, especially for communities that are not yet fully reached by formal banking institutions. Cooperatives function as economic institutions based on kinship, mutual cooperation, and member participation, while BMT has a distinctive character as an Islamic microfinance institution that combines a social function through Baitul Mal and a commercial function through Baitut Tamwil. Both institutions have orientations that are in line with Islamic economic principles, namely the creation of justice, public benefit, and balance between individual and societal interests.

Cooperatives and BMT are also important alternatives for micro-entrepreneurs in obtaining access to financing that is easier, more flexible, and consistent with sharia values. The existence of these institutions can address some of the problems long faced by micro-enterprises, such as capital limitations, difficulty meeting banking requirements, low financial literacy, and limited access to formal financial institutions. Through an approach that is closer to the community, cooperatives and BMT have the potential to strengthen the people's economy and encourage sustainable micro-enterprise growth.

Nevertheless, the actualization of the role of cooperatives and BMT in micro-enterprise capital financing still faces several obstacles. These obstacles include weak institutional governance, limited professional human resources, suboptimal supervision, low public literacy in Islamic finance, and overlapping functions between cooperatives and BMT in operational practice. In addition, uneven data and inadequate institutional strengthening of BMT also remain problems that may hinder the effectiveness of their role in developing the economy of the ummah.

Thus, cooperatives and BMT still have great opportunities to be developed as instruments of community economic empowerment, especially in strengthening micro-enterprises after the pandemic. For this role to operate optimally, institutional strengthening, improvement of human resource quality, consistent implementation of sharia principles, and continuous guidance and supervision are required. Cooperatives and BMT should not be understood merely as financing institutions, but also as instruments of economic empowerment for the ummah that are oriented toward social justice, business independence, and community welfare.

**Recommendations**

Based on the discussion above, several recommendations can be proposed. First, cooperatives and BMT need to strengthen institutional governance through the preparation of clear, transparent Standard Operating Procedures (SOPs) that comply with sharia principles. These SOPs are important for preventing deviations, improving accountability, and ensuring that fund collection and distribution activities run in accordance with institutional objectives.

Second, improving the quality of human resources is an urgent need for cooperatives and BMT. Administrators, managers, and employees need to receive continuous training in microfinance management, sharia contract principles, financing analysis, risk management, member services, and institutional governance. With professional and trustworthy human resources, cooperatives and BMT can carry out their social and economic functions more effectively.

Third, the government and relevant authorities need to strengthen regulation, guidance, and supervision of sharia cooperatives, KSPPS, and BMT. Such supervision is intended not only to control institutional activities but also to ensure sustainability, financial soundness, and compliance with sharia principles. In addition, a more accurate database is needed regarding the number, distribution, condition, and performance of BMT so that development policies can be implemented in a more targeted manner.

Fourth, cooperatives and BMT need to improve public literacy in Islamic finance, especially among micro-entrepreneurs. Education on sharia financing products, the contracts used, members' obligations, business management, and financing risks must be carried out continuously. With good literacy, the community will not only become

recipients of financing but also be able to manage business capital productively and responsibly.

Fifth, cooperatives and BMT need to expand synergy with local governments, zakat institutions, pesantren, mosques, universities, business actors, and other Islamic financial institutions. This synergy can strengthen capital, broaden service coverage, and improve assistance for micro-enterprises. Through targeted cooperation, cooperatives and BMT can become centers of community economic empowerment that not only provide financing but also offer business mentoring, capacity building, and moral economic guidance in accordance with Islamic values.

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