

## Evaluating the Performance and Institutional Challenges of BMT in North Sumatra: A Multi-Perspective

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### ABSTRACT

Baitul Maal wat Tamwil (BMT) is a Sharia-based microfinance institution that plays a pivotal role in promoting community economic empowerment, particularly in North Sumatra, a region characterized by its rich economic potential and socio-cultural diversity. Despite its strategic importance, many BMTs in this region face persistent challenges, including low levels of Islamic financial literacy, weak institutional governance, limited access to digital technologies, and inadequate working. This study aims to identify the key factors impeding BMT performance and to formulate context-specific revitalization strategies that are both practical and sustainable. Employing a qualitative research design with a case study approach, data were gathered through in-depth interviews, field observations, and document analysis involving three selected BMTs in North Sumatra. Thematic analysis was utilized to uncover critical patterns within the institutional and operational dynamics of these entities. The findings reveal that poor managerial professionalism, declining public trust, and a lack of innovation in Sharia-compliant financial products tailored to local needs are among the primary barriers to performance. In response, this study proposes four strategic recommendations: (1) enhancing human resource capacity through targeted professional training; (2) digitalizing services to foster greater efficiency and transparency; (3) restructuring organizational frameworks; and (4) improving Islamic financial literacy through comprehensive public education initiatives. This research contributes to the development of a locally grounded revitalization model for BMTs, offering actionable insights for practitioners, regulators, and stakeholders committed to advancing an inclusive, resilient, and adaptive Islamic microfinance ecosystem.

## 1. INTRODUCTION

Baitul Maal wat Tamwil (BMT), as a Sharia-based microfinance institution, plays a strategic role in expanding financial inclusion, particularly in regions underserved by conventional banking services. The operational model of BMT, which integrates both social and business functions, makes it unique and relevant to the needs of grassroots communities. In North Sumatra Province, the vast geographical conditions and socio-cultural diversity of the population pose particular challenges for the penetration of formal financial institutions. Within this context, BMT emerges as an alternative considered more flexible, community-oriented, and aligned with Sharia principles

Functionally, BMT performs two primary roles. First, the social function, through the collection and distribution of zakat, infaq, sadaqah, and waqf (ZISWAF) funds. These resources are utilized for social activities such as poverty alleviation, economic empowerment of the underprivileged, and the development of public facilities based on waqf. Second, the business function is carried out through the provision of both productive and consumptive financial services, such as *mudharabah*, *murabahah*, *ijarah*, and *qardhul hasan* for MSMEs and marginalized communities. The integration of these dual roles is consistent with the vision of Islamic economics, which not only seeks profit but also emphasizes social justice and equitable distribution of welfare. (Neva et al., 2014)

Nevertheless, the substantial potential of BMT has not yet been fully realized. Various structural and cultural barriers remain as significant challenges to institutional performance. Structurally, many BMTs face issues regarding institutional legality, weak governance systems, and limited managerial and accounting capacity. Dependence on informal management, lack of human resource training, and the absence of standardized operational procedures contribute to inefficiency and increase the risk of internal conflicts. (Ascarya & Masrifah, 2023)

Culturally, other challenges arise from the low level of Sharia financial literacy among the community, resulting in fluctuating levels of participation and trust in BMT. Some community members still perceive BMT merely as a lending institution rather than as a partner in Sharia-based economic empowerment. The lack of active involvement from local authorities, such as the Cooperative Office, the Sharia Supervisory Board (DPS), and community leaders, in strengthening BMT institutions further exacerbates this situation. Consequently, several BMTs in North Sumatra have experienced stagnation in growth, declining customer bases, and even periodic inactivity in operational activities. (Fauzi et al., 2020)

Findings from Sharia financial institution reports, field observations, and interviews with practitioners and stakeholders reveal that most Baitul Maal wat Tamwil (BMT) in North Sumatra Province are facing stagnation, with some even experiencing declining performance. This phenomenon is reflected in the decreasing volume of financing disbursed and the rising ratio of non-performing financing (NPF).

**Table 1.**  
**Average Assets, CAR, FDR, BOPO, Third-Party Funds, NPF, and ROA of Selected BMTs in North Sumatra Province During 2014–2024**

Year	Total Aset (Billions of Rupiah)	CAR (%)	FDR (%)	BOPO (%)	Third-Party Funds (Billions of Rupiah)	NPF (%)	ROA (%)
2014	1.500.000.000	20,45	65,65	68,86	1.825.000.000	5,50	11,55
2015	1.250.000.000	20,15	63,27	69,03	1.450.000.000	5,35	10,45
2016	950.000.000	19,55	68,84	70,12	1.000.000.000	5,02	10,07
2017	850.000.000	19,07	70,33	72,25	935.000.000	4,79	9,88
2018	720.000.000	19,00	74,45	71,55	1.250.000.000	4,45	9,56
2019	650.000.000	18,65	77,68	73,33	1.450.000.000	4,23	9,43
2020	500.000.000	18,40	80,64	74,66	1.500.000.000	4,01	9,03
2021	435.000.000	18,23	81,55	75,55	1.750.000.000	3,97	8,64
2022	525.000.000	17,66	83,35	77,46	1.885.000.000	3,65	8,37
2023	420.000.000	17,42	84,04	78,00	1.935.000.000	3,34	7,55
2024	397.000.000	16,95	85,44	80,51	2.150.000.000	2,90	7,15

Source: ojk.sumut.go.id

The average profitability of BMTs in North Sumatra Province during the 2014–2024 period shows a declining trend. This condition has affected capital adequacy (CAR), liquidity, and financing distribution capacity. As a result, FDR and BOPO have increased, along with the rise in non-performing financing (NPF). This situation has hindered BMTs from achieving significant profit growth and has led to a decline in the return on assets (ROA). (Chung et al., 2017)

In addition to economic growth, inflation also influences the profitability of BMTs. Low inflation encourages cost efficiency for MSME production, increases profitability, and facilitates loan repayments, thereby reducing NPF and strengthening the financial health of BMTs. This has a positive impact on improving CAR and ROA, while lowering BOPO and FDR. However, in North Sumatra Province, low economic growth and high inflation have posed challenges for BMTs in increasing assets and profitability. These macroeconomic conditions can be observed through the relationship between inflation, economic growth, and BMTs' ROA during the 2014–2024 period, as presented in the following table.

**Table 2.**  
**Economic Growth, Inflation, and Average ROA of BMTs in North Sumatra Province, 2014–2024**

Year	Economic Growth (%)	Inflation (%)	ROA (%)
2014	5,23	0,34	11,55
2015	5,10	1,37	10,45
2016	5,18	6,34	10,07
2017	5,12	0,73	9,88
2018	5,18	0,12	9,56
2019	5,22	0,32	9,43
2020	1,07	0,65	9,03
2021	2,61	0,44	8,64
2022	5,01	0,71	8,37
2023	5,05	0,75	7,55
2024	5,03	1,59	7,15

Sumber: *ojksumut.go.id* dan *bpssumut.go.id*

In addition, the decline in the number of active members and the decreasing public trust in the institutional performance of BMT require serious attention, considering that BMT is essentially designed as a Sharia-based microeconomic locomotive that should grow and develop within society.

One of the fundamental problems underlying the decline in BMT performance is the lack of professional institutional governance. Many BMTs are still managed traditionally, with poorly organized administrative systems, no clear separation between supervisory and operational functions, and the absence of transparent and accountable financial reporting systems. This condition is further exacerbated by weak managerial capacity, as many administrators do not have an educational background or formal training in Sharia finance or cooperative management. As a result, many strategic decisions are made without careful business considerations, with minimal risk evaluation and portfolio management.(Anwar et al., 2023)

Limited access to digital financial technology also presents a major challenge in today's era of digital transformation. While digital services are increasingly being adopted by society and financial institutions, most BMTs in North Sumatra still rely on manual systems for transaction recording and customer services. The lack of digitalization in operational processes makes it difficult for BMTs to compete with Sharia fintech companies or modern cooperatives, while also restricting their ability to reach customers in remote areas.(Naheri et al., 2024)

Furthermore, the low level of Sharia financial literacy among the community has hindered participation and membership sustainability. Many potential members do not fully understand the

basic concepts of Sharia financing, the mechanisms of contracts (*akad*), or the social advantages of BMT compared to conventional financial institutions. As a result, BMTs are often misunderstood as merely lending institutions rather than as partners in Sharia-based economic empowerment.

The lack of synergy and support from local authorities, such as the Cooperative Office and the Sharia Supervisory Board (DPS), also weakens the position of BMTs within the microfinance system. Weak coordination between regulators, technical advisors, and Sharia supervisors causes BMTs to lose direction in institutional development, receive limited information about training and mentoring, and lack access to technical assistance or funding. Yet, active intervention from local governments and supervisory bodies could serve as a catalyst for strengthening institutional capacity and ensuring the sustainability of BMT operations.(Ascarya et al., 2023)

In the academic context, attention to the institutional dynamics of Baitul Maal wat Tamwil (BMT) has become a relevant topic in various studies of Islamic economics and microfinance development. Previous research has highlighted crucial challenges faced by BMTs in different regions, such as weak internal governance, lack of transparency in financial reporting, and high levels of non-performing financing (NPF), all of which directly affect operational stability. These studies emphasize the need for management professionalization and the application of prudential principles in financing to ensure institutional continuity.(Iclozan et al., 2010)

Other studies have found that the success of BMTs depends not only on the strength of their internal structures but also on active member participation and regulatory support from authorities, such as guidance from the Cooperative Office and supervision by the Sharia Supervisory Board. These findings suggest that BMT performance cannot be separated from the external ecosystem that supports it, including regulation, oversight, and public education on Sharia finance.(Ascarya & Sakti, 2022)

Nevertheless, there remains a gap in the academic literature that discusses BMT comprehensively and contextually, particularly within a multi-perspective framework that involves diverse stakeholders. Most studies tend to focus either on internal institutional aspects or on the role of members, without integrating the dynamic relationships among managers, members, and local authorities as an interconnected whole. This gap is particularly significant in North Sumatra, which has highly diverse social, cultural, and economic characteristics—from coastal and inland communities to pesantren-based societies—each with different needs and responses to the presence of BMTs.(Laili & Kusumaningtias, 2020)

This study seeks to fill that gap by offering a multi-perspective approach. By exploring the views of BMT managers, members (clients), and local authorities (such as the Cooperative Office and the Sharia Supervisory Board), the research aims to provide a more comprehensive understanding of BMT performance and institutional challenges, while also identifying patterns of institutional relationships that can serve as the basis for designing policy interventions and strategies for sustainable BMT revitalization in North Sumatra.

Given the complexity of these challenges, an in-depth study is required—one that does not merely capture problems from a single perspective but instead investigates the dynamics from multiple perspectives, including the internal management of BMTs, the responses and perceptions of members, and the views of relevant authorities. The findings of this study are expected to contribute to the formulation of institutional revitalization strategies that are adaptive to contemporary challenges yet remain rooted in Sharia values and the principles of community empowerment.(Pandapotan & Soemitra, 2022)

Aligned with the various challenges identified, this study aims to examine in depth the performance and institutional challenges of BMTs in North Sumatra Province through a multi-perspective approach. The main focus is to achieve a comprehensive understanding of how BMT managers, members (clients), and external stakeholders—such as the Cooperative Office, the Sharia Supervisory Board (DPS), and community leaders—interpret, respond to, and engage in the institutional dynamics of BMTs.

Through this approach, the research does not merely aim to capture the current condition of BMTs from a single angle but seeks to uncover the complexity of relationships among stakeholders in the processes of management, supervision, and institutional development. This approach is crucial in avoiding one-dimensional biases that often arise in institutional research based solely on single-case studies or structural analysis.

By incorporating these diverse perspectives, this study aspires to construct a more holistic picture of the actual condition of BMTs, including their strengths and weaknesses, developmental potential, and structural, cultural, and operational challenges. Furthermore, the findings are intended to formulate strategic, evidence-based, and contextually relevant recommendations to support institutional capacity building, service quality, and the sustainability of BMTs as Sharia microfinance institutions that are competitive and committed to community economic empowerment in North Sumatra.(Dewi, 2017)

## 2. LITERATURE REVIEW

### Sharia-Based Microfinance Institution with Integrated Social and Business Functions

Sharia-based microfinance institutions (SMFIs), often referred to as Baitul Maal wat Tamwil (BMT), represent a unique model of Islamic financial intermediation. Unlike conventional microfinance institutions, BMTs integrate two distinct yet complementary functions: the maal (social fund management) and the tamwil (business financing).

According to (Melina & Zulfa, 2020) the integration of these two roles allows BMTs to simultaneously address issues of poverty alleviation and economic empowerment. The maal function encompasses the collection and distribution of zakat, infaq, and waqf, which directly targets poverty reduction and social welfare improvement. On the other hand, the tamwil function emphasizes productive financing through sharia-compliant contracts such as mudharabah, musharakah, murabahah, and ijarah, thereby fostering entrepreneurship and supporting the growth of micro and small enterprises.

(Solihin, 2020) explains that this dual role makes BMTs not only financial intermediaries but also social institutions. By channeling zakat and infaq towards the most vulnerable groups, while simultaneously offering financing to micro-businesses, BMTs strengthen the socio-economic fabric of communities. This hybrid model ensures that financial inclusion is not only measured in terms of access to capital but also in terms of equitable distribution of wealth, in line with the maqasid al-shariah.

Furthermore, (Haryoso, 2017) emphasizes that the integration of maal and tamwil functions provides a sustainable mechanism for poverty alleviation. While conventional microfinance may reduce poverty through credit access, it often lacks redistributive justice. In contrast, BMTs incorporate an element of wealth redistribution through zakat and waqf, thereby ensuring that social equity complements economic efficiency.

Empirical studies also support the effectiveness of this model. For instance, (Amalia, 2022) argue that Islamic microfinance, by linking social safety nets with productive financing, creates a more resilient community-based economic system. This holistic approach not only improves livelihoods but also reduces dependency by empowering individuals to become economically self-sufficient. In conclusion, the sharia-based microfinance institution with its dual role of maal and tamwil embodies a distinctive Islamic financial innovation. It operationalizes the

principle of justice (al-'adl) and solidarity (ta'awun) in economic life, making it both an instrument for poverty alleviation and a driver of microeconomic development.

### Revitalization

In recent years, the performance of many Baitul Maal wat Tamwil (BMT) has faced challenges such as declining public trust, limited institutional capacity, and the decreasing number of active members. This condition indicates the urgency of revitalization to strengthen the dual role of *maal* and *tamwil*.

Revitalization, according to (Haidar, 2021) is not merely about institutional restructuring, but more fundamentally about reorienting the vision and mission of Islamic microfinance towards its original function: to become a locomotive of community-based sharia economic development. In this regard, revitalization includes improving governance, strengthening human resource capacity, and optimizing the integration between social funds (*zakat*, *infaq*, *waqf*) and business financing.

(Billard et al., 2021) emphasize that revitalization requires enhancing the credibility of BMT management through transparency, accountability, and sharia compliance. Without strong trust, the community will be reluctant to entrust both social and business funds. Thus, revitalization must involve both structural reforms such as digitalization of services and professionalization of management and cultural reforms by embedding values of honesty, justice, and trust (*amanah*).

Furthermore, (DASOPANG, 2023) argues that revitalization of BMT should be directed towards developing sustainable Islamic social finance ecosystems. This means not only collecting *zakat* and *waqf*, but also integrating them with productive financing programs for micro-enterprises. For example, *zakat* funds can be used for *capacity building* of the poor, while financing through *mudharabah* or *murabahah* helps them to start businesses. This synergy strengthens both dimensions: social protection (*maal*) and economic empowerment (*tamwil*).

(Alfiani et al., 2018) also suggests that revitalization must involve innovation in financial products and services to remain relevant to the needs of the community. Sharia-based microfinance should not only replicate conventional microfinance with Islamic contracts, but also provide solutions that reflect Islamic values such as wealth redistribution, financial inclusion, and community empowerment.

Thus, the revitalization of sharia-based microfinance institutions is a strategic step to restore their role as both poverty alleviators and enablers of microeconomic development. By revitalizing

the integration of *maal* and *tamwil*, BMTs can once again become agents of transformation that embody the principles of justice (*al-'adl*), solidarity (*ta'awun*), and sustainable development in society.

### Islamic Microfinance

Islamic microfinance refers to financial services designed for low-income individuals and micro-entrepreneurs, based on sharia principles that prohibit interest (*riba*) and emphasize justice, partnership, and social solidarity. Unlike conventional microfinance, which primarily focuses on credit provision, Islamic microfinance integrates both economic and social dimensions by combining *sharia-compliant financing* and *Islamic social funds* (zakat, infaq, sadaqah, and waqf).

According to (Srimulyani et al., 2022) Islamic microfinance is not merely a financial innovation but a comprehensive poverty alleviation strategy that merges financial inclusion with social justice. It provides access to capital through profit-and-loss sharing contracts such as *musharakah* and *mudharabah*, while at the same time redistributing wealth through zakat and waqf. This dual mechanism ensures that poverty reduction is approached both from the perspective of economic empowerment and social protection.

(Mukaromah, 2022) highlight that Islamic microfinance has significant potential in Muslim-majority countries where many poor people are excluded from conventional financial systems due to religious concerns about interest. By offering sharia-compliant products, Islamic microfinance addresses this gap, thus enhancing financial inclusion while maintaining religious adherence.

Furthermore, (Yaqin, 2021) emphasizes that Islamic microfinance institutions (IMFIs), particularly Baitul Maal wat Tamwil (BMT) in Indonesia, play a dual role: managing social funds (*maal*) for poverty alleviation and providing business financing (*tamwil*) for micro-enterprise development. This dual role creates a sustainable ecosystem in which social capital and financial capital are mutually reinforcing.

(Ramdani Harahap & Ghozali, 2020) argues that Islamic microfinance should not only replicate conventional microfinance under different contracts but also offer unique value propositions by embedding Islamic ethical principles such as *amanah* (trustworthiness), *adl* (justice), and *ukhuwah* (solidarity). Thus, Islamic microfinance becomes both a financial instrument and a moral movement, aligning economic activities with spiritual and ethical values.

In conclusion, Islamic microfinance is a distinctive model of financial intermediation that combines economic empowerment and social welfare. By integrating social finance instruments with sharia-compliant business financing, it not only promotes financial inclusion but also ensures that development is equitable, ethical, and sustainable in accordance with the objectives of sharia (*maqasid al-shariah*).

### Financial

From a financial perspective, Islamic microfinance serves as both a mechanism of financial intermediation and a tool for inclusive economic development. Unlike conventional financial systems that rely heavily on interest-based lending, Islamic finance emphasizes risk-sharing, asset-backed transactions, and ethical investments. This principle ensures that financial transactions are not merely profit-oriented but also aligned with social justice and moral responsibility.

According to (PutriWulandari & Rohman Albanjari, 2023) the financial system in Islam is designed to achieve socio-economic justice by prohibiting exploitative practices such as *riba* (usury) and *gharar* (excessive uncertainty), while promoting equitable distribution of wealth. In this context, financial instruments used in Islamic microfinance such as *murabahah* (cost-plus financing), *mudharabah* (profit-sharing), and *musharakah* (partnership) provide alternative models that are more inclusive and ethically grounded.

Furthermore, (Tanjung & Novizas, 2021) explains that the financial sustainability of Islamic microfinance institutions depends on their ability to integrate two dimensions: financial viability (*tamwil*) and social responsibility (*maal*). The financial side ensures the institution can operate sustainably, while the social side guarantees that the benefits extend to the poorest segments of society. This dual orientation distinguishes Islamic microfinance from conventional models, which often prioritize financial returns over social impact.

(Hidayanti et al., 2021) stresses that financial innovation in Islamic microfinance must be directed toward balancing institutional sustainability and poverty alleviation. For instance, while profit-sharing contracts generate financial returns for the institution, *zakat* and *waqf* provide social safety nets that protect the most vulnerable groups. This creates a holistic financial model where social equity complements economic efficiency.

In practice, the financial performance of Islamic microfinance institutions is often measured not only by profitability but also by outreach, impact on poverty reduction, and alignment with

*maqasid al-shariah* (objectives of Islamic law). Thus, financial management in Islamic microfinance is not confined to economic growth but extends to ensuring justice (*adl*), solidarity (*ta'awun*), and welfare (*maslahah*) for the community.

### 3. METHODOLOGY

This study employs a descriptive qualitative approach with the Grounded Theory method to gain an in-depth understanding of the conditions and revitalization strategies of BMTs in North Sumatra Province. This approach was chosen to generate theory systematically and contextually derived from field data.

The research design adopted is a multiple-case study, which enables the researcher to compare and analyze the dynamics of several BMTs, both those that remain active and those experiencing stagnation. Data collection techniques include in-depth interviews, participatory observation, and document analysis, involving informants such as BMT managers, members, supervisory authorities (e.g., the Cooperative Office and the Financial Services Authority), as well as community leaders. (Khairuzzaman, 2016) data were analyzed through open coding, axial coding, and selective coding, following grounded theory procedures, in order to identify key categories and establish relationships among relevant themes. The findings are expected to formulate applicable revitalization strategies that are firmly grounded in field realities.

### 4. RESULT AND DISCUSSIONS

Depth interviews with three BMTs that are still actively operating. These interviews involved various stakeholders, including BMT managers, clients, regulators, and academics, in order to explore perspectives on the challenges and revitalization strategies of BMTs. In addition, a comparative observation was conducted between 30 BMTs that had ceased operations and 3 BMTs that remain active, with the aim of identifying fundamental problems. The results of this observation are presented in Table 3.

**Table 3. Observation Results**

<b>Observed Aspect</b>	<b>Indicators</b>
<b>Physical Office Condition</b>	Facilities, technological equipment, comfort
<b>Service Interaction</b>	Manner of staff serving members, language used
<b>Internal Documentation</b>	Availability of SOPs, cash books, financial reports

Observed Aspect	Indicators
Social Activities	Presence of ZIS programs, training, guidance
Member Attendance	Volume of daily visits, service hours

Based on the comparative observation between 30 BMTs that had ceased operations and 3 BMTs that remain active, an initial analysis revealed the overall weakness of BMT operational management and governance. This indication was further reinforced through in-depth interviews with the managers of the three active BMTs.

The research findings highlight several key characteristics of the informants who served as the primary sources for observation and preliminary analysis of BMT operational issues. These characteristics include the profiles of the owners of the three active BMTs, which, during the analysis, were found to have a significant influence on the institution’s credibility and management quality. In addition, the perceptions of BMT members and prospective members toward financing services also emerged as an important indicator in assessing institutional sustainability.

The number and types of BMTs studied were further classified according to their operational status active, stagnant, and inactive in order to obtain a more comprehensive picture of the dynamics occurring in the field. All these findings were systematically visualized in the form of a mind map to provide a clearer and more structured understanding of the existing conditions faced by BMTs.



**Figure 1. Mind Map of Interview Findings with Three BMT Managers in North Sumatra**

Based on the mind map that has been developed, several fundamental problems in the operations of BMTs were identified. One of the main issues is weak management and a lack of

transparency, as reflected in financial reports that are neither accountable nor prepared regularly, and are not audited by external parties. In addition, most managers have not yet mastered the applicable Islamic financial reporting standards, which hinders accountability and undermines public trust.

Another critical problem is the heavy dependence of BMTs on their founders or key figures. Decision-making processes whether in financial matters, service provision, or development strategies tend to be concentrated in one or two individuals, thereby obstructing regeneration and the establishment of sound institutional governance.

From the perspective of institutional collaboration, BMTs also tend to operate in isolation without building synergies with other institutions such as Islamic boarding schools (*pesantren*), Islamic cooperatives, or neighboring BMTs. In fact, the potential for such cooperation is significant in terms of strengthening networks and enhancing financial resilience. Moreover, most BMTs have not managed social funds such as zakat, infaq, and productive waqf optimally, despite the considerable potential within their communities.

As a result of these constraints, the ability of BMTs to increase funding and liquidity remains limited. This indicates that the establishment of BMTs has so far been more oriented toward short-term liquidity, while their social function as sharia-based microfinance institutions for community empowerment has not been fully realized. Consequently, the strategic role of BMTs in supporting the economic empowerment of Muslim communities in North Sumatra has yet to be optimally achieved.

## 1. Existing Condition of BMTs in North Sumatra Province: A Multi-Perspective Review

This study identifies the actual condition of *Baitul Maal wat Tamwil* (BMT) in North Sumatra Province through a qualitative grounded theory approach, with data obtained from field observation, in-depth interviews, and literature review. The perspectives analyzed include those of BMT managers, members, and relevant authorities/regulators.

### a. Managerial Perspective

Most BMT managers face significant challenges in managerial aspects, human resources, and information technology. BMT management is generally not yet professional, as indicated by the absence of standard operating procedures (SOPs) and formal organizational structures. The available human resources mostly lack a background in Islamic economics and receive minimal training. The use of technology

remains manual, without the support of digital application systems. In addition, the social role of BMTs has not been optimized, as they tend to focus on the *tamwil* (financing) function, while the *maal* function (zakat, infaq, and sadaqah) has not been maximized.

**b. Members' Perspective**

Members appreciate the presence of BMTs as alternative financial institutions but express concerns regarding the quality of services, which are not yet competitive compared to other financial institutions. The main problems include slow and manual service processes, limited education on sharia systems, and a lack of transparency, all of which undermine the credibility of BMTs in the eyes of the public. Furthermore, the social function of BMTs has not been tangibly felt by the members.

**c. Authorities'/Regulators' Perspective**

The Cooperative Office, sharia authorities, and community leaders acknowledge that BMTs have great potential as Islamic microfinance institutions, particularly in rural areas. However, they highlight several critical issues, including weak legal aspects (many BMTs do not yet have legal entity status or face institutional dualism), low intensity of supervision from regulators, and the absence of integrated digital reporting systems. While the potential of BMTs for empowering the community's economy is considered high, intensive capacity building and regulatory strengthening remain necessary.

**d. In-Depth Interviews**

To strengthen the preliminary findings, in-depth interviews were conducted with managers and members of three active BMTs, namely BMT Amanah (Deli Serdang), BMT Anugerah Sejahtera Bersama (Binjai), and BMT Pradesa Finance Mandiri. Each BMT was interviewed by a research team consisting of the chairperson and two members. Additionally, interviews were also conducted with supervisory authority representatives to obtain institutional and regulatory perspectives. The results of these interviews are presented in a thematic analysis table.

Based on interviews with the chairperson and two administrators of *Koperasi Jasa BMT Anugerah Sejahtera Bersama Binjai*, several findings were obtained that reflect the existing condition of the institution. The main problems identified include operational aspects, human resources, services, and marketing strategies. In general, BMT services are still carried out manually

and are not yet supported by digital applications that could enhance service efficiency. Moreover, the financial literacy of human resources particularly in financial management and sharia accounting remains low.

The social function of BMTs, which should represent part of their strategic role as Islamic financial institutions, has also not been implemented optimally. On the other hand, the surrounding community still has limited understanding of the concepts and principles of Islamic economics, which affects both participation and trust in the institution. Furthermore, marketing strategies have not yet utilized social media or digital platforms effectively, thereby limiting market outreach. Financial record-keeping is still conducted manually and is not digitally based, which negatively affects the accuracy and efficiency of financial data management.

## **2. Inhibiting and Supporting Factors in the Revitalization Process of BMT in North Sumatra Province**

Based on initial observations and analysis conducted using a grounded theory approach, several fundamental obstacles were identified that disrupt the sustainability of BMT operations. Data collection was carried out through in-depth interviews, field observations, and documentation, which were then analyzed using the open coding method. From the raw data obtained, the researcher identified a number of meaning units that were broken down into initial codes, which later served as the foundation for developing thematic categories.

Interviews with managers of three active BMTs, KSPPS BMT UB Amanah (Deli Serdang), KSPPS BMT Pradesa Finance Mandiri (Langkat), and BMT Anugerah Sejahtera Bersama (Binjai and Batang Kuis) revealed several key issues. These include weak organizational structures and the absence of written SOPs, leading to work implementation being based more on habits than on competencies. In addition, the capacity of human resources remains low, as most administrators lack backgrounds in economics or Islamic finance, and training was only conducted once at the establishment stage without any follow-up.

From the technological aspect, financial reporting systems are still managed manually using Microsoft Excel without the support of integrated software, making them prone to errors and manipulation. Transparency and accountability are also weak due to the lack of monitoring systems and external audits. The social function of BMT has not been optimally carried out; the management of zakat, infaq, and sadaqah funds remains unstructured, and social activities are

conducted only incidentally. Meanwhile, marketing strategies are still conventional and have not consistently utilized digital technologies, such as social media.

Another significant finding is the emerging public distrust toward BMT, especially after the rise of default cases, sudden closures, and the lack of proactive public communication. This phenomenon has worsened institutional credibility and hindered the growth of new membership.

The preliminary conclusion from the open coding stage shows that BMT problems are multidimensional, covering institutional, human resource, social, and technological aspects. All these aspects are interrelated and reinforce one another. From this analysis, five main groups of initial codes were developed, which will later be expanded in the axial coding stage into conceptual categories, and finally integrated in the selective coding stage to construct a comprehensive theoretical framework.



**Figure 2. Mindmaps of Interview Results with 3 Active BMTs in North Sumatra Regarding Preliminary Findings on Operational Barriers and Challenges**

Interviews with the regulatory authority, namely the Cooperative Office of North Sumatra Province, revealed a number of structural and regulatory challenges faced by BMTs, particularly in the context of competition and legal uncertainty. One of the main issues highlighted is the increasing pressure from digital financial institutions such as fintech and app-based banking. From the regulator’s perspective, BMTs are often perceived as slow to adapt, outdated, and less attractive to younger generations. This perception weakens their competitiveness in the rapidly evolving digital financial sector.

In addition to technological challenges, regulatory issues remain a significant barrier to the development of BMTs. Regulators emphasized that, to date, there is no clear legal foundation in

national laws or government regulations that specifically governs the existence and operations of BMTs, especially in North Sumatra. This legal ambiguity creates institutional confusion, particularly regarding the appropriate legal status for BMTs.

BMTs are currently faced with two options: continue operating as cooperatives under the Ministry of Cooperatives and SMEs, or transform into Islamic Microfinance Institutions (LKM) under the supervision of the Financial Services Authority (OJK). However, the licensing process for becoming an Islamic LKM, as mandated by national regulation, is considered highly complex. Strict requirements regarding capital, legality, and organizational structure often pose significant obstacles for smaller BMTs to meet these qualifications.

If BMTs opt to become Islamic LKMs, they must relinquish their cooperative structure, which has long served as the operational foundation, including the Annual Member Meeting (RAT) and member management system. As a result of this dilemma, many BMTs prefer to remain “in the middle,” choosing neither full transformation into LKMs nor gaining full legal recognition as microfinance institutions.

The regulator acknowledged that most BMTs eventually choose to remain as Islamic cooperatives without registering as LKMs. However, this decision limits their access to larger sources of funding, digital development, and service expansion. Consequently, the regulator recommended the establishment of a specific legal framework for BMTs as Islamic cooperatives with microfinance functions, without requiring full compliance with LKM regulations. Such a framework would enable BMTs to grow within a clear legal structure while remaining adaptive to local needs.

### **Analytical Insights**

The grounded theory analysis suggests that the operational challenges of BMTs in North Sumatra stem from a complex interplay of internal weaknesses, external pressures, and underutilization of institutional potential. The process began with open coding to identify initial categories from raw data obtained through interviews, field observations, and documentation. These categories were further examined in axial coding to map causal relationships, and subsequently refined in selective coding to identify a core category. (Hamzah, 2021)

The findings indicate that major problems include limited human resource competencies, weak information systems, minimal training, lack of standard operating procedures, and

ineffective organizational structures. Manual work procedures and inadequate documentation further exacerbate institutional weaknesses. Financial limitations, low digital literacy, and insufficient infrastructure hinder modernization efforts, resulting in decision-making that is often individualistic rather than systemic, and services that are suboptimal.

Selective coding identified revitalization as the core category, reflecting the urgent need to strengthen BMTs in response to institutional fragility, low human resource capacity, and the absence of digitalization and governance standards. Revitalization, in this context, is understood as an integrative process involving structural transformation, reinforcement of Islamic ethical values, and community-based digital adaptation.(Fitria & Qulub, 2020)

### **Supporting Factors for Revitalization**

Despite the challenges, several supporting factors were identified that could serve as the foundation for BMT revitalization in North Sumatra:(Mubarrok et al., 2022)

1. Socio-Cultural Strengths – Strong community trust in Islamic institutions, collective solidarity, and religious traditions rooted in mosques and pesantren provide a robust social base.
2. Growing Awareness of Islamic Economics – Rising public enthusiasm for halal financial products and avoidance of interest-based systems creates an opportunity for BMT expansion.
3. Role of Religious Leaders – Preachers and mosque leaders play a vital role in shaping public opinion and supporting BMT presence within local communities.
4. Institutional and Governmental Support – Capacity-building initiatives from relevant ministries, financial authorities, and Islamic institutions strengthen BMT operations and legitimacy.
5. Potential for Digitalization and Fintech Collaboration – The use of digital platforms such as cooperative applications, QRIS, and Islamic digital finance systems opens opportunities for collaboration with Islamic fintech and local marketplaces.
6. Education and Training for Human Resources – Educational institutions and training centers focusing on cooperatives and Islamic economics contribute to managerial and service improvements.

7. Networking with Islamic and Cooperative Institutions – Membership in cooperative and Islamic finance networks provides access to capital, mentorship, and institutional development.

## 5. CONCLUSION

Based on a multi-perspective study involving managers, members, and regulators, this research concludes that the institutional structure of Baitul Maal wat Tamwil (BMT) in North Sumatra is currently facing significant internal and external challenges.

First, in terms of structure and operations, BMTs exhibit fundamental weaknesses in managerial aspects, human resource capacity, standard operating procedures (SOPs), and limitations in the utilization of digital technology. Many BMTs still rely on manual systems and traditional work patterns, which result in low efficiency, transparency, and accountability in financial management. The dependence on founders or key figures also reflects the lack of maturity in institutional organizational governance.

Second, externally, BMTs face competitive pressure from digital financial institutions such as fintech companies and application-based banking, which are more responsive to the needs of younger generations and modern society. The inability of BMTs to adopt technological innovations and build service systems that are fast, simple, and digital-based makes them less relevant in the midst of the digital financial transformation.

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