

Optimizing Capital Management in Baitul Maal wat Tamwil: Issues and Approaches

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Abstract

Baitul Maal wat Tamwil (BMT) is a microfinance institution operating under Sharia principles, integrating social welfare and commercial finance to promote poverty alleviation and economic empowerment. Despite its potential, BMTs face significant capital challenges that hinder their sustainability and impact. This study explores these challenges using a qualitative methodology with a literature review approach. Six key issues are identified: (1) limited capital from low member savings, (2) inadequate accumulation of social funds, (3) mismatch between available funds and customer needs, (4) reliance on external funding, (5) low business volume, and (6) weak integration between the social (*Baitul Maal*) and commercial (*Baitul Tamwil*) functions. These issues restrict BMTs from fully achieving their financial inclusion and social welfare objectives. To address these challenges, the study suggests optimizing low-cost funds, managing cash waqf, strengthening *Baitul Maal*, collaborating with zakat institutions, and integrating Islamic social finance with commercial operations. Additionally, increasing principal and mandatory savings is recommended to improve capital stability. Resolving these issues is essential for enhancing BMTs' role in poverty alleviation and ensuring their long-term sustainability and effectiveness within the Islamic finance framework.

Keywords: BMT; Capital Challenges; Islamic Social Finance; Sharia-compliant Microfinance

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Introduction

Islamic microfinance institutions, such as *Baitul Maal wa Tamwiil* (BMT), play a pivotal role in promoting financial inclusion and alleviating poverty in Indonesia, where a significant portion of the population remains unbanked or underserved by conventional financial institutions. BMTs offer an alternative financing model grounded in Islamic principles, providing a critical bridge for low-income individuals and micro-entrepreneurs often excluded from formal banking systems. By offering financial products that comply with Shariah law—such as profit-sharing arrangements and interest-free loans—BMTs not only contribute to economic empowerment but also foster entrepreneurial growth and enable wealth redistribution within communities (Rohman et al., 2021). Their ability to cater to the financial needs of the underserved, while adhering to religious values, makes BMTs an essential player in the broader context of Islamic finance.

In Indonesia's financial landscape, where conventional institutions have struggled to reach the lower socioeconomic strata, BMTs have emerged as vital instruments for promoting social and economic inclusion (Ascarya, 2016). Despite recent efforts, millions of Indonesians—particularly in rural areas with limited infrastructure and low income levels—still lack access to formal banking services. The distinct value proposition of BMTs lies in their ability to offer Shariah-compliant financial products to marginalized populations, facilitating access to essential services such as savings, micro-loans, and investment opportunities. Moreover, BMTs contribute significantly to community development by mobilizing Islamic social funds, such as zakat, infaq, and waqf, addressing both financial and social needs (Rohman et al., 2022).

However, despite their critical role in the financial ecosystem, many BMTs face significant challenges related to capitalization (Ascarya & Suharto, 2021). Capitalization refers to an institution's ability to mobilize sufficient funds to sustain operations, expand, and meet its financial obligations. The limited ability to raise funds—both from members and external sources—has constrained BMTs' capacity to scale their operations and effectively manage liquidity demands. This challenge becomes particularly acute during periods of high demand, such as festive seasons or economic downturns, when BMTs experience a surge in loan requests but lack the capital to fulfill all needs. Consequently, a mismatch arises between available resources and financial demands, jeopardizing the sustainability and growth of these institutions.

The undercapitalization of BMTs stems largely from the limited savings and contributions of their members, many of whom belong to lower-income brackets. Unlike conventional banks that rely on large-scale deposits and access to external funding, BMTs are heavily dependent on the savings and investments of their members. Given that many of these members face economic constraints, the pool of available capital is inherently restricted. This creates a cycle of dependency, where BMTs must seek external funding sources, such as government programs or Islamic financial institutions, to supplement their capital base. However, these external funds are often insufficient or come with restrictions that may not align with the operational needs of BMTs (Rohman et al., 2022).

In addition to the challenges posed by limited internal capital, many BMTs struggle to effectively integrate their commercial and social functions. The dual nature of BMTs—comprising *Baitut Tamwil* (commercial entity) and *Baitul Maal* (social entity)—is intended to balance profit generation with social responsibility (Ascarya & Masrifah, 2023). However, in practice, many BMTs prioritize their commercial operations, often neglecting the full potential of their social finance functions. This imbalance limits their ability to mobilize Islamic social funds, such as zakat and waqf, which could otherwise strengthen their capital base and expand their reach. The lack of integration between these two functions represents a missed opportunity for BMTs to leverage the growing interest in Islamic social finance as a means of addressing their financial challenges.

Moreover, liquidity management remains a critical concern for BMTs, especially during periods of economic uncertainty. Given their limited capital reserves, many BMTs face liquidity shortages that impede their ability to meet the immediate financial needs of their members. This is particularly problematic as BMTs are often viewed as a financial safety net within their communities. Without sufficient liquidity, BMTs risk losing credibility and trust among their members, potentially leading to a decline in membership and exacerbating their financial difficulties. Addressing these challenges requires innovative solutions that not only bolster their capital but also improve their liquidity management practices (Ascarya, 2024).

Addressing the issue of undercapitalization is essential for BMTs to continue fulfilling their mission of financial inclusion and poverty alleviation (Rohman et al., 2023). A well-capitalized and sustainable BMT can offer more competitive products, better serve its members, and contribute more effectively to economic development in underserved areas. However, achieving this goal requires both internal reforms and external support from regulators, policymakers, and Islamic financial

institutions. Strengthening the financial infrastructure of BMTs will not only ensure their survival but also enable them to scale their impact, particularly in rural and remote communities where access to financial services is limited.

Several strategies have been proposed to improve the capitalization of BMTs, ranging from increasing member contributions to leveraging Islamic social finance instruments. One promising approach is the strategic management of *waqf*, which offers a long-term source of capital that can be preserved and invested. By channeling *waqf* funds into productive assets, BMTs can generate returns that can be reinvested into their operations, creating a sustainable cycle of capital growth. Moreover, effective *waqf* management aligns with the ethical and religious values of BMTs, offering a culturally appropriate solution that resonates with both members and stakeholders.

This article aims to analyze the core challenges of capitalization in BMTs and propose viable solutions to strengthen their financial position, ensuring they remain resilient and capable of serving the underserved in a sustainable manner. By conducting a comprehensive review of existing literature and synthesizing findings from various studies, this research seeks to provide practical insights for practitioners, regulators, and policymakers on improving the financial sustainability of BMTs in Indonesia. Additionally, the study will identify critical gaps in the current understanding of BMT capitalization and offer recommendations for future research in this area.

Through a thorough literature review, this study intends to offer actionable insights for practitioners, regulators, and researchers on improving the financial sustainability of BMTs. It is hoped that the findings will contribute to ongoing efforts to promote financial inclusion, poverty alleviation, and sustainable development through the framework of Islamic microfinance. As BMTs continue to evolve and adapt to the changing financial landscape, addressing the issue of capitalization will be crucial to ensuring their long-term success and impact.

Literature Review

Islamic microfinance institutions (IMFIs), particularly *Baitul Maal wa Tamwiil* (BMT), have been extensively studied for their role in financial inclusion and poverty alleviation. Numerous studies highlight the potential of BMTs to provide accessible financial services to underserved populations, aligning with Islamic principles of equity, risk-sharing, and social welfare Abdul-Majeed Alaro & Alalubosa (2019). However, while these studies emphasize the positive role of BMTs in promoting

financial inclusion, they often neglect to address the internal challenges that BMTs face, particularly those related to capitalization, sustainability, and liquidity management.

Role of BMTs in Financial Inclusion and Poverty Alleviation

Research by Abdul-Majeed Alaro & Alalubosa (2019) emphasizes that BMTs are instrumental in providing microfinance services to low-income individuals who are typically excluded from conventional financial institutions. The study underscores the capacity of BMTs to mobilize resources within the community, foster entrepreneurship, and enhance financial inclusion. However, despite the strength of this argument, their research lacks a focused examination of the capital constraints that often hinder BMT operations, particularly in terms of liquidity management and long-term sustainability. The broader impact of undercapitalization on BMT effectiveness remains unexplored, a gap that this paper seeks to address.

Similarly, Rohman et al. (2023) analyze the potential of Islamic microfinance institutions in alleviating poverty through Sharia-compliant financing products. Their findings are insightful, showing that BMTs play a crucial role in supporting small-scale businesses and mitigating the economic vulnerability of poor communities. Nonetheless, the study largely focuses on the social benefits of BMTs, without delving into the financial or operational risks associated with undercapitalization. By overlooking the internal financial challenges, the study does not provide a comprehensive picture of the sustainability risks faced by these institutions, especially during times of financial stress.

Capitalization and Financial Sustainability

Abdul Rahman & Dean (2013) provide a critical perspective on the financial challenges faced by BMTs, particularly in relation to their limited capital base. They argue that many BMTs operate with insufficient capital, which restricts their ability to scale and compete with larger financial institutions. While their research offers valuable insights into the structural weaknesses of BMTs, the proposed solutions, such as increasing member savings and seeking external funding, are presented without an in-depth analysis of the feasibility or potential limitations of these strategies in the context of Indonesia's financial ecosystem. The study does not sufficiently explore alternative solutions, such as integrating Islamic social finance instruments like zakat, infaq, and waqf to address these capital constraints.

In contrast, Ascarya & Sakti (2022) propose more innovative approaches to resolving capital issues, including the integration of Islamic social finance with commercial financial operations. They argue that leveraging zakat and waqf could provide a sustainable source of capital for BMTs, alleviating liquidity constraints and reducing dependence on external funding. While this approach offers promise, their study does not address the practical challenges involved in implementing such a model, including regulatory barriers and the administrative capacity required for BMTs to effectively manage both social and commercial finance. Furthermore, their research lacks empirical evidence on the long-term impact of such integrations on the operational sustainability of BMTs.

Research Gaps

While the literature on Islamic microfinance is extensive, there is a notable gap in the specific examination of capital issues faced by BMTs in Indonesia. Most studies, such as those by Gozali & Apriyanthi (2021) and Hassan et al. (2021), focus primarily on the social impact of BMTs or their role in financial inclusion, but they fail to critically assess the financial challenges that threaten the long-term viability of these institutions. Although scholars like Ascarya & Masrifah (2023) highlight the potential of integrating Islamic social finance instruments to bolster capital, there is limited empirical research on how these models can be successfully implemented within the operational framework of BMTs.

Furthermore, there is a lack of research addressing the structural and operational weaknesses that result from the disconnect between *Baitul Maal* (the social finance arm) and *Baitul Tamwiil* (the commercial finance arm) within many BMTs. While some studies acknowledge the importance of this integration Ascarya & Suharto (2021), they fail to provide detailed case studies or actionable strategies for achieving this in practice. This paper aims to fill this gap by critically examining both the financial and operational challenges faced by BMTs and proposing viable solutions that address these issues from a practical and holistic perspective.

Synthesis of Findings

From the review of existing literature, it is evident that while the potential of BMTs in fostering financial inclusion and alleviating poverty is widely recognized, the critical issues surrounding their capitalization and financial sustainability are often overlooked. Studies like those by Abdul Rahman & Dean (2013) and Ascarya & Sakti (2022) highlight the importance of addressing capital constraints, yet their

solutions are either theoretical or lack practical application. Additionally, there is limited focus on the role of Islamic social finance in resolving these challenges, despite its potential to provide a sustainable source of funding for BMTs.

In summary, this literature review identifies two main gaps: the limited exploration of the impact of capitalization issues on the sustainability of BMTs, and the need for more empirical research on the integration of Islamic social finance with commercial financial operations. This paper aims to address these gaps by analyzing the root causes of undercapitalization in BMTs and proposing feasible, evidence-based solutions that can enhance both their financial and operational resilience.

Methods

The research methodology employed in this study is primarily qualitative, utilizing a comprehensive literature review approach to examine and analyze the issues of capitalization in BMT. The focus of the study is on evaluating both the problems and potential solutions to capitalization challenges, drawing from existing academic literature, reports, and relevant case studies.

Data Collection

The data for this study were collected through a systematic review of academic journals, books, conference proceedings, and institutional reports related to Islamic microfinance, specifically those focusing on BMTs. The search strategy targeted key databases such as Google Scholar, Scopus, and JSTOR, using keywords like "BMT," "Islamic microfinance," "capitalization issues," "liquidity management," and "Islamic social finance." Both theoretical and empirical studies were included to ensure a comprehensive understanding of the topic.

Analysis Methods

The literature data collected were organized thematically according to the key issues of BMT capitalization, such as liquidity management, financial inclusion, and the integration of Islamic social finance. This thematic organization helped to systematize the analysis by clustering findings from different sources under similar themes, allowing for a more focused evaluation of specific issues.

To analyze the literature data, a critical synthesis approach was applied. Each study was evaluated based on its scope, methodology, findings, and contribution to the research topic. Special attention was given to identifying the strengths and weaknesses of each study. For example, studies were evaluated on the basis of the

rigor of their research design, the clarity of their findings, and the applicability of their proposed solutions to the capital issues in BMTs. Where possible, findings from different studies were compared to highlight areas of agreement or discrepancy.

Additionally, the analysis considered the practical and contextual relevance of the literature to BMT operations in Indonesia, focusing on whether the solutions proposed were feasible in the current economic and regulatory environment. This allowed for a more nuanced understanding of both the theoretical underpinnings and the real-world applicability of the solutions presented in the literature.

Synthesis and Gap Identification

After evaluating the literature, a synthesis of the findings was conducted to draw connections between various themes and identify potential gaps in the existing research. The synthesis focused on both the financial and operational challenges faced by BMTs, including the disconnect between *Baitul Maal* and *Baitul Tamwil*. Gaps in the research were identified, particularly in the areas of empirical evidence supporting the integration of Islamic social finance instruments and the specific impact of capitalization issues on the sustainability of BMTs.

This synthesis informed the development of the research conclusions and recommendations, ensuring that the study not only addressed the current state of knowledge but also contributed to advancing the discourse on sustainable solutions for BMT capitalization.

Result and Discussions

The literature analysis on Islamic microfinance highlights that capital issues in BMTs are closely tied to funding sources. One of the main reasons for BMTs' limited capital is the low level of savings contributions from customers or members. Generally, the public prefers to save their money in conventional banks rather than in BMTs. However, when they need financing, many opt for BMTs due to their more flexible requirements. This creates a mismatch problem, as the available funds within BMTs are often insufficient to meet demand. Additionally, BMTs frequently face liquidity challenges during certain periods, such as holidays and the beginning of the school year, when a large number of members withdraw funds (Abdul Rahman & Dean, 2013).

The mismatch between available funds and the financial needs of BMT customers exacerbates their capitalization challenges. Many customers prefer BMTs

for financing due to their more lenient requirements, yet opt for conventional banks for saving, creating an imbalance. The influx of financing requests during periods of financial strain—such as economic downturns or urgent personal needs—places additional pressure on BMTs' limited capital reserves. This liquidity-demand mismatch is particularly pronounced in smaller BMTs, which have less capacity to absorb financial shocks. Consequently, these institutions are often forced to restrict lending or seek costly external funding to bridge the gap (Hassan et al., 2021).

Another factor contributing to capital issues in BMTs is their low business volume. Business volume refers to the total value of sales or revenue generated from goods and services over a specific period. Currently, most BMTs heavily rely on their financing activities. The business volume is largely driven by the loyalty of their members. An increase in business volume occurs when members exhibit strong loyalty and appreciation for BMTs, whereas a decline is linked to low customer loyalty (Gozali & Apriyanti, 2021).

The reliance on external funding sources poses a significant risk to the sustainability of BMTs. Many BMTs resort to external financing options, including government programs, to compensate for their internal capital shortages. While these external sources can temporarily ease capital constraints, they often come with conditions that limit the flexibility of BMTs in utilizing the funds. Furthermore, over-reliance on such funding increases vulnerability, as the availability of these resources fluctuates with broader economic conditions or changes in government policy. This dependency makes it challenging for BMTs to develop long-term, self-sustaining financial strategies, further increasing their exposure to unpredictable external environments (Iman & Mohammad, 2017).

Another crucial issue is the incomplete integration of the *Baitul Maal* and *Baitul Tamwil* functions within BMTs. BMTs are designed to serve a dual purpose: as a commercial entity (*Baitul Tamwil*) offering financial services, and as a social entity (*Baitul Maal*) managing Islamic social funds such as zakat, infaq, shadaqah, and waqf (ZISWaf). However, in practice, the social aspect of BMTs remains underdeveloped, with much of the focus placed on commercial activities. This lack of attention to the *Baitul Maal* function limits the ability of BMTs to utilize social funds as an alternative source of capital, which could help address liquidity and capitalization challenges. Additionally, the partial implementation of the *Baitul Maal* role means BMTs miss opportunities to contribute more significantly to poverty alleviation and social welfare in their communities (Ascarya & Suharto, 2021).

The minimal use of Islamic social funds within BMT operations highlights broader challenges in the management and mobilization of these resources. BMTs often collect social funds only during specific events, such as natural disasters, without establishing a consistent mechanism to integrate these funds into their regular financial operations. This inconsistent approach reduces the potential for social funds to serve as a reliable source of capital, which could otherwise be utilized to strengthen the financial base of BMTs. As outlined in Table 1, these capital challenges include issues like insufficient mobilization of funds, low member savings, and the underutilization of Islamic social funds, such as ZISWaf. Developing more effective strategies for managing ZISWaf and ensuring a steady flow of these funds into BMT operations would significantly enhance their capital reserves. This would make BMTs more financially resilient, enabling them to better fulfill their dual role in both commercial finance and social welfare (Wulandari & Kassim, 2016).

Table 1. Capital Problem Elements in BMT

No	Problem Element	Description	References
1	Small Capital	Lack of capital due to insufficient mobilization of funds from members and other sources of funding.	(Abdul Rahman & Dean, 2013); (Hendratmi et al., 2019); (Abdullah & Ismail, 2014)
2	Low Member Savings	The community's interest in saving in BMT is low, resulting in minimal accumulated funds.	(Hassan et al., 2021); (El Ebrashi et al., 2018); (Junaidi, 2022)
3	Insufficient Social Funds	BMT has not yet optimized the collection of Islamic social funds such as ZISWaf.	(Alshater et al., 2022); (Iman & Mohammad, 2017); (Khan et al., 2023)
4	Mismatch	The available funds are not proportional to the liquidity needs of the BMT.	(Ascarya & Sakti, 2022); (Ascarya & Masrifah, 2023); (Ascarya, Suharto, et al., 2022)
5	Low Business Volume	The business volume of BMT is still low, relying mainly on the financial sector.	(Ascarya & Masrifah, 2023); (Md Zabri & Mohammed, 2018); (Selim, 2021)
6	BM & BT Not Integrated Yet	Typically, only Baitut Tamwiil operates well, while <i>Baitul Maal</i> does not function effectively.	(Ascarya & Suharto, 2021); (Aziz & Mohamad, 2016)

One of the solutions to the capital problems in BMTs is for them to manage cash waqf. Through *Baitul Maal*, BMTs can collect and manage cash waqf, which can then

be allocated as capital for *Baitul Tamwil*. Cash waqf can also be placed as long-term savings. By managing cash waqf, BMTs will gradually become less dependent on external funds, as the amount of waqf funds will not decrease and tends to grow over time, as more people participate in the waqf. This will encourage BMTs to become more commercially sustainable and help them avoid liquidity problems (Ascarya et al., 2023).

Furthermore, cash waqf funds have the potential to grow as more people contribute to this form of charity. As awareness of waqf increases, particularly among individuals who seek to contribute to community welfare in alignment with Islamic principles, the pool of funds will expand. The growth in waqf contributions allows BMTs to reduce their reliance on external funding sources, which are often unstable and contingent on external economic or political factors. Over time, with a consistent inflow of cash waqf, BMTs can develop a self-sustaining model that mitigates liquidity risks, particularly during high-demand periods. This ensures that BMTs can continue providing financial services to underserved communities without facing capital shortfalls (Ascarya & Masrifah, 2023).

To further enhance their financial sustainability, BMTs must also maximize the social function of *Baitul Maal* by effectively managing zakat, infaq, and sadaqah funds. Unlike waqf, which is primarily focused on long-term capital investment, zakat is a compulsory form of charity with a steady, recurring nature, as eligible Muslims are required to give a portion of their wealth annually. By institutionalizing the collection and management of these Islamic social funds, BMTs can build a consistent and structured financial support system that can be channeled toward social welfare programs. These funds can be used not only for poverty alleviation but also for economic empowerment initiatives, such as providing interest-free loans or financing for micro-enterprises, which would ultimately benefit the broader community and enhance the social impact of BMTs (Wulandari, 2019).

In addition, when zakat, infaq, and sadaqah are systematically managed, BMTs can develop more impactful empowerment programs. For example, BMTs can use zakat funds to establish educational scholarships, healthcare assistance, or skill development programs for low-income families. This would reinforce their dual role as both financial and social institutions, ensuring that they not only provide essential financial services but also contribute to broader societal development. As outlined in Table 2, there are several key solution elements that can help BMTs maximize their resources, such as managing cash waqf, integrating commercial and social finance, and synergizing with zakat management institutions. By actively engaging

in these social empowerment efforts, BMTs can strengthen their relationships with their members and communities, leading to increased trust and loyalty. This, in turn, can encourage more people to use BMT services and contribute to their long-term sustainability, both financially and socially (Wulandari & Kassim, 2016).

Table 2. Capital Solution Elements in BMT

No	Solution Elements	Description	References
1	Maximizing Low-Cost Funds	Maximizing the acquisition of low-cost funds, especially from government ministries.	(Babajide et al., 2017); (Ezeh & Nkamnebe, 2021)
2	Managing Cash Waqf	Collecting and managing cash waqf to be used as capital for Baitut Tamwiil or as long-term savings.	(Ascarya, 2022); (Ascarya & Masrifah, 2023); (Ascarya, Hosen, et al., 2022); (Shaikh et al., 2017)
3	Maximizing the Role of <i>Baitul Maal</i>	Maximizing the role of <i>Baitul Maal</i> in collecting and managing Islamic social funds such as zakat, infaq, and sadaqah.	(Wulandari, 2019); (Wulandari et al., 2016); (Wulandari & Kassim, 2016)
4	Synergy with LAZ	BMT synergizes with zakat management institutions in managing Islamic social funds, particularly zakat, infaq, sadaqah, and waqf.	(Herianingrum et al., 2019); (Haneef et al., 2015)
5	CSF Integration	Integrating the management of commercial and social finance in BMT.	(Bayinah et al., 2021); (Ascarya & Suharto, 2021); (Ascarya et al., 2020)
6	Increasing the Amount of Principal & Mandatory Savings	Increasing the nominal value of Principal and Mandatory Savings for member customers.	(Abdul Rahman & Dean, 2013)

Conclusion

The capital issues faced by BMTs include small capital, low member savings, insufficient social funds, mismatch problems, low business volume, and the lack of integration between *Baitul Maal* and *Baitut Tamwil*. The proposed solutions to address these capital issues are: maximizing low-cost funds from the Ministry, managing cash waqf, enhancing the role of *Baitul Maal*, collaborating with zakat

management institutions, integrating Islamic social finance with commercial finance within BMTs, and increasing the amount of principal and mandatory savings.

This research provides several recommendations for practitioners, regulators, and researchers. For practitioners, the findings of this research are recommended to be applied by BMT practitioners to address capital challenges. For regulators, the research offers recommendations to regulatory bodies (such as OJK, the Ministry of Cooperatives, BWI, and Baznas) to provide full support for the existence of BMTs, especially concerning capital issues. Meanwhile, for researchers, to achieve better outcomes, future researchers interested in similar themes are encouraged to modify the models used and expand the scope of literature, especially those directly related to BMTs in Indonesia.

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