

Reconfiguring the Legal Standing of Baitul Maal wat Tamwil: Examining the Tension between Cooperative and Corporate Models in Indonesia

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ABSTRACT:

Background; Baitul Maal wat Tamwil (BMT) plays a dual role by combining community welfare with financial services. The enactment of the 2013 Microfinance Law, however, obliges BMT to operate either as a cooperative or a limited company, producing uncertainty about its legal foundation.

Aims; This paper seeks to clarify the legal position of BMT and to assess how this regulatory demand influences its original character and the development of Islamic microfinance in Indonesia.

Methods; Using a normative juridical method, the study reviews statutory provisions, legal doctrines, and academic debates. The comparison of cooperative and corporate frameworks with Islamic financial principles is used to highlight regulatory gaps and tensions.

Result; The findings suggest that the cooperative option preserves BMT's communal values, while the corporate path offers efficiency and capital access. Both, nevertheless, may undermine the institution's hybrid nature as a socio-financial body.

Conclusion; The study concludes that BMT faces an unresolved tension between legal compliance and mission continuity. To maintain its distinctive role, policymakers should craft regulations that acknowledge BMT's hybrid identity and strengthen its contribution to inclusive economic growth.

Keyword: Cooperative Law; Islamic Microfinance; Legal Status; Microfinance Regulation

INTRODUCTION

Baitul Maal wat Tamwil (BMT) emerged as a response to the needs of low-income communities who found it difficult to access formal financial institutions. Its establishment is recognized as an institutional innovation rooted in Islamic values, combining both social and economic objectives (Alhammadi, 2024; Nursanty & Wulandari, 2023). By collecting and distributing zakat, infaq, and sadaqah, BMT plays a crucial role in assisting the poor who are excluded from conventional banking. At the same time, it provides micro-financing for small-scale entrepreneurs to strengthen local productivity (Onyekwelu et al., 2023). This dual role makes BMT different from conventional microfinance institutions that mainly focus on financial sustainability. Over time, the BMT model has spread widely across Indonesia and gained strong trust within communities (Rahajeng, 2022). The ability to integrate community values with financial services makes it a unique player in the local

economy. Thus, BMT has become an important pillar of people-based economic development in Indonesia.

Despite its rapid expansion, BMT faces serious challenges regarding its legal recognition. The enactment of the 2013 Microfinance Law requires all microfinance institutions to adopt either a cooperative or a limited liability company status (Bellazzecca & Biosca, 2022; Migdad, 2023). This provision presents a dilemma for BMT, which carries a hybrid identity combining social welfare and commercial finance. Forcing BMT to adopt only one legal form risks undermining part of its original mission (Mendes et al., 2024; Migdad, 2023). In the cooperative model, the spirit of solidarity and member ownership can be preserved, but access to capital and modern governance is often limited. On the other hand, adopting a corporate model enhances efficiency and professionalism but tends to weaken BMT's social commitment. This tension creates legal uncertainty that threatens the long-term sustainability of BMT (Esperon-Rodriguez et al., 2022; Rohman et al., 2024). The debate over which legal identity best fits BMT remains unresolved among practitioners, scholars, and regulators.

From a global perspective, Islamic microfinance has been recognized as an effective instrument for poverty alleviation and financial inclusion. Institutions like BMT are praised for bridging financial needs with religious values in serving marginalized communities. However, international studies also emphasize that the success of Islamic microfinance depends heavily on a clear and supportive regulatory framework (Ascarya, 2024; Migdad, 2023). Without legal certainty, such institutions face challenges of accountability, transparency, and institutional resilience. Comparative examples, such as the Grameen Bank in Bangladesh, highlight how consistent legal backing can strengthen the sustainability of microfinance institutions (Firdaus et al., 2023; Morse, 2024). The differences in legal treatment often explain why some models thrive while others remain vulnerable. This underscores the fact that legal status is not merely a technical matter but a central determinant of institutional performance. Therefore, the legal standing of BMT must be understood in relation to both local and international debates on microfinance governance.

BMT is more than just a financial institution; it embodies moral and spiritual values derived from Islamic teachings. Principles of justice, solidarity, and mutual assistance form the basis of its operations (Frega, 2021; Frémeaux et al., 2023). These orientations set it apart from conventional financial institutions that primarily pursue profit maximization. Yet, when BMT must comply with formal legal frameworks, it often struggles to reconcile its hybrid nature with rigid statutory requirements (Aasoglenang et al., 2023; Igboanusu et al., 2024). Strict regulations risk stripping BMT of its distinctive social character. If BMT is structured as a limited liability company, it risks becoming overly commercialized. Conversely, if it remains as a cooperative, it may find it difficult to compete in a modern financial environment that demands efficiency and capital strength (Allioui & Mourdi, 2023; Berti & Pitelis, 2022). This reveals a persistent gap between social realities and formal legal structures.

The contribution of BMT to local economies is highly significant, particularly in supporting micro, small, and medium enterprises (MSMEs). Many entrepreneurs who are excluded from formal banking rely on BMT for accessible financing (Hasan et al., 2021). This support does not only provide capital but also builds trust and social cohesion within communities. Such efforts align with the global agenda of financial inclusion and sustainable development (Mpofu, 2022; Tay et al., 2022). However, the absence of legal clarity threatens the continuity of these contributions. Regulatory ambiguities hinder BMT from forming strategic partnerships with other financial institutions. This situation

restricts its potential to fully optimize its impact on local economic empowerment. Clear legal recognition is therefore essential for ensuring that BMT continues to play its strategic role in national development.

Beyond its economic activities, BMT also carries a vital social role by distributing zakat, infaq, and sadaqah for the welfare of underprivileged groups. This function enhances its moral legitimacy and strengthens its position within communities (Crossley et al., 2021; Heath & Waymer, 2021). Yet, formal regulations tend to prioritize financial accountability and governance while neglecting the social dimensions of BMT's mission. This creates a mismatch between practice and policy (Parker et al., 2022; Weingart et al., 2021). As a result, questions arise about whether the existing legal framework truly supports the hybrid role of BMT. If carefully recognized in law, its social mission could serve as a model of inclusive finance aligned with Islamic principles (Shahid et al., 2023; Tok et al., 2022). The lack of legal accommodation, however, risks weakening the distinctiveness of BMT as a socio-financial institution. Thus, regulatory innovation is urgently needed to bridge this gap.

From an academic perspective, BMT represents a rich subject of study that intersects economics, law, and religion. Scholars in economics emphasize its contribution to MSME empowerment, while sociologists highlight its role in promoting solidarity and community resilience. Legal scholarship, however, has devoted less attention to the juridical implications of BMT's hybrid status (Bartles-Smith, 2025; Beaumont et al., 2024). Much of the existing research focuses on its economic and social functions rather than critically analyzing the regulatory frameworks that shape its identity. Yet, legal status forms the foundation of legitimacy for any institution (Haack et al., 2021; Schoon, 2022). Without a clear legal identity, the operations of BMT remain exposed to uncertainty and inconsistency. This makes juridical analysis not only relevant but also necessary to secure the future of BMT. Academic inquiry in this area can provide insights for both policy and theory.

Overall, the legal dilemma faced by BMT reflects broader challenges in regulating value-based financial institutions in Indonesia. Positive law often fails to fully capture the complexity of socio-economic realities (Hariram et al., 2023; Langford, 2021). This results in tension between compliance with statutory rules and the actual needs of society. For BMT, this tension is amplified by its hybrid nature that merges social solidarity with commercial finance. If left unresolved, BMT risks losing its original identity and transformative role (Gurnari & McLornan, 2022; Pedersen & Wieser, 2021). On the other hand, appropriate regulatory responses could turn BMT into a successful model for integrating religion, law, and economics. This makes the study of BMT's legal standing not only academically urgent but also practically relevant. Addressing this issue can contribute to both national policy debates and international discussions on Islamic microfinance governance.

Islamic microfinance is widely seen as a means to reduce poverty, with Malik (2025) stressing its role in reaching communities excluded from formal banking. Amelia et al. (2025) show that integrated models can support the halal industry and strengthen small businesses. Junaidi (2025) points out that partnerships with banks are vital to address financing gaps, but such efforts require legal clarity. Ghandour (2025) argues that Islamic finance helps balance income distribution during crises, aligning with BMT's ethical values. In Indonesia, Husni & Khairat (2024) examine how Muamalah jurisprudence interacts with state law, reflecting BMT's legal dilemma. Similarly, Solehudin et al. (2024) argue that maqashid shariah should guide institutional regulation. Supriyadi et al. (2024) highlight blockchain as a tool for transparency, which BMT could adopt if legally flexible. Edris et al. (2023) show how Islamic microfinance revitalized abandoned land in Malaysia, proving

its wider potential. Migdad (2023) finds it can also function as Takaful in Palestine, stressing the importance of institutional design. Overall, these studies reveal that Islamic microfinance flourishes when law supports both social and economic goals. Yet in Indonesia, BMT remains trapped between cooperative and corporate models. This gap underscores the urgent need for regulation that fits BMT's hybrid character.

Research on Islamic microfinance has been rich in exploring themes such as poverty reduction, entrepreneurship, and community empowerment. Yet, discussions often remain focused on economic impact while neglecting the legal identity of institutions like BMT. The Microfinance Law obliges BMT to adopt a cooperative or corporate form, but the implications of this obligation have rarely been studied in depth. The distinctive hybrid role of BMT—as both a financial service provider and a social welfare body—remains poorly addressed in the literature. Questions about how law can accommodate this dual mission are still largely unanswered. This gap highlights the need for a study that directly links regulatory frameworks with the sustainability of BMT's identity.

The relevance of this research arises from the unique position of BMT within Indonesia's financial landscape. It combines faith-based social values with the functions of a microfinance institution, serving communities that are often overlooked by conventional banks. However, the absence of clear legal recognition undermines its legitimacy and restricts its ability to grow. On the other hand, rigid legal requirements may force BMT into forms that compromise its original mission. This study is designed to address that dilemma by critically examining how regulations interact with practice. Its findings are expected to contribute not only to academic discourse but also to policy formulation that respects both legal certainty and social responsibility.

The primary purpose of this study is to evaluate the legal foundation of BMT within the framework of Indonesia's Microfinance Law. It seeks to understand the consequences of requiring BMT to operate as either a cooperative or a limited liability company. The study hypothesizes that the current legal approach does not adequately recognize the hybrid character of BMT, creating misalignment between regulatory compliance and institutional mission. It further suggests that alternative, more flexible legal pathways are necessary to protect BMT's dual role. By doing so, the study aims to ensure that BMT remains sustainable as a model of Islamic microfinance that advances both social welfare and economic development.

METHOD

Research Design

This research was designed as a normative juridical study because the core problem lies in the interpretation of law. Rather than collecting data from respondents, the focus is placed on understanding how written legal rules and academic opinions define the legal position of BMT. This design is appropriate as it allows a critical reading of statutory provisions and their consistency with the unique identity of Islamic microfinance. At the same time, the approach makes it possible to contrast different legal forms—cooperative and corporate—and evaluate their suitability for BMT's dual mission.

Participant

As the study is normative, no human participants were directly involved. The “participants” in this context are legal documents and institutional regulations that govern microfinance institutions in Indonesia. These include the Microfinance Law, cooperative law, and corporate law.

Supplementary academic works and expert commentaries are also treated as participants in the sense that they provide perspectives and interpretations. This way, the research combines formal regulations with scholarly reflections to build a more comprehensive analysis.

Instrument

The main instruments used are document analysis and legal interpretation. Primary sources consist of statutory regulations, government decrees, and official guidelines that frame the existence of microfinance institutions. Secondary sources include books, journal articles, and policy reports that examine Islamic microfinance from legal and institutional perspectives. By combining these instruments, the study ensures that the analysis is grounded in authoritative texts while remaining open to academic critique.

Data Analysis

The data were analyzed qualitatively with an emphasis on descriptive and interpretative methods. First, the legal provisions were collected and categorized according to themes such as compliance, governance, and sustainability. Next, cooperative and corporate models were compared in order to see how each aligns—or fails to align—with the hybrid nature of BMT. Finally, contradictions and gaps were identified to highlight areas where the law does not fully accommodate the institution's dual role. This layered process provides not only a description of the legal framework but also an evaluation of its adequacy.

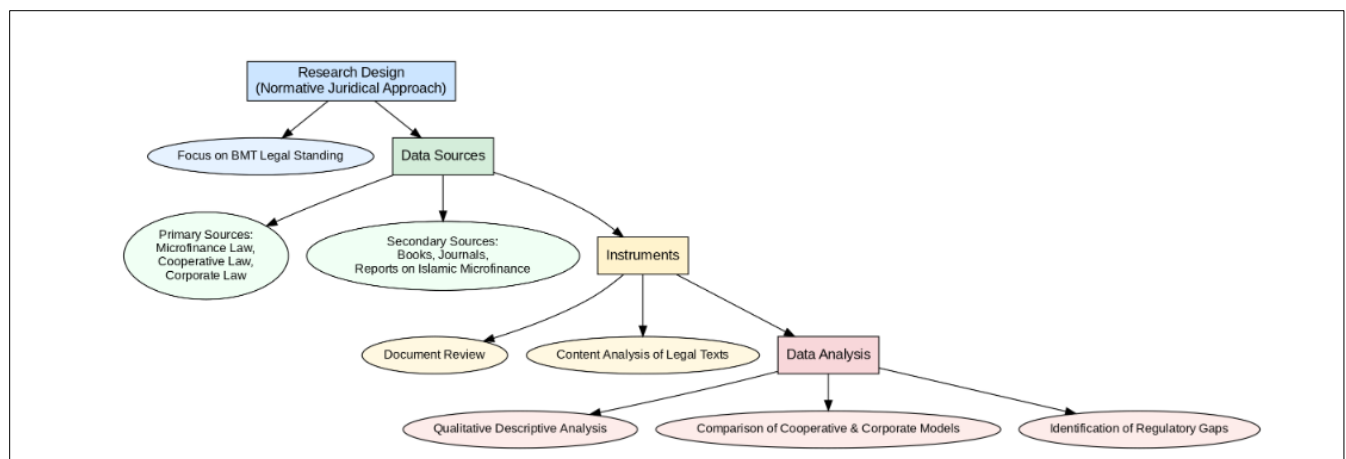


Figure 1. Research Method Framework

RESULTS AND DISCUSSION

Result

The legal analysis shows that BMT must choose between two legal identities—cooperative or limited liability company—under the Microfinance Law. This obligation places BMT in a dilemma because neither form captures its hybrid nature. Cooperatives reflect community-based solidarity but struggle with capital and governance. Meanwhile, companies provide stronger access to resources but risk eroding the social mission of BMT. To summarize, the key findings are presented in Table 1.

Table 1. Comparison of Legal Models for BMT (KJKS vs PT)

Aspect	Cooperative (KJKS)	Limited Liability Company (PT)
Ownership	Community-based; member-owned; 1 member = 1 vote	Shareholder-based; voting power proportional to shares
Governance	Democratic, participatory; emphasizes solidarity	Professional, board-driven; emphasizes efficiency & control
Capital & Funding	Mainly member contributions; limited access to external capital	Easier access to wider capital (equity, investors)
Social Mission	Strong alignment with social/religious objectives and community welfare	At risk of dilution by profit imperatives if not safeguarded
Accountability & Compliance	Oriented to member oversight; simpler reporting standards	Stricter corporate compliance, disclosure, and audit practices
Sustainability & Scalability	Relies on member participation; growth can be slower	Scales faster with capital and managerial systems
Risk Profile	Lower commercialization risk; funding constraints	Higher commercialization risk; stronger governance capacity

Table 1 highlights the contrast between cooperative and corporate models when applied to BMT. The cooperative form places emphasis on member ownership and solidarity, which aligns with the social mission of BMT, yet this strength is balanced by its limited capacity for capital growth and institutional scalability. The corporate form, on the other hand, allows for professional management and broader access to financial resources, but this comes with the risk of diluting the institution's social orientation. Both models present advantages and weaknesses, but neither fully reflects the dual role that BMT has assumed in practice. This finding underlines the complexity of regulating hybrid institutions that merge social and financial purposes. It also sets the foundation for the discussion section, where the implications of this dilemma are explored in relation to existing scholarship and comparative cases.

Discussion

The issue of BMT's legal identity illustrates the tension between written law and institutional practice. The Microfinance Law requires microfinance institutions to adopt either a cooperative or a company model, but BMT operates in a hybrid space that does not align neatly with either. Malik (2025) emphasizes that Islamic microfinance works best when it remains close to marginalized communities, yet this closeness is difficult to maintain under rigid structures. Choosing the cooperative path safeguards solidarity but leaves BMT undercapitalized and institutionally limited. On the other hand, adopting a company form could improve governance and resources but risks alienating the very communities it seeks to serve. The results indicate that regulation needs to move beyond binary categories. Flexibility in legal frameworks is essential if BMT is to sustain its hybrid identity. The findings of Amelia, Fatimah, and Amalia (2025) underline how integrated Islamic microfinance can strengthen broader industries, including the halal sector. Their perspective suggests that BMT has the capacity to extend its role beyond lending, provided that it receives suitable legal recognition. However, the current framework narrows its functions by confining it to rigid classifications. A cooperative structure preserves grassroots control but limits the possibility of scaling partnerships with other industries. A corporate form allows such partnerships but risks converting BMT into a profit-first enterprise. This shows that regulation not only shapes identity but also sets boundaries on institutional vision. A balanced framework would enable BMT to contribute to industrial development without abandoning its social mission.

The importance of collaboration is highlighted by Junaidi (2025), who points out that partnerships with banks are essential to close financing gaps for small enterprises. For BMT, the absence of legal clarity becomes a barrier to such partnerships. Financial institutions often hesitate to engage with entities lacking formal recognition, and this weakens BMT's credibility. The result is reduced access to capital and limited expansion. Legal recognition thus plays an enabling role in building trust and cooperation. Without it, BMT risks being left isolated within the financial ecosystem. Stronger regulatory support could transform BMT into a more reliable partner for banks and investors. This would help it serve microenterprises more effectively.

Ghandour (2025) shows that Islamic financial systems can help reduce inequality during times of crisis. For BMT, resilience is particularly important because it serves communities most exposed to economic shocks. Yet resilience cannot be achieved when legal ambiguity undermines institutional capacity. A cooperative form ensures solidarity but provides insufficient capital, while a corporate form provides resources but risks excluding the poor. This paradox leaves BMT unable to fulfill its role as a stabilizing force during crises. What is needed is a legal framework that blends both inclusivity and scalability. Such a framework would allow BMT to protect vulnerable groups while maintaining institutional strength. The nature of this dilemma is presented in Figure 2, which shows how BMT is pulled in opposite directions by cooperative and corporate frameworks.

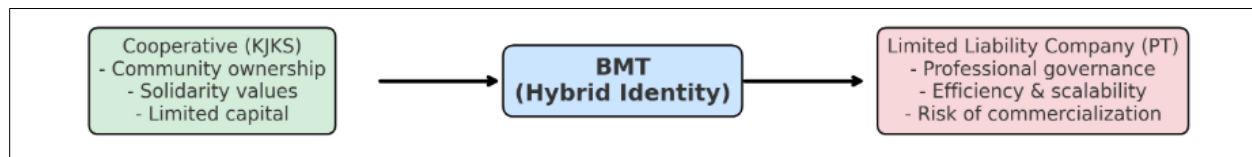


Figure 2. Regulatory Dilemma of BMT

The interaction between Islamic jurisprudence and statutory law provides further perspective on this challenge. Husni and Khairat (2024) explain how Muamalah principles have been incorporated into Indonesian law, though often in ways that are incomplete. BMT is an example of how religiously inspired institutions struggle to fit into narrow categories imposed by the state. Cooperative law reflects ethical values but lacks competitiveness, while corporate law ensures competitiveness but neglects community solidarity. The outcome is a fragmented identity that undermines legitimacy. Reconciling these differences requires regulations that are sensitive to both legal form and spiritual principles. Without this reconciliation, BMT risks losing credibility on both legal and religious grounds. Maqashid shariah provides an alternative lens for evaluating policy. Solehudin, Huda, Ahyani, Rahman, and Hidayat (2024) argue that regulations should be judged by their ability to promote fairness and social benefit. When applied to BMT, it becomes clear that neither cooperative nor corporate models achieve this balance. Cooperatives provide fairness but hinder efficiency, while corporations improve efficiency but reduce inclusivity. Recognizing BMT as a hybrid model is more consistent with maqashid principles. Such recognition would allow it to serve both economic and social purposes simultaneously. This approach would also create a regulatory precedent for other hybrid institutions. The study therefore highlights the importance of maqashid-based policy reform.

Technological innovation adds another layer to the discussion. Supriyadi, Djatna, Arkeman, and Muslich (2024) show that blockchain can improve transparency and accountability in Islamic finance. For BMT, such tools could strengthen governance and enhance trust. Yet the adoption of

technology requires legal clarity regarding contracts and compliance. Cooperative forms may lack resources to adopt such innovations, while corporate forms may prioritize profit over inclusivity. This reveals once again the inadequacy of rigid categories. A hybrid legal framework would enable BMT to embrace technology without losing its social identity. Regulation must therefore be adaptive enough to accommodate both innovation and mission. Lessons from international practice provide valuable insight. Edris, Bashir, and Hasan (2023) describe how Islamic microfinance in Malaysia revitalized abandoned land, showing how institutions can expand their impact with proper legal support. BMT could achieve similar results if Indonesian regulation were more flexible. Current rigid frameworks limit innovation and diversification. This restricts both economic growth and social contribution. The Malaysian experience demonstrates that regulation can create opportunities rather than barriers. It shows that law has a decisive influence on institutional capacity. For BMT, adaptive regulation would unleash its potential for responsible innovation. Experiences in fragile environments are equally telling. Migdad (2023) finds that Islamic microfinance in Palestine functions as a form of *Takaful*, enabling resilience under high risk. This demonstrates the ability of hybrid models to adapt in uncertain contexts. For BMT, resilience is vital because it serves communities vulnerable to economic instability. Yet unclear legal recognition undermines trust and limits its capacity to adapt. Cooperative forms provide solidarity but little protection from shocks, while corporate forms provide resources but reduce inclusivity. This suggests that hybrid recognition is essential for resilience. Without it, BMT risks fragility in the face of future crises. The overlapping functions of BMT are visualized in Figure 3, which captures its social and financial dimensions.

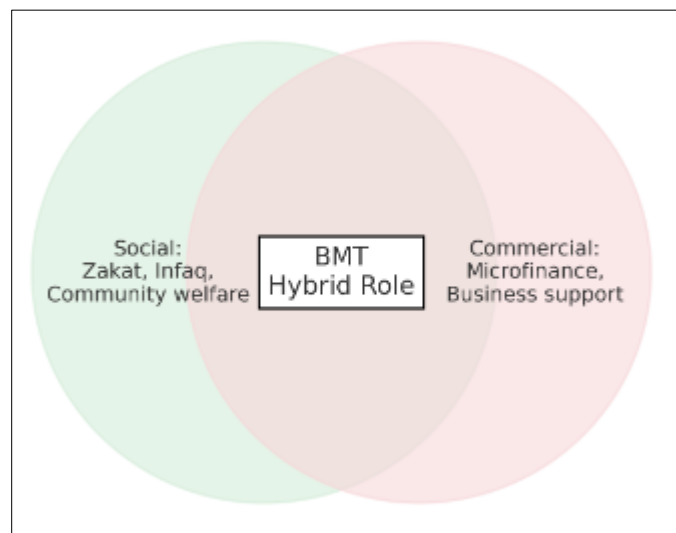


Figure 3. Hybrid Identity of BMT as a Socio-Financial Institution

Taken together, the discussion shows that BMT's legal dilemma cannot be resolved within existing binary categories. Malik (2025), Amelia et al. (2025), and Junaidi (2025) emphasize inclusion and collaboration, while Ghandour (2025) and Husni & Khairat (2024) highlight justice and legal harmonization. Solehudin et al. (2024) provide a *maqashid* framework, Supriyadi et al. (2024) emphasize the role of technology, and Edris et al. (2023) with Migdad (2023) bring comparative lessons. All point to the inadequacy of current law to recognize hybrid institutions. For BMT, the way forward is legal reform that acknowledges its socio-financial identity. Such recognition would protect

its values while allowing it to grow. Without reform, BMT risks losing both legitimacy and sustainability.

Implications

The results of this study carry significant meaning for different stakeholders. For regulators, the findings make it clear that the existing legal framework is too rigid to accommodate BMT's hybrid character. A more adaptive approach is required if the dual mission of social inclusion and financial sustainability is to be preserved. For practitioners, particularly those managing BMT, the study emphasizes that strengthening governance and accountability does not have to come at the expense of social values. On the contrary, when properly recognized by law, BMT could build stronger partnerships with banks, industries, and development agencies. For academics, the study highlights that BMT is more than a financial institution; it is a meeting point of law, economics, and religion, and therefore deserves closer theoretical attention. In a broader sense, the findings suggest that inclusive regulation will not only benefit BMT but also contribute to a more just and resilient financial ecosystem.

Limitations

This research is not without its boundaries. The analysis is based on a normative juridical approach, which relies heavily on documents, statutes, and secondary studies. While this provides a strong conceptual understanding, it does not capture how these legal ambiguities are experienced in the daily operations of BMT. The lack of primary data from managers, members, and regulators limits the depth of the findings. Another limitation is that the focus remains on the Indonesian legal context, which means the conclusions may not fully apply to other countries with different regulatory systems. In addition, the interpretations offered in this study are shaped by the author's perspective, which may differ from how practitioners or policymakers see the problem. Even so, these limitations do not weaken the contribution of the study, but rather point to the need for further empirical and comparative exploration.

Suggestions

Future studies should extend this research by combining legal analysis with empirical inquiry, involving interviews and surveys with BMT stakeholders to understand the impact of legal uncertainty on practice. Comparative work across countries where Islamic microfinance operates would also provide valuable lessons for Indonesia. For policymakers, the study recommends revisiting the Microfinance Law and considering new categories that reflect hybrid institutions rather than forcing them into binary molds. For practitioners, investing in better governance structures and adopting technology could enhance both credibility and transparency. For scholars, applying frameworks such as maqashid shariah would help assess whether regulations are truly aligned with objectives of justice and welfare. Altogether, these efforts would create a stronger foundation for BMT to remain both socially committed and institutionally sustainable.

CONCLUSION

The analysis carried out in this study shows that BMT is trapped within a legal framework that does not fully recognize its dual character. On one side, the cooperative model safeguards solidarity and community ownership but leaves the institution with weak access to capital and limited space for expansion. On the other side, the corporate model provides stronger governance and financial opportunities but risks pulling BMT away from its original social mission. These findings make it

clear that a binary legal approach is inadequate to capture the complexity of BMT. What is needed is a more flexible framework—one that is sensitive to the principles of maqashid shariah and informed by lessons from international experience. Such a framework would not only secure BMT’s legitimacy but also allow it to grow, adapt to technological change, and remain faithful to its role in empowering communities. In the end, the future of BMT depends on the willingness of regulators, practitioners, and scholars to design policies that honor its hybrid identity and sustain its contribution to inclusive development.

AUTHOR CONTRIBUTION STATEMENT

Novi Kusumawati was responsible for formulating the research idea, collecting and analyzing the legal materials, and preparing the manuscript draft.

Burhanudin Harahap acted as the supervisor, providing academic guidance, constructive feedback, and critical review throughout the research and writing process. Both contributed to ensuring the rigor, clarity, and overall quality of the final article.

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