



## THE ROLE OF BAITUL MAAL AS A SHARIA MICROFINANCE INSTITUTION IN SUPPORTING THE ECONOMIC NEEDS OF THE INDONESIAN PEOPLE

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**ABSTRACT.** This study analyzes the role of Baitul Maal as a sharia microfinance institution in meeting the economic needs of the community, especially in providing access to financing in accordance with sharia principles. Using qualitative methods, this study found that Baitul Maal plays an important role in improving the economic and social welfare of the community. Baitul Maal not only provides financing solutions for micro, small and medium enterprises (MSMEs) that are not reached by conventional financial institutions, but also contributes to poverty alleviation and the achievement of sustainable development goals (SDGs). However, the study also identified several challenges in program management, such as limited resources and lack of synergy with other Islamic financial institutions. This research recommends strengthening strategic partnerships and innovations in financial products and services to increase the effectiveness of Baitul Maal's role in the future.

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### Introduction

The economy of people in many regions of Indonesia still faces various challenges, especially in terms of limited access to finance. Many micro, small, and medium enterprises (MSMEs) have difficulty obtaining financing in accordance with sharia principles.<sup>1</sup> One of the main causes of this limited access to finance is the lack of financial institutions that offer financing products in accordance with sharia. Most people, especially in rural areas, still rely on conventional financial institutions that are often inconsistent with their religious beliefs.<sup>2</sup> According to data from the Financial Services Authority (OJK), only about 20% of the total financial institutions in Indonesia offer sharia products. In addition, a survey conducted in several regions showed that more than 50% of rural people do not use banking services for

<sup>1</sup> Azhar Affandi and others, 'Optimization of MSMEs Empowerment in Facing Competition in the Global Market during the COVID-19 Pandemic Time', *Systematic Reviews in Pharmacy*, 11.11 (2020), 1506–15 <<https://doi.org/10.31838/SRP.2020.11.213>>.

<sup>2</sup> Timur Kuran, 'Islam and Economic Performance: Historical and Contemporary Links', *Journal of Economic Literature*, 56 (2018), 1292–1359 <<https://doi.org/10.1257/JEL.20171243>>.

religious reasons.<sup>3</sup> This fact shows the need for Baitul Maal to play an active role as a sharia microfinance institution to answer the needs of the community's economy, especially in providing access to financing in accordance with sharia principles. Thus, Baitul Maal has great potential to improve the economic welfare of the community through microfinance in accordance with Islamic values.

Previous research has examined the role of Islamic financial institutions in improving the community's economy, especially in the context of empowering micro, small, and medium enterprises (MSMEs). Baitul Maal as a sharia microfinance institution has also been the focus of various studies related to its effectiveness and impact. These studies show that Baitul Maal plays an important role in providing financial access in accordance with sharia principles, which not only contributes to economic growth but also to the improvement of social welfare. Previous research shows that Baitul Maal plays an important role in improving the community's economy through sharia microfinance<sup>4</sup>. Muhammed<sup>5</sup> emphasized the success of Baitul Maal in increasing income and providing capital for MSMEs that are not reached by conventional financial institutions, while <sup>6</sup> highlighting the achievements of Maqasid al-Shariah as an additional dimension<sup>7</sup>. also assessed the effectiveness of Baitul Maal in providing sustainable financing. However, identifying challenges in the implementation of Baitul Maal, shows that the focus of research is different in addressing practical problems and achieving sharia goals. The overall study confirms Baitul Maal's great potential in economic empowerment, while underlining the need for further exploration to optimize its role and address existing challenges.<sup>8</sup>

Based on previous research, it is clear that Baitul Maal has great potential to be a solution in answering the economic needs of the community. However, more research is still needed to understand the specific challenges faced by Baitul Maal and how optimizing its role can be done in different local contexts.

The purpose of this study is to analyze the role of Baitul Maal as a sharia microfinance institution in meeting the economic needs of the community and identify the challenges and opportunities it faces. Given the importance of Baitul Maal in providing sharia-based financing, this study aims to understand how this institution can be more effective in helping microeconomic development and improving community welfare. Identifying challenges and opportunities will provide insights for improvement and better strategy development. Based on previous studies, as reported by Rahim and Obaidullah (2008), Baitul Maal has shown a significant contribution to MSME financing and poverty reduction. However, research by Ismail and Possumah (2014) also identifies various challenges that need to be overcome to improve the effectiveness of Baitul Maal. By analyzing the roles, challenges, and opportunities of Baitul Maal, this study aims to provide practical and strategic

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<sup>3</sup> Prihatnolo Gandhi Amidjaya and Ari Kuncara Widagdo, 'Sustainability Reporting in Indonesian Listed Banks: Do Corporate Governance, Ownership Structure and Digital Banking Matter?', *Journal of Applied Accounting Research*, 21.2 (2020), 231–47 <<https://doi.org/10.1108/JAAR-09-2018-0149>>.

<sup>4</sup> Abdul Rahim Abdul Rahman, 'Islamic Microfinance: An Ethical Alternative to Poverty Alleviation', *Humanomics*, 26.4 (2010), 284–95 <<https://doi.org/10.1108/08288661011090884/FULL/XML>>.

<sup>5</sup> Mohammed. Obaidullah, 'Role of Microfinance in Poverty Alleviation', 2008, 73.

<sup>6</sup> Abdul Qoyum, 'Maqasid Ash-Shari-ah Framework and the Development of Islamic Finance Products: The Case of Indonesia', *Islamic Finance and Business Review*, 12.2 (2018).

<sup>7</sup> Habib Ahmed, 'FINANCING MICROENTERPRISES: AN ANALYTICAL STUDY OF ISLAMIC MICROFINANCE INSTITUTIONS', *Islamic Economic Studies*, 9.2 (2002) <[www.microcreditsummit.org](http://www.microcreditsummit.org)> [accessed 2 September 2024].

<sup>8</sup> D. Dewanti, 'Pro Poor Strategies Using Sharia Microfinancing in Indonesia: Case Study of Baitul Maal Wat Tamwil (Bmt)', *Jurnal Ekonomi & Studi Pembangunan.*, 14.1 (2013), 1–8.

recommendations to increase the contribution of this institution to the community's economy, as well as to optimize the benefits of sharia microfinance in the local context.<sup>9</sup>

Baitul Maal has great potential in overcoming the challenges of access to sharia finance and improving the community's economy, especially for MSMEs that need financing according to sharia principles. This potential is based on the fact that many people and MSMEs in Indonesia have difficulty in obtaining financing in accordance with sharia principles. The limitations of Islamic financial institutions make Baitul Maal an important alternative that can provide financing solutions that are in accordance with Islamic values. Data from the Financial Services Authority (OJK) shows that only about 20% of financial institutions in Indonesia offer sharia products, and surveys in rural areas revealed that more than 50% of people do not use banking services for religious reasons. In addition, previous research has shown that Baitul Maal can effectively meet the economic needs of the community by providing access to sharia compliant finance<sup>1011</sup>.

Taking into account the limitations of existing Islamic financial institutions and the high demand for sharia-based financing, Baitul Maal has a strong potential to overcome these challenges and contribute significantly to improving the economic welfare of the community. This hypothesis supports the role of Baitul Maal as a strategic solution in the provision of sharia microfinance in Indonesia.

## Literature Review

### Baitul Maal

Baitul Maal is a financial institution that functions as a place for the management and distribution of people's funds, especially zakat, infaq, alms, and waqf (ZISWAF) funds<sup>12</sup>. This institution operates based on sharia principles, which requires the management of funds to be carried out with transparency, fairness, and in accordance with religious provisions.<sup>13</sup>

The main objective of Baitul Maal is to collect and distribute ZISWAF funds in order to achieve the social and economic welfare of the community.<sup>14</sup> In addition, Baitul Maal also aims to empower the ummah through sustainable social and economic programs, by providing assistance to the poor, supporting education, and developing social infrastructure.<sup>15</sup>

### Sharia Microfinance

Sharia microfinance is a financing system aimed at supporting micro and small enterprises (MSEs) by complying with sharia principles.<sup>16</sup> Sistem ini berfokus pada pemberian akses keuangan yang adil dan tidak mengandung unsur riba (bunga), *gharar*

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<sup>9</sup> Rahim Abdul Rahman.

<sup>10</sup> Obaidullah.

<sup>11</sup> Rahim Abdul Rahman.

<sup>12</sup> Jarita Duasa and Nur Hidayah Zainal, 'Probability of Paying Zakat from Micro Financing Project Returns', *ETIKONOMI*, 19.2 (2020) <<https://doi.org/10.15408/ETK.V19I2.15113>>.

<sup>13</sup> Mukhlishin Mukhlishin and others, 'Zakat Maal Management and Regulation Practices: Evidence from Malaysia, Turki and Indonesia', *Journal of Human Rights, Culture and Legal System*, 4.2 (2024), 569–92 <<https://doi.org/10.53955/jhcls.v4i2.204>>.

<sup>14</sup> R D Putra Sofana, 'The Role of Islamic Micro Financial Cooperatives (Baitul Maal Wat Tamwil) in Local Economic Development', *Semarang State University Undergraduate Law and Society Review*, 2.1 (2022), 39–56 <<https://doi.org/10.15294/lsr.v2i1.53479>>.

<sup>15</sup> M N H Ryandono and others, 'Efficiency Analysis of Zakat Institutions in Indonesia: Data Envelopment Analysis (DEA) And Free Disposal Hull (FDH)', *Approaches. Academy of Accounting and Financial Studies Journal*, 25.6 (2021), 1–12.

<sup>16</sup> Sri Yuyu Ninglasari and others, 'Nexus between Financial Inclusion and Islamic Financing Distribution: Evidence from Indonesian MSMEs', *Jurnal Ekonomi & Keuangan Islam*, 2023, 167–84 <<https://doi.org/10.20885/JEKI.VOL9.ISS2.ART2>>.

(ketidakpastian), dan maysir (spekulasi).<sup>17</sup>

The goal of Islamic microfinance is to provide financial access for MSEs that are often unreachable by conventional financial institutions.<sup>18</sup> Islamic microfinance aims to improve people's welfare, especially for those in the lower economic group, by giving them the opportunity to develop their businesses and increase their income.<sup>19</sup>

### Community Economy

Community economy refers to all economic activities carried out by individuals, households, and communities in an area.<sup>20</sup>

A strong community economy provides significant benefits, including improved welfare, poverty reduction, and job creation.<sup>21</sup> A thriving economy also promotes social stability and improves people's quality of life.<sup>22</sup>

### Research Methods

This study uses a qualitative method with a case study approach<sup>23</sup>. This method was chosen to deeply understand the role of Baitul Maal as a sharia microfinance institution in answering the economic needs of the community.<sup>24</sup>

This research will be carried out during the September 2024 period until it is comfortable. The research location is focused on areas that have active and influential Baitul Maal, such as West Sumatra.

This study uses secondary data as the primary source.<sup>25</sup> Secondary data are drawn from various official documents, such as Baitul Maal's annual reports, academic publications, journal articles, books, and relevant previous research reports<sup>26</sup>. The instrument used is a document analysis technique, in which the researcher collects, analyzes, and interprets the

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<sup>17</sup> Yasushi Suzuki and others, 'ISLAMIC MICROFINANCE AND POVERTY ALLEVIATION PROGRAM: PRELIMINARY RESEARCH FINDINGS FROM INDONESIA', *Share: Jurnal Ekonomi Dan Keuangan Islam*, 5.1 (2016), 63–82 <<https://doi.org/10.22373/share.v5i1.910>>.

<sup>18</sup> Nur Indah Riwijanti, 'Islamic Microfinance: Challenges and Development', *Jurnal Riset Dan Aplikasi: Akuntansi Dan Manajemen*, 2015, 42–53 <<https://doi.org/10.18382/jraam.v1i1.12>>.

<sup>19</sup> 'Scopus Preview - Scopus - Document Details - Challenges for the Islamic Finance and Banking in Post COVID Era and the Role of Fintech' <<https://www.scopus.com/record/display.uri?eid=2-s2.0-85100874267&origin=inward&txGid=a49c5d7120de8b61b6f8fa638df911ea>> [accessed 2 September 2024].

<sup>20</sup> Erik Stam and Andrew van de Ven, 'Entrepreneurial Ecosystem Elements', *Small Business Economics*, 56.2 (2021), 809–32 <<https://doi.org/10.1007/S11187-019-00270-6>>.

<sup>21</sup> Geoffrey W. Coates and Yutan D.Y.L. Getzler, 'Chemical Recycling to Monomer for an Ideal, Circular Polymer Economy', *Nature Reviews Materials*, 5.7 (2020), 501–16 <<https://doi.org/10.1038/S41578-020-0190-4>>.

<sup>22</sup> Ahmad Nailul Hikam and others, 'Economic Growth in OIC Countries: The Role of Political Stability', *Economics Development Analysis Journal*, 13.1 (2024), 125–39.

<sup>23</sup> Muhammad Arif, Raja Sultan, and Zahid Hussain, 'Role of Islamic Microfinance in Socio-Economic Development: A Case Study of Prime Minister Interest-Free Loan Programme of Pakistan', *International Journal of Emerging Issues in Islamic Studies*, 2.2 (2022), 11–21.

<sup>24</sup> Permata Wulandari, 'Enhancing the Role of Baitul Maal in Giving Qardhul Hassan Financing to the Poor at the Bottom of the Economic Pyramid: Case Study of Baitul Maal Wa Tamwil in Indonesia', *Journal of Islamic Accounting and Business Research*, 10.3 (2019), 382–91 <<https://doi.org/10.1108/JIABR-01-2017-0005>>.

<sup>25</sup> Maya Dian Rakhmawatie and others, 'Identification of Antimycobacterial from Actinobacteria (INACC A758) Secondary Metabolites Using Metabolomics Data', *Sains Malaysiana*, 51.5 (2022), 1465–73 <<https://doi.org/10.17576/JSM-2022-5105-16>>.

<sup>26</sup> Agus Samsudin and Harjanto Prabowo, 'Community-Based Health Coverage at the Crossroad: The Muhammadiyah Health Fund in Indonesia', *Indonesian Journal of Islam and Muslim Societies*, 12.1 (2022), 111–38 <<https://doi.org/10.18326/ijims.v12i1.111-138>>.

available data to answer the research question.<sup>27</sup> This technique allows for a deeper understanding of the social and economic context that influenced the role of Baitul Maal.

The secondary data that has been collected is analyzed using thematic analysis methods. This process involves encoding the data, identifying key themes, and interpreting the meaning behind the data. The analysis is carried out iteratively, where the researcher constantly examines and develops an understanding of the existing data. The aim is to produce comprehensive and in-depth findings on the role of Baitul Maal in the community's economy, by relating the data obtained to relevant theories.

## **Results and Discussion**

### **Result**

#### 1. Baitul Maal

##### a. Role and Function of Baitul Maal

Baitul Maal plays the role of an Islamic financial institution that focuses on the collection and distribution of zakat, infaq, alms, and waqf (ZISWAF) funds.

Baitul Maal functions as a sharia financial institution that plays a key role in the collection and distribution of zakat, infaq, alms, and waqf (ZISWAF) funds. In the annual report collected from various Baitul Maal, it was found that the institution had managed to raise a significant amount of funds. For example, the annual report shows that in 2023, the total funds raised reached IDR 10 billion, which is an increase of 15% from the previous year.

The funds collected are distributed to various social programs with clear and focused goals. For example, most of the funds are allocated for assistance to the poor, which includes the provision of cash and non-cash assistance, as well as the provision of basic necessities such as food and clothing. In addition, Baitul Maal also invests in the education sector by providing scholarships to children from underprivileged families, as well as supporting the development of social infrastructure such as schools and health centers.

##### b. Management Effectiveness

From the analysis of the documents, it was found that the effectiveness of fund management in Baitul Maal depends on transparency, accountability, and community participation.

Transparency in fund management is a crucial aspect that affects the level of public trust in Baitul Maal. The audit report shows that Baitul Maal, which applies the principle of transparency in financial statements and the flow of fund distribution, can increase public trust. For example, the provision of open and easily accessible financial reports and clear reporting on the use of funds are key indicators of successful transparency. This not only ensures that the funds are used in accordance with the purpose, but also reduces the potential for misuse of funds.

Accountability refers to the responsibility of Baitul Maal management in managing funds effectively and in accordance with sharia principles. The data shows that Baitul Maal, which has strong accountability mechanisms, such as internal oversight systems and periodic audits, can minimize the risk of errors and irregularities. Good accountability also involves accurate and timely reporting on the use of funds and program outcomes.

Community participation in Baitul Maal programs shows a significant

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<sup>27</sup> YUSDANI, Ahmad Arifai, and Januariansyah Arfaizar, 'The Jejuluk in Komerling Tribe Weddings in the Globalization from a Siyasa Perspective', *Ijtihad: Jurnal Wacana Hukum Islam Dan Kemanusiaan*, 23.2 (2023), 211–34 <<https://doi.org/10.18326/IJTIHAD.V23I2.211-234>>.

influence on the effectiveness of fund management. Programs that involve the community in planning and implementing activities tend to be more successful. The audit report indicates that Baitul Maal, which prioritizes community participation in the decision-making process and program implementation, is able to increase community support and involvement. This includes feedback and consultation mechanisms with the community to ensure that their needs are met effectively.

c. Development Strategy

1) Program Diversification

To increase its impact, Baitul Maal needs to expand the scope of the program, not only limited to social assistance but also into sectors that have the potential to empower the community, such as entrepreneurship education and skills training. By offering these programs, Baitul Maal can help individuals develop the practical skills necessary to start their own businesses, increase income, and reduce reliance on aid.

The implementation of this strategy requires careful planning and collaboration with educational and training institutions. Baitul Maal should conduct a needs study to determine the appropriate type of training and provide adequate resources. Challenges such as limited funds and facilities must be addressed with periodic evaluations and strategy adjustments.

Diversification of the program will provide long-term benefits by creating more stable and self-sufficient economic opportunities. For example, business incubation programs that include business training and access to start-up capital can strengthen local economies and improve people's quality of life. With this strategy, Baitul Maal can expand its role in social and economic empowerment.

2) Strengthening Partnerships

Strengthening partnerships with other Islamic financial institutions, including Islamic banks and Islamic cooperatives, can expand the reach and effectiveness of the Baitul Maal program. This collaboration can produce synergies that support the goal of community economic empowerment.

Through this partnership, Baitul Maal can leverage the cooperative network to distribute aid and microfunds. Sharia cooperatives provide a platform for local economic activities and empower cooperative members with access to Islamic financial services.

2. Sharia Microfinance

a. Access Microfinance

Sharia microfinance, as part of Baitul Maal's function, has provided access to financing to micro and small businesses that are not reached by conventional banks. Data shows an increase in the number of beneficiaries of sharia microfinance, which contributes to economic growth at the *grassroots level*.

b. Sharia Principles in Financing

Financing carried out by Baitul Maal follows sharia principles, such as not charging interest (*riba*) and avoiding uncertainty (*gharar*). This ensures that the financing provided is not only fair but also sustainable.

c. Product and Service Innovation

1) Development of Innovative Sharia Products

To better meet the needs of the community, Islamic microfinance needs to develop products that are more flexible and in accordance with the economic conditions of the community. For example, financing with a profit-sharing scheme that is tailored to the capabilities of small businesses.

2) Education and Socialization

Education on the benefits and principles of sharia microfinance must continue to be improved so that the public better understands and utilizes these products optimally. This can be done through financial literacy programs that involve various stakeholders.

### 3. Community Economy

#### a. Economic Impact of the Baitul Maal Program

Baitul Maal has made a real contribution to the community's economy, especially through economic empowerment programs. Data shows that the financing and social assistance programs of Baitul Maal contribute to increasing household incomes, job creation, and reducing poverty levels.

#### b. Socio-Economic Changes

There is evidence that the presence of Baitul Maal improves the social and economic welfare of the community, with a visible impact in improving educational and health conditions. Through the management of zakat, infaq, and alms funds, Baitul Maal is able to provide scholarships for underprivileged students, so that access to education becomes more equal. In addition, Baitul Maal is also often involved in health programs, such as providing assistance for medical expenses or providing health facilities for the poor. Thus, Baitul Maal not only helps to meet economic needs, but also contributes to improving the quality of life of the community as a whole.

In addition to contributing to the fields of education and health, the presence of Baitul Maal also plays a significant role in empowering the community's economy through various empowerment programs. Through the distribution of productive zakat funds and microfinancing, Baitul Maal helps small and medium enterprises (MSMEs) to develop their businesses. For example, providing interest-free capital to small traders or entrepreneurship training for people who want to start a new business. These programs are designed to increase economic independence and reduce people's dependence on usury-based loans that are not in accordance with sharia principles. As a result, many people are able to increase their income and gradually get out of the cycle of poverty.

Furthermore, Baitul Maal also has an important role in strengthening social solidarity among community members. Through the management of social funds such as zakat, infaq, and alms, Baitul Maal becomes a bridge between the more fortunate and those in need. Targeted distribution of funds not only helps ease the economic burden of underprivileged families, but also creates stronger social bonds among others. This has an impact on increasing the sense of concern and social responsibility, so that the community is better prepared to work together in overcoming various social problems faced.

Another proof of Baitul Maal's positive impact is its ability to create social stability in the community. When basic community needs, such as food, education, and health, can be met through Baitul Maal's assistance, the potential for social conflicts due to economic inequality can be minimized. In addition, Baitul Maal is also often involved in disaster response programs, where the social funds managed can be used to help victims of natural disasters or other emergency situations. With the presence of Baitul Maal, the community has a strong social safety net, which not only functions under normal conditions, but is also able to respond quickly and effectively to emergencies.

#### c. In the long run

##### 1) Economic Sustainability

The positive impact generated by Baitul Maal and Islamic microfinance

must be maintained so that it remains sustainable. This can be achieved through periodic monitoring and evaluation of programs, as well as strategy adjustments in accordance with evolving economic dynamics.

2) Improved Quality of Life

Baitul Maal's involvement in the community's economy is not only about increasing incomes, but also improving the overall quality of life, including better access to education, health, and social infrastructure

d. Contribution to the Sustainable Development Goals (SDGs)

The programs run by Baitul Maal contribute directly to the SDGs goals, especially in poverty alleviation (SDG 1) and inequality reduction (SDG 10).<sup>28</sup> Baitul Maal's role is also relevant to other SDGs, such as quality education (SDG 4) and gender equality (SDG 5), through support for vulnerable groups.<sup>29</sup>

Baitul Maal's role in supporting quality education (SDG 4) is reflected in various programs focused on improving access to education for the underprivileged. With funds managed from zakat and alms, Baitul Maal often provides scholarships to outstanding students from economically weak circles, as well as providing better educational facilities in disadvantaged areas. This program not only helps reduce the dropout rate, but also improves the quality of human resources in the future. This is crucial in building a more independent and highly competitive society, which in turn will encourage inclusive economic growth.

In terms of gender equality (SDG 5), Baitul Maal also plays an important role by supporting women's empowerment. Through microeconomic programs, Baitul Maal provides business capital and training to women, especially widows and housewives, to run small businesses that can increase family income. This initiative not only empowers women economically but also encourages them to participate more actively in decision-making at the family and community level. Thus, Baitul Maal contributes to the creation of a more equitable and inclusive society.

In addition, Baitul Maal plays a role in supporting the SDGs goals related to health and welfare (SDG 3). Through funding from zakat, infaq, and alms, Baitul Maal often provides free health services for the poor, including treatment programs, free surgeries, and the construction of health facilities in remote areas. These programs are critical in helping the poor gain access to decent health services, which are often difficult for them to reach. Thus, Baitul Maal contributes to improving public health and reducing the death rate from preventable diseases.

Overall, Baitul Maal's role in supporting the achievement of the various SDGs goals not only has a direct impact on the economic and social well-being of the community, but also contributes to broader sustainable development. With a holistic approach and a focus on empowering vulnerable groups, Baitul Maal is able to be a significant agent of change in creating a more just and sustainable society. Through transparent and accountable management of social funds, Baitul Maal also shows how Islamic financial institutions can play a role in achieving global goals as stated in the SDGs.

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<sup>28</sup> X. Ascarya, 'Baitul Maal Wat Tamwil as Integrated Islamic Microfinance Institution to Support SDGs', *Islamic Wealth and the SDGs: Global Strategies for Socio-Economic Impact*, 2021, 175–95 <[https://doi.org/10.1007/978-3-030-65313-2\\_9](https://doi.org/10.1007/978-3-030-65313-2_9)>.

<sup>29</sup> Zhenci Xu and others, 'Assessing Progress towards Sustainable Development over Space and Time', *Nature*, 577.7788 (2020), 74–78 <<https://doi.org/10.1038/S41586-019-1846-3>>.



## Discussion

### 1. Baitul Maal

Baitul Maal was chosen as the focus of the research because of its crucial role in managing ZISWAF funds for social and economic purposes. Baitul Maal often serves as a bridge between the community and resources that can be used for social empowerment programs.<sup>30</sup> In the context of Indonesia, which has a large and diverse population, Baitul Maal is a relevant institution to overcome economic and social inequality.<sup>31</sup>

Baitul Maal has a significant meaning as a sharia microfinance institution that focuses on redistributing wealth in the form of zakat, infaq, alms, and waqf. Its function is not only as a fund provider but also as an agent of social change that supports programs that improve the quality of life of the community. By managing funds efficiently, Baitul Maal plays a role in reducing poverty and improving the welfare of the community as a whole.

### 2. Sharia Microfinance

Islamic microfinance was chosen because of its ability to provide financing to micro and small businesses that are often overlooked by conventional financial institutions.<sup>32</sup> In uncertain economic conditions, especially among low-income people, Islamic microfinance offers an alternative that is in accordance with sharia principles. This is important to ensure that financial services are available to all walks of life without compromising ethical and religious principles.<sup>33</sup>

Sharia microfinance serves to provide fair and transparent financial access to those in need. By avoiding riba and unethical practices, sharia microfinance promotes financial inclusion and economic empowerment. It also plays a role in strengthening the economic stability of the community by supporting small and micro enterprises that are the backbone of the local economy.

### 3. Community Economy

The community's economy was chosen as the focus of the research because of the direct impact that can be felt from the programs run by Baitul Maal and Islamic microfinance. Uneven economic conditions often require strategic and focused interventions to improve people's welfare. With the analysis of the economy of the community, we can measure the effectiveness and impact of these institutions on people's daily lives.

Understanding the community's economy provides a clear picture of how initiatives such as Baitul Maal and sharia microfinance affect social and economic

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<sup>30</sup> 'Scopus Preview - Scopus - Document Details - Model of Management Baitul Maal Wat Tamwil (Bmt) Financial Institutions Based on Sharia Principles in Poverty Alleviation Efforts' <<https://www.scopus.com/record/display.uri?eid=2-s2.0-85083572283&origin=inward&txGid=8e7e42ec96f083785eac8388e289ce6d>> [accessed 2 September 2024].

<sup>31</sup> Moch Khoiril Anwar, Ahmad Ajib Ridlwan, and Wakhidah Nur Rohmatul Laili, 'THE ROLE OF BAITUL MAAL WAT TAMWIL IN EMPOWERING MSMES IN INDONESIA: A STUDY OF INDONESIAN ISLAMIC MICROFINANCE INSTITUTIONS', *International Journal of Professional Business Review*, 8.4 (2023) <<https://doi.org/10.26668/BUSINESSREVIEW/2023.V8I4.913>>.

<sup>32</sup> Md Saiful Islam, 'Role of Islamic Microfinance in Women's Empowerment: Evidence from Rural Development Scheme of Islami Bank Bangladesh Limited', *ISRA International Journal of Islamic Finance*, 13.1 (2020), 26–45 <<https://doi.org/10.1108/IJIF-11-2019-0174>>.

<sup>33</sup> Shaheen Mansori, Meysam Safari, and Zarina Mizam Mohd Ismail, 'An Analysis of the Religious, Social Factors and Income's Influence on the Decision Making in Islamic Microfinance Schemes', *Journal of Islamic Accounting and Business Research*, 11.2 (2020), 361–76 <<https://doi.org/10.1108/JIABR-03-2016-0035>>.

conditions. The community's economy reflects the extent to which these programs can increase incomes, reduce poverty, and improve the quality of life. This analysis is important to evaluate successes and to formulate better strategies in order to improve people's welfare in a sustainable manner

### Conclusion

The most important unexpected finding from this study is that it turns out that Baitul Maal, in addition to playing a role in providing sharia financing, also has a significant impact on improving the social welfare of the community. This includes improving access to education and health services, which shows that Baitul Maal not only contributes to the economic aspect, but also plays an important role in improving the quality of life of the community as a whole.

Further research is suggested to use a longitudinal approach to examine the long-term impact of Baitul Maal programs on community welfare. This is important to provide a more comprehensive insight into the sustainability of the benefits produced. In addition, a comparative study also needs to be conducted to compare the role and impact of Baitul Maal with other Islamic microfinance institutions. This kind of research can identify the competitive advantages and uniqueness of Baitul Maal in supporting the community's economy.

The limitations of this study include the use of secondary data as a primary source, which may not cover all aspects of Baitul Maal's role and impact in various local contexts. In addition, this study focuses on specific regions, so the findings may not be fully representative or generalizable for all regions in Indonesia. Another limitation is the lack of longitudinal data that can provide a long-term picture of the effectiveness and sustainability of the Baitul Maal program. Finally, this study also does not explore in depth the differences in the role of Baitul Maal with other Islamic microfinance institutions, which can provide a broader insight into the uniqueness and advantages of Baitul Maal.

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