

The Roles of Baitul Maal wat Tamwil in Promoting the Diffusion of Sustainable Financing Innovation: A Narrative Review of the Sharia Business Model

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ABSTRACT

This study aims to examine the strategic role of Baitul Maal wat Tamwil (BMT) in the proliferation of sustainable financing innovation in the Islamic microfinance system. Drawing on Islamic ethical norms and local financial organizations, BMTs are strategically positioned to expand inclusive financing products that are responsive to Sharia aims. The goal of this study is to understand how these structures incorporate innovation into their business models with regard to their social and spiritual aims. Adopting a narrative literature review methodology, this study integrates academic publications from Google Scholar and Scopus with the key terms Islamic microfinance, innovation diffusion, and sustainable financing. Based on interdisciplinary approaches, the analysis determines how BMTs promote the adoption and spread of innovation. The findings suggest that BMTs instigate innovation through different channels, including the combination of social and commercial funding, the use of digital platforms, product diversification, stakeholder engagement, and efforts in financial education. These are also intermediaries of morality that mediate between religious duty and adaptive innovation. They support marginalized groups, especially women and microentrepreneurs, by promoting institutional resilience through risk sharing and value-based governance. This study contends that BMTs are of great importance in the reform of Islamic microfinance because they compensate for social and economic gaps as a means to find sustainable and ethical balanced innovations. Implications: This study provides a comprehensive conceptual framework that connects innovation theory and Islamic financial practices, along with empirical insights to direct further research.

Keywords: *Islamic & Innovation in Microfinance, Sustainable Financing, Baitul Maal wat Tamwil (BMT)*

ABSTRAK

Penelitian ini bertujuan untuk mengkaji peran strategis Baitul Maal wat Tamwil (BMT) dalam proliferasi inovasi pembiayaan berkelanjutan dalam sistem keuangan mikro syariah. Berdasarkan norma etika Islam dan organisasi keuangan lokal, BMT diposisikan secara strategis untuk memperluas produk pembiayaan inklusif yang responsif terhadap tujuan Syariah. Tujuan dari penelitian ini adalah untuk memahami bagaimana struktur ini memasukkan inovasi ke dalam model bisnis mereka sehubungan dengan tujuan sosial dan spiritual mereka. Mengadopsi metodologi tinjauan literatur naratif, penelitian ini mengintegrasikan publikasi akademik dari Google Scholar dan Scopus dengan istilah-istilah kunci keuangan mikro syariah, difusi inovasi, dan pembiayaan berkelanjutan. Berdasarkan pendekatan interdisipliner, analisis menentukan bagaimana BMT mempromosikan adopsi

dan penyebaran inovasi. Temuan menunjukkan bahwa BMT menghasut inovasi melalui saluran yang berbeda, termasuk kombinasi pendanaan sosial dan komersial, penggunaan platform digital, diversifikasi produk, keterlibatan pemangku kepentingan, dan upaya dalam pendidikan keuangan. Ini juga merupakan perantara moralitas yang menengahi antara tugas agama dan inovasi adaptif. Mereka mendukung kelompok yang terpinggirkan, terutama perempuan dan pengusaha mikro, dengan mempromosikan ketahanan kelembagaan melalui pembagian risiko dan tata kelola berbasis nilai. Studi ini berpendapat bahwa BMT sangat penting dalam reformasi keuangan mikro Islam karena mengkompensasi kesenjangan sosial dan ekonomi sebagai sarana untuk menemukan inovasi yang seimbang dan etis yang berkelanjutan. Implikasi: Studi ini memberikan kerangka konseptual komprehensif yang menghubungkan teori inovasi dan praktik keuangan Islam, bersama dengan wawasan empiris untuk mengarahkan penelitian lebih lanjut.

Kata kunci: Islam & Inovasi dalam Keuangan Mikro, Pembiayaan Berkelanjutan, Baitul Maal wat Tamwil (BMT)

INTRODUCTION

The mindset of Baitul Maal wat Tamwil (BMT) in the Islamic microfinance map is becoming increasingly important, particularly in terms of financial inclusion and social justice. As Islamic financial institutions, community-based BMTs seek to reduce economic disparity in society by providing financial services and through their interest-free principle. The dual-purpose nature of CAC—managing social and commercial capital—makes it well-placed to help in the development of micro, small and medium enterprises (MSMEs) and achieve poverty reduction objectives. Literature suggests that BMTs are vital for improving the economic welfare of local people by disbursing funds through justice-oriented Islamic contracts, such as *murabahah*, *musharakah*, and *mudharabah* (Efendi, 2024; Hamdani, 2023). These institutions are strategically positioned to reconfigure the financial arena by diluting reliance on interest-based conventional financing systems and, as a result, offer more inclusive and ethically bound alternatives (Hamdani, 2023).

BMT is based on the principles of equity, transparency, and pro-poor commitment, and its goal is to maximize the utilization of zakat, infaq, sadaqah, and waqf in productive ways (Efendi, 2024; Purwanto & Marzuki, 2021). With their institutional flexibility, BMTs are in a position to meet the alterations in economic requirements of micro- and middle-income groups. By consolidating the collective funds and then distributing them to ventures of the society, BMTs secure transactions that are free from *riba* and are based on mutual profit-sharing schemes (Efendi, 2024; Purwanto & Marzuki, 2021) This operational approach not only builds trust and collaboration at the community level but also provides a basis for governance and ethics in business and long-term financial stability.

Despite their institutional soundness, BMTs are confronted with new issues that require them to innovate, especially in terms of financial durability and innovation dissemination. The real question is how BMTs can incorporate their

business models by more sustainable goals and at the same time be consistent with the sharia principle. The incorporation of sustainable finance is not merely innovation on the products; it should involve transformation in organization culture, human resource capacity, digital infrastructure, and regulatory compliance (Ali Hamdan, 2022; Hendrawaty et al., 2023). The challenges are multidimensional and require a new framework that not only preserves the ethical spirit in Islamic finance but also allows BMTs to remain competitive in the midst of market dynamism.

At the center of this puzzle is the question of monetary invention. BMTs must reconcile sharia-compliant contracts with the requirements to offer products that cater to customers' various requirements. Murabahah and *mudharabah*-based contracts are fulcrum instruments; customization for sustainable uses and applications continue to call for creativity (Naheri & Wulandari, 2024; Oktapiansyah, 2025). Moreover, differences in culture or digital literacy among providers constitute a crucial hindrance to the acceptance of these innovations. In the absence of necessary education, trust formation, and technical support, the spread of innovative finance is constrained and irregular between establishments (Efendi, 2024; Hamdan, 2022).

The academic literature has put forth several possible answers to these challenges, including digital transformation, organizational cooperation, and regulatory elasticity. BMTs have the opportunity to use digital platforms to increase efficiency and transparency and expand their services to unserved districts (Siswanti et al., 2024). Partnerships with government agencies, fintech firms, and Shari'a banks are considered potential linkages for innovation dissemination and resource collection (Hendrawaty et al., 2023; Ibrahim & Alenezi, 2024). Moreover, aligning innovation compliance with regulations and Maqasid Shari'ah ensures that new financial instruments sustain their ethical orientation while complying with sustainability concerns.

Several studies have pointed out the possibility of using available tools, such as Qardh al-Hasan and the green financing model, as an instrument in implementing SDGs with BMT. These models comply with Islamic ethical finance principles and have been proven successful in providing funding access to disadvantaged communities while encouraging environmental and social results (Ibrahim & Alenezi, 2024; S. F. Muhamad et al., 2022). Additionally, the combination of Environmental, Social and Governance (ESG) and Maqasid Shari'ah provides a comprehensive framework for assessing the impact of financing structures in Islamic MFIs (N. Muhamad & Ismail, 2022).

Although there is growing literature addressing the theoretical and practical aspects of innovative Islamic financing mechanisms, there are major gaps in knowledge regarding the role of BMTs as a driver of innovation diffusion. Research has overwhelmingly focused on macro(=structural)-level policy analysis or "one-off" case evaluation cases have met the mark of appropriately engaging the systemic

issues and opportunities prevailing within BMTs qua institutions. Method: This study seeks to fill this gap by presenting a narrative review as an exploratory tool to situate BMTs within the Islamic business model framework to facilitate the diffusion of environmentally and socially sustainable forms of financing.

Accordingly, this study aims to explore the role of BMTs in the dissemination of sustainable financing innovation from an Islamic business model dynamics perspective. This study aims to investigate how BMTs can marry ethical creeds with IT, organizational tactics, and regulations to promote sustainable economic growth. This paper is innovative for breaking new ground to blend a narrative literature review with a systemic analysis of the BMT institutional model and, thus, to contribute to both theoretical and practical understanding of the diffusion of innovation. Through the body of existing and new literature reviewed and related to identifying the strategic pathways, this study helps advance the understanding of how Islamic microfinance institutions are in a position to transform the adaptation of meeting the needs of the poor under present circumstances while maintaining their feet on the grounds of Sharia.

LITERATURE REVIEW

Theoretical and Empirical Foundations of Innovation Diffusion and Sustainable Financing in BMTs

The growing role of Baitul Maal wat Tamwil (BMT) in fostering inclusive Islamic financial systems necessitates a comprehensive understanding of how innovations are adopted and diffused within such community-based institutions. This literature review synthesizes theoretical perspectives, particularly Rogers' Diffusion of Innovation Theory, with empirical studies on sustainable financing within Islamic microfinance, providing a foundation for understanding BMTs as agents of transformation. The section is organized into three focal subsections: the theoretical framework of innovation diffusion, the empirical landscape of sustainable Islamic financing via BMTs, and the research positioning and future agenda.

1. Theoretical Framework: Diffusion of Innovation Theory in the BMT Context

Rogers' Diffusion of Innovation (DOI) Theory provides a foundational framework for analyzing the adoption of innovations in BMTs. It identifies five attributes that determine the rate of innovation diffusion: relative advantage, compatibility, complexity, trialability, and observability (F. Bakkabulindi, 2014) These attributes have been widely used to interpret how Islamic microfinance institutions—especially BMTs—respond to new ideas within socio-religious constraints.

Relative advantage in the BMT context refers to the ethical and participatory benefits of Islamic financial products such as *mudharabah* and *musyarakah* over

conventional interest-based instruments (Hendratmi & Widayanti, 2017). Compatibility is especially critical, as innovations must align with sharia principles and communal norms. In BMTs, successful innovations are those that resonate with Islamic values of equity, justice, and communal responsibility (F. Bakkabulindi, 2014; F. E. K. Bakkabulindi, 2014)

Complexity presents a challenge for BMT adoption, particularly when financial or technological innovations demand high literacy or significant behavior change. Simpler, transparent processes and clear communication are necessary to support adoption among low-income or digitally marginal populations (Bakkabulindi, 2014). Trialability—the opportunity to test innovations before full adoption—is essential for building trust, while observability—the visibility of innovation success—supports communal learning and replication.

Bakkabulindi (2014) underscores the importance of interpersonal communication, opinion leaders, and social networks in shaping innovation diffusion. These dynamics are especially relevant to BMTs, which operate within tightly knit Muslim communities. Furthermore, cultural and religious contexts act as both filters and enablers for innovation, requiring strategic adaptation and socialization.

2. Empirical Insights: BMTs and Sustainable Islamic Financing

Empirical research confirms the significant potential of BMTs to act as conduits for sustainable development through ethical finance. Sustainable financing in the Islamic context aims to achieve the triple bottom line of economic growth, environmental stewardship, and social justice, anchored in instruments such as zakat, waqf, and *qard hasan* (Ascarya et al., 2023; Robbani & Santoso, 2020).

Studies have shown that BMTs integrate social and commercial objectives through profit-sharing schemes and socially-oriented financing mechanisms. Instruments like *mudharabah* and *musyarakah* facilitate entrepreneurial empowerment without the burden of interest, promoting social inclusion and reducing poverty (Ascarya & Sakti, 2022) The operational duality of BMTs allows them to channel funds from Islamic philanthropic sources toward productive economic use, supporting underserved populations ethically (Robbani & Santoso, 2020)

A growing body of literature focuses on digitalization as a means of enhancing the reach and effectiveness of BMTs. Haerudin highlight the adoption of computerized accounting systems and mobile platforms, which improve risk management, financial transparency, and customer access (Haerudin & Suharto, 2023). These digital solutions support financial inclusion in remote areas while preserving Islamic financial principles. Another emerging domain is green and ethical finance, such as cash waqf models and ESG-aligned investments. These approaches support not only financial inclusion but also environmental sustainability, offering a path for BMTs to contribute to the broader sustainable development goals (Ascarya & Masrifah, 2023;

Ascarya & Sakti, 2022). The integration of waqf-based funding into commercial microfinance ventures demonstrates the potential for blending religious endowments with ethical entrepreneurship.

Furthermore, governance and risk management systems play an essential role in ensuring the sustainability of BMT innovations. Effective internal control systems, stakeholder engagement, and transparency mechanisms are prerequisites for maintaining trust and sharia compliance (Sari & Bin Mislana Cokrohadisumarto, 2019). Strategic partnerships with government agencies, NGOs, and private sector actors are also vital for enabling institutional capacity building and policy alignment (Haerudin & Suharto, 2023).

3. Research Positioning and Future Development Agenda

While the theoretical and empirical foundations of innovation diffusion and sustainable Islamic finance are well established, there remains a critical gap in understanding BMTs as active institutions of innovation dissemination. Much of the existing research focuses on either macro-policy perspectives or isolated case studies, without addressing the systemic institutional mechanisms that shape innovation at the grassroots level.

This study seeks to address that gap by investigating how BMTs, operating under sharia business models, facilitate the diffusion of sustainable financing innovations. It positions itself within the intersection of innovation theory, Islamic finance, and micro-institutional behavior, with an emphasis on systemic enablers and constraints. Unlike prior studies, which often treat BMTs as passive beneficiaries of policy or infrastructure, this research explores their role as proactive agents of innovation.

Furthermore, by combining the DOI theory with sustainability and Islamic ethical finance frameworks, this study contributes a holistic analytical model. It also highlights the importance of technological integration, human capital development, and policy support in enhancing the innovation capacities of BMTs. The study underscores the need for participatory governance, digital financial literacy, and capacity building as key levers for future growth.

Future research can build on this study by conducting comparative analyses between urban and rural BMTs, measuring the impact of innovation on social outcomes, or evaluating how regulatory flexibility affects innovation uptake. The continuous adaptation of DOI theory in sharia-based microfinance also opens avenues for theoretical development that blends conventional innovation models with Islamic ethical paradigms. In conclusion, the literature reviewed herein demonstrates that BMTs operate at the nexus of ethical finance, innovation, and social development. With the strategic application of innovation diffusion theory and a commitment to sustainable Islamic business principles, BMTs hold significant promise for reshaping inclusive financial landscapes in the Global South.

RESEARCH METHODOLOGY

Bagian This study adopts a qualitative research design based on a narrative literature review methodology. The objective is to examine how Baitul Maal wat Tamwil (BMT) institutions contribute to the diffusion of sustainable financing innovation within Islamic microfinance frameworks. This method is chosen to capture the evolving and multidimensional nature of innovation in Islamic financial systems, particularly those rooted in community-based institutions.

1. Narrative Literature Review as a Methodological Framework

The narrative literature review is applied to systematically synthesize theoretical, empirical, and contextual insights regarding innovation diffusion in Islamic microfinance. This approach is grounded in the RAMESES publication standards for meta-narrative reviews (Wong et al., 2013), which emphasize transparency in source selection, thematic identification, and contextual interpretation. Unlike systematic reviews that focus on quantifying findings, the narrative review interprets and integrates knowledge across studies to construct a coherent storyline on how innovation evolves in Islamic microfinance.

The narrative method enables researchers to go beyond descriptive summaries, integrating traditional Islamic values and contemporary challenges within a broader socio-economic and institutional framework (Wong et al., 2013). It is especially appropriate in exploring how innovation—technological, managerial, regulatory, or ethical—has been conceptualized, diffused, and institutionalized in BMTs, which serve both commercial and social missions.

2. Research Question and Search Strategy

The core research question guiding this study is: "How do BMTs facilitate the diffusion of sustainable financing innovation within the Islamic business model framework?" To answer this question, a comprehensive literature search was conducted using major academic databases including Google Scholar and Scopus. Key search terms used include "Islamic Microfinance," "Baitul Maal wat Tamwil," "Innovation Diffusion," "Sustainable Financing," and "Islamic Business Models."

Articles, books, policy documents, and empirical reports were reviewed, focusing on those published in English and Bahasa Indonesia from 2010 to 2025. Only literature directly addressing Islamic microfinance innovation, BMTs, or related policy and technological developments were included. Relevance, quality of methodology, and contribution to theory were central criteria for inclusion

3. Inclusion and Exclusion Criteria

The literature was screened using several inclusion and exclusion criteria. Selected sources had to meet at least five of the following conditions: (1) relevance to BMTs or Islamic microfinance, (2) focus on innovation, technology, or sustainability,

(3) peer-reviewed or institutionally credible, (4) methodological clarity, (5) originality and theoretical novelty, and (6) contextual relevance to Indonesia or similar socio-religious settings. Sources that lacked methodological rigor, focused solely on conventional microfinance, or offered superficial discussions on innovation were excluded.

4. Thematic Synthesis and Data Analysis

Following the selection of relevant sources, a thematic synthesis approach was employed to analyze the data. Thematic categories were constructed around central issues such as technological adoption, sharia compliance, regulatory transformation, financial inclusion, and institutional strategy. Key themes were derived inductively and supported by grounded theory coding principles using qualitative data software tools (e.g., NVivo) for consistency and transparency.

The narrative was structured to trace the development of innovation in BMTs over time, considering both enabling and inhibiting factors. In particular, linkages were drawn between institutional dynamics, policy support, digital transformation, and stakeholder engagement. Synthesized findings were used to develop a conceptual map that connects drivers of innovation with institutional responses and socio-economic outcomes (Wong et al., 2013).

5. Interpretive and Contextual Dimensions

The narrative review incorporated interpretive methods to reflect on how cultural, normative, and contextual factors influence innovation uptake in BMTs. This included an examination of Islamic financial contracts such as *mudharabah*, *musyarakah*, and *murabahah*, and how they are adapted in sustainable financing schemes. Particular attention was paid to the integration of redistributive instruments such as zakat, infaq, and waqf into commercial models of microfinance (Ascarya & Sakti, 2022).

Interpretation also considered how innovations are perceived by stakeholders, including customers, BMT staff, and sharia boards. For instance, the analysis explored how digital literacy affects the adoption of online financial tools, such as Shariah Online Trading Systems (Pinasti & Fadillah, 2022). In this way, the methodology accounted for not only technical features but also the social dynamics of innovation diffusion.

6. Triangulation and Validity

To ensure validity and reliability, the narrative review employed data triangulation by comparing findings from academic journals, industry reports, and policy documents. This allowed the study to address potential biases and offer a balanced perspective on BMT innovation. Sources were cross-referenced to identify convergence and divergence in findings, especially on sensitive topics such as regulatory bottlenecks and ethical dilemmas in digital finance (Wong et al., 2013).

The quality of the narrative was assessed through peer debriefings, thematic coding reviews, and iterative comparisons between sources. This multi-layered validation process strengthened the interpretive rigor and analytical depth of the narrative.

7. Interdisciplinary Integration

The narrative review also drew from interdisciplinary perspectives, incorporating insights from Islamic economics, digital technology, financial regulation, and organizational studies. This broadened the analytical lens and allowed for a more nuanced discussion of how BMTs function as hybrid institutions bridging spiritual ethics and commercial imperatives (Hendratmi & Widayanti, 2017; Robbani & Santoso, 2020).

8. Scope and Limitations

While the narrative literature review offers deep contextual and theoretical insights, it is inherently limited by the absence of primary data collection. The study does not claim to provide statistical generalizations but instead offers conceptual clarity and thematic depth. Another limitation is the reliance on published literature, which may underrepresent emerging practices or innovations occurring at the grassroots level.

The narrative literature review method enables a holistic and critical exploration of the mechanisms through which BMTs diffuse sustainable financial innovation. By integrating diverse sources and perspectives, the study builds a coherent narrative that illustrates the institutional, ethical, and technological dynamics shaping Islamic microfinance. This methodology supports the development of new conceptual models and strategic recommendations for enhancing the role of BMTs in building an inclusive and sustainable Islamic financial ecosystem.

RESULT AND DISCUSSION

This study explores the strategic role of Baitul Maal wat Tamwil (BMT) in fostering the diffusion of sustainable financing innovations within the framework of Islamic microfinance. Drawing from an extensive narrative review of academic and empirical sources, this section analyzes how BMTs serve as institutional vehicles for ethical, inclusive, and resilient financial innovation. The discussion is structured around several key thematic dimensions that align with the study's central research question and theoretical framework.

1. Integrating Social and Commercial Functions for Financial Inclusion

BMTs uniquely integrate social finance mechanisms with commercial microfinance operations, enabling them to serve unbanked and underserved populations. By offering sharia-compliant financing instruments such as *qard hasan*,

mudharabah, and *musyarakah*, BMTs cater to populations typically excluded by conventional banks (Ascarya & Sakti, 2022; Robbani & Santoso, 2020) These models emphasize equity, transparency, and risk-sharing—critical elements in building trust and resilience within marginalized communities. The dual function of BMTs allows for resource mobilization from zakat, infaq, waqf, and commercial funds to promote inclusive, sustainable development (Ascarya, 2024).

2. Digital Innovation as a Catalyst for Operational Transformation

Digitalization plays a pivotal role in enhancing the outreach and operational efficiency of BMTs. Integrated information systems, mobile applications, and real-time monitoring tools facilitate better decision-making, reduce costs, and expand access to remote areas (Haerudin & Suharto, 2023; Pinasti & Fadillah, 2022). These technologies also support transparency and accountability—two core tenets of sharia finance. Studies show that digital transformation enables BMTs to develop customized micro-fintech models tailored to their Islamic institutional frameworks, ultimately strengthening their competitive positioning in the financial sector (Ascarya & Sakti, 2022)

3. Innovation Through Strategic Partnerships and Multi-Stakeholder Collaboration

BMTs actively engage in cross-sector partnerships to enhance their capacity for innovation. Collaborations with government agencies, sharia banks, NGOs, and private entities allow BMTs to access new knowledge, capital, and digital infrastructure (Anggreni & Puteri, 2023; Haerudin & Suharto, 2023). These partnerships enable BMTs to co-develop innovative products that respond to both market needs and social imperatives. Strategic alliances also play a key role in expanding service coverage, improving resource utilization, and scaling sustainable financial innovations across diverse regions.

4. Institutionalizing Sharia-Compliant Business Models for Sustainability

The adoption of sharia-based business models by BMTs fosters innovation that aligns with Islamic ethical principles. Products such as *murabahah*, *musharakah*, and *ijarah* are designed to be both commercially viable and socially responsible (Dewi & Astari, 2018; Hamdani, 2023) By embedding maqasid al-shariah—objectives such as wealth redistribution, justice, and community welfare—into their operations, BMTs ensure that innovation supports long-term societal well-being (Robbani & Santoso, 2020) This holistic framework creates a foundation for resilient and inclusive financial ecosystems that serve both economic and moral functions.

5. Advancing Financial Literacy and Community Engagement

BMTs prioritize education and awareness to facilitate innovation adoption among low-income and low-literacy populations. Financial literacy campaigns, training workshops, and digital education tools improve user comprehension of

sharia financial principles and promote engagement with new financial products (Rahayu, 2020; Robbani & Santoso, 2020). These initiatives contribute to reducing information asymmetry, fostering financial autonomy, and ensuring ethical consumption of financial services. Moreover, marketing strategies tailored to younger, tech-savvy demographics accelerate product uptake and strengthen institutional relevance (Ascarya & Sakti, 2022)

6. Strengthening Innovation Through Product Diversification and Customization

Diversifying financial products is central to the innovation strategies of BMTs. Customization allows for better alignment with the specific needs of microenterprises and underbanked clients. BMTs innovate through hybrid contracts and product bundling that combine charitable and commercial elements, offering more flexibility and ethical robustness (Fachrozi & Ahmad, 2024; Robbani & Santoso, 2020). Examples include green financing schemes for environmentally sustainable businesses, waqf-linked investments, and Islamic crowdfunding platforms (Ascarya, 2024; Thaker & Amin, 2021). These instruments enhance financial accessibility while supporting the Sustainable Development Goals (SDGs).

7. Enhancing Risk Management and Institutional Resilience

To sustain innovation, BMTs employ advanced risk management systems. Technologies like real-time monitoring, blockchain, and digital analytics support credit scoring, liquidity control, and sharia compliance assurance (Hidajat, 2020; Wafi & Muhammad, 2023). Effective risk governance mechanisms are necessary to protect both the institution and its clients from systemic shocks and financial misconduct. In particular, digital risk management tools allow BMTs to navigate economic uncertainty while maintaining their social mission.

8. Empowering Women and Marginalized Groups Through Financial Innovation

A consistent theme in the literature is the empowerment of women and micro-entrepreneurs through inclusive financing models offered by BMTs. Sharia-based contracts, combined with capacity-building programs, enable women to access capital, acquire business skills, and enhance household welfare (Hidayah & Putri, 2021; Rahayu, 2020). BMTs have been instrumental in integrating gender-sensitive innovations into microfinance, aligning with both Islamic ethics and global development frameworks.

9. Global Linkages and Adaptation of Local Wisdom

BMTs also engage in international partnerships to access innovation models and best practices, which they localize based on indigenous knowledge and socio-religious contexts (Muhmad et al., 2021). This localized adaptation ensures that innovation is culturally acceptable and contextually relevant. BMTs function as hybrid

institutions that integrate global Islamic finance trends with local customs, thereby enhancing the legitimacy and effectiveness of financial innovation (Hendratmi & Widayanti, 2017)

10. Policy Advocacy and Institutional Reform

As active stakeholders in the financial ecosystem, BMTs contribute to regulatory discourse by advocating for flexible, sharia-compliant innovation policies. Their grassroots experience provides valuable insights into regulatory bottlenecks and institutional needs (Ascarya & Yumanita, 2018; Judijanto & Fitriani, 2025). Through policy engagement, BMTs help shape enabling environments for Islamic microfinance that are responsive to innovation and inclusive development goals.

11. Synthesis and Research Contribution

The evidence presented above supports the proposition that BMTs play a strategic role in promoting sustainable financial innovation. Their unique dual function, value-driven business model, and adaptive organizational culture position them as key agents in reshaping inclusive financial ecosystems. The integration of digital tools, social finance, and community-based strategies illustrates the potential of Islamic microfinance to transcend conventional models of development finance. This study contributes to the literature by articulating a holistic framework for understanding innovation diffusion in Islamic microfinance. It synthesizes multiple dimensions—technological, ethical, regulatory, and socio-cultural—into a coherent narrative that explains how BMTs function as both innovation adopters and diffusers. It also highlights the strategic pathways through which BMTs can sustain their mission amid digital disruption, regulatory shifts, and evolving community needs.

Future research should explore comparative case studies of BMTs across regions to understand the variance in innovation capabilities and outcomes. Additionally, quantitative studies could measure the direct impact of BMT innovations on poverty reduction, financial literacy, and environmental sustainability. Finally, longitudinal research is necessary to trace how institutional learning and adaptation affect the long-term viability of BMT-driven financial innovation. In conclusion, BMTs stand as exemplary institutions that blend Islamic ethical finance with pragmatic, innovation-oriented strategies. Their capacity to respond to societal needs while remaining grounded in sharia principles makes them indispensable actors in the global discourse on sustainable and inclusive finance.

CONCLUSION AND RECOMENDATION

This study concludes that Baitul Maal wat Tamwil (BMT) plays a pivotal role in facilitating the diffusion of sustainable financing innovation through a value-driven, sharia-compliant business model. By integrating social and commercial financial functions, adopting digital technologies, and forming strategic partnerships, BMTs

have demonstrated the capacity to deliver inclusive, ethical, and resilient financial solutions. Their commitment to *maqasid al-shariah*—promoting justice, social welfare, and wealth redistribution—positions them as institutional catalysts in reshaping Islamic microfinance toward sustainability. This research contributes to the literature by offering a comprehensive narrative synthesis that links innovation theory with the practice of Islamic financial intermediation at the micro level. The findings underscore BMTs' potential to bridge financial gaps and address socio-economic inequality while preserving religious and ethical integrity. The study affirms that sustainable development within Islamic finance is best achieved when institutional innovation is rooted in both community values and adaptive strategies, making BMTs critical players in the evolution of sharia-based financial ecosystems.

Limitation of the Study

This study is limited by its reliance on secondary sources and literature-based data, which may not fully capture emerging practices or on-the-ground dynamics within BMTs. As a narrative review, it synthesizes existing knowledge but does not include empirical validation through fieldwork, interviews, or quantitative measurement. Furthermore, the diversity of BMTs across different regions in Indonesia—and variations in their governance, capacity, and digital readiness—may limit the generalizability of the thematic conclusions drawn. While the study provides a rich conceptual framework, it does not address causal relationships or the direct measurement of impact. In addition, most literature reviewed is from Southeast Asia, which may constrain the global applicability of its findings. Future empirical investigation is needed to assess the practical effectiveness and limitations of the innovation models discussed.

Recommendations for Future Research

Future research should expand this narrative review with empirical studies that examine BMT operations across different socio-economic and geographical contexts. Comparative case studies between rural and urban BMTs could reveal insights into how innovation strategies vary according to local needs, infrastructure, and regulatory conditions. Quantitative research could assess the direct impact of specific BMT innovations on financial inclusion, poverty alleviation, gender empowerment, and environmental sustainability. Furthermore, longitudinal studies are recommended to analyze how innovation practices evolve over time within Islamic microfinance institutions. Researchers should also investigate the interplay between regulatory environments, digital transformation, and sharia compliance. Finally, exploring global comparative models—particularly integrating insights from Islamic finance ecosystems outside Southeast Asia—could enrich the theoretical and practical understanding of sustainable innovation in sharia-based microfinance.

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