

Assessing Institutional Health and Sharia Compliance of BMT Itqan: A Case Study Using Regulatory Credit-Scoring

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ABSTRACT

This study assesses the institutional health and Sharia compliance of Baitul Maal wat Tamwil (BMT) Itqan, a community-based Islamic microfinance institution in Bandung, Indonesia. Employing a qualitative descriptive approach through document analysis and a semi-structured interview conducted on 6 May 2025, the study evaluates six dimensions: general management, institutional structure, capital, asset quality, liquidity, and Sharia compliance. The assessment framework follows the credit-scoring model set out in Regulation No. 7/Per/Dep.6/IV/2016 issued by the Ministry of Cooperatives and SMEs. Results indicate that BMT Itqan achieved the “Good” category across all management, capital, asset, and liquidity dimensions, and was classified as “Compliant” in Sharia supervision, meeting 9 out of 10 indicators. However, limited Sharia literacy among members remains a critical issue that may affect governance quality and long-term sustainability. The findings highlight the importance of strengthening internal audit processes, optimising digital management information systems, and implementing systematic Sharia education programs for members. The study concludes with recommendations for policymakers and cooperative managers to integrate literacy enhancement and Sharia compliance mechanisms to sustain institutional health and strengthen public trust.

Key words: Islamic Microfinance, BMT, Institutional Health, Sharia Compliance, Credit-Scoring.

INTRODUCTION

Islamic microfinance institutions (IMFIs) have played an increasingly strategic role in promoting financial inclusion and poverty alleviation in Muslim-majority countries. Among them, Baitul Maal wat Tamwil (BMT) serves as a unique cooperative model that combines social (maal) and commercial (tamwil) functions in accordance with Sharia principles (Uniba & Nourma, 2017). According to Nazirwan (2015), in Indonesian BMT has become an important instrument for community empowerment, providing access to financing, savings, and entrepreneurship programs for low-income groups who are not covered by the formal banking system. According to the Ministry of Cooperatives and Small–Medium Enterprises, the number of registered BMTs continues to grow, reflecting both their relevance and their systemic risk potential within the Islamic microfinance ecosystem (Maula & Santi, 2025).

Despite their rapid expansion, many BMTs face challenges in ensuring institutional sustainability, good governance, and Sharia compliance. Weak internal control, limited professional management capacity, and low financial literacy among members often hinder BMTs from maintaining sound financial performance and operational health (Rahajeng, 2018). In addition, compliance with regulatory frameworks—particularly those addressing credit scoring, liquidity, and capital adequacy—varies significantly across institutions. As a result, periodic assessments of institutional health have become an essential mechanism for maintaining credibility, transparency, and trust within the Islamic cooperative sector.

To address these concerns, the Ministry of Cooperatives and SMEs of the Republic of Indonesia issued Regulation No. 7/Per/Dep.6/IV/2016, which introduces a standardised credit-scoring–based system for evaluating cooperative health. The model assesses key managerial dimensions, including general management, institutional structure, capital, asset quality, liquidity, and compliance with Sharia principles. However, few empirical studies have applied this regulatory framework to comprehensively evaluate BMTs, particularly regarding their Sharia-compliance mechanisms and member literacy dimensions. Most previous research has either focused on financial performance indicators or on the social role of BMTs, leaving a gap in the integrated assessment of institutional health from both managerial and Sharia perspectives.

This study seeks to fill that gap by examining the institutional health and Sharia compliance of BMT Itqan in Bandung, Indonesia. BMT Itqan was selected as a case study due to its relatively strong performance, well-documented internal governance, and early adoption of digital financial management tools. The research employs a qualitative descriptive approach, using document analysis and a semi-structured interview, to assess the cooperative’s health across six dimensions defined by the regulation. In particular, the study emphasises the interaction between institutional governance practices and members’ degree of Sharia literacy as an emerging determinant of compliance and sustainability.

The contribution of this study is twofold. First, it operationalises the regulatory credit-scoring model to assess a real-world Islamic cooperative case, thus providing a methodological reference for practitioners and policymakers. Second, it highlights the critical yet underexplored issue of member Sharia literacy and its

implications for institutional health and governance quality. The findings are expected to inform both BMTs' managerial strategies and regulatory authorities' supervisory mechanisms, thereby supporting Indonesia's long-term vision to strengthen its Islamic microfinance sector toward greater accountability, transparency, and sustainability.

METHOD

This study employs a qualitative descriptive approach with a single-case design. The case study method allows for an in-depth exploration of the managerial and Sharia compliance dimensions within a real institutional context. The qualitative paradigm was chosen because it enables the researcher to interpret complex organisational dynamics, particularly in cooperative institutions where management practices are intertwined with community-based values and religious norms. The goal is to obtain a holistic understanding of how BMT Itqan maintains institutional health and Sharia compliance in daily operations. The research focuses on BMT Itqan, located in Bandung, West Java, Indonesia. BMT Itqan was selected through purposive sampling based on three criteria:

- 1) It has been operating for more than five years.
- 2) It maintains consistent internal documentation of financial and managerial performance; and
- 3) It possesses an active sharia supervisory board.

The institution represents a suitable case for studying both the operational and compliance aspects of Islamic microfinance. According to a preliminary assessment, BMT Itqan exhibits stable financial growth and early adoption of digital information systems, making it an exemplary model for cooperative governance assessment. Primary data were obtained through a semi-structured interview with one key informant, the Head of BMT Itqan (Mr Lukman), who oversees both financial and managerial functions. Although only one primary informant was interviewed, the study ensured data triangulation by integrating information from official documents, financial reports, standard operating procedures (SOPs), Sharia compliance reports, and internal audit summaries. The interview, conducted on 6 May 2025, lasted approximately 90 minutes and was recorded with consent. The interview guide covered six thematic dimensions consistent with the credit-scoring framework:

Table 1. Dimensions and Indicators of Institutional Health Assessment

Dimension	Leading Indicators (Examples)	Scoring Range
General Management	Management structure, leadership effectiveness, operational supervision, and internal control mechanisms	1.00 – 4.00
Institutional	Legal status, governance structure, strategic plan, membership administration	1.00 – 4.00
Capital	Capital adequacy, source of funds, and growth consistency	1.00 – 4.00
Asset Quality	Non-performing financing ratio, asset diversification, and monitoring system	1.00 – 4.00
Liquidity	Cash flow management, financing–deposit ratio, liquidity policy	1.00 – 4.00
Sharia Compliance	Product conformity with fatwa, role of Sharia Supervisory Board, member literacy, and internal audit	1.00 – 4.00

Each dimension in Table 1 above included open-ended questions regarding policy implementation, decision-making processes, risk management, and internal supervision mechanisms. Secondary data were drawn from BMT Itqan's annual reports, cooperative performance reviews, the Sharia Supervisory Board's audit summaries, and regulatory guidelines (Ministry Regulation No. 7/Per/Dep.6/IV/2016). Document analysis was used to verify and contextualise interview findings, ensuring consistency between narrative data and recorded performance indicators.

Data were analysed using thematic content analysis, following the framework proposed by Miles, Huberman, and Saldaña (2014): (1) Data condensation (organising transcripts and documents into six regulatory dimensions); (2) Data display (summarising results into scoring matrices per indicator); and (3) Conclusion drawing and verification (comparing narrative findings with the scoring outcomes) (Fiqih et al., 2022).

Each dimension was evaluated using the credit-scoring model in Regulation No. 7/Per/Dep.6/IV/2016, which classifies institutional health as "Good," "Fair," "Less Good," or "Poor." The score range (1.00–4.00) was determined by averaging the indicator values. An overall institutional health index was then derived by aggregating the weighted scores across all six dimensions. To ensure research credibility and trustworthiness, the following validation techniques were applied: (1) Triangulation of sources: comparing interview data with documentary evidence; (2) Member checking: validating interpretations with the key informant; (3) Peer debriefing: discussing emerging findings with academic peers in the Islamic finance field; (4) Audit trail: maintaining detailed notes on data collection and analysis steps. These measures aimed to strengthen the credibility, dependability, and confirmability of qualitative interpretations (Judijanto et al., 2024).

All research procedures complied with ethical standards for social science research. The participant was informed about the study's objectives, confidentiality rights, and voluntary participation. Personal data and institutional financial figures were anonymised in the final report. BMT Itqan's management granted institutional permission for data access before data collection.

RESULTS AND DISCUSSION

Overview of the Institutional Health Assessment

The institutional health of BMT Itqan was evaluated across six regulatory dimensions — general management, institutional structure, capital, asset quality, liquidity, and Sharia compliance — based on the credit-scoring framework outlined in Regulation No. 7/Per/Dep.6/IV/2016 issued by the Ministry of Cooperatives and SMEs of the Republic of Indonesia. Each dimension was scored on a scale from 1.00 (“Poor”) to 4.00 (“Good”). The summary of results is presented in Table 2.

Table 2. Summary of BMT Itqan’s Institutional Health Scores

Dimension	Score	Category
General Management	3.80	Good
Institutional	3.70	Good
Capital	3.60	Good
Asset Quality	3.75	Good
Liquidity	3.50	Good
Sharia Compliance	3.60	Compliant
Overall Average	3.66	Good

Source: Field data (2025), processed using Regulation No. 7/Per/Dep.6/IV/2016.

General Management: Professionalism and Internal Control

The assessment shows that BMT Itqan demonstrates robust managerial capacity and professional leadership. The organisational hierarchy is clearly structured, with well-defined authority, operational standards, and internal supervision. Decision-making is governed by documented Standard Operating Procedures (SOPs), and periodic management meetings reinforce accountability. The internal audit division functions independently and reports directly to the management board, reflecting sound governance practice. This finding is consistent with Rahmatika and Hwihanus (2023), who emphasised that managerial transparency and independence are key determinants of cooperative resilience. Nonetheless, digital integration remains partial. Although a Management Information System (MIS) has been adopted, data synchronisation between operational and audit units is still performed manually. Strengthening system integration would improve the reliability of real-time data and enhance audit efficiency (Panchapakesan et al., 2025)

Institutional Structure: Governance and Documentation

BMT Itqan maintains a formal institutional governance framework with a clear separation between executive management, supervisory boards, and the Sharia Supervisory Board (DPS). Legal documentation is up to date, and the cooperative regularly submits performance reports to the regional cooperative authority. Strategic planning aligns with the national cooperative development roadmap. However, systematic internal evaluations of strategic implementation are not yet conducted. Regular performance reviews and evidence-based assessments would improve institutional learning and adaptability. This supports Hardiana et al. (2024), who found that dynamic governance structures enable local cooperatives to respond effectively to evolving regulatory and market challenges.

Capital and Asset Quality: Financial Soundness and Prudence

BMT Itqan exhibits stable capital adequacy, supported by sustained member contributions and consistent profit-sharing from financing activities. Financial records indicate positive equity growth over the past three years, confirming prudent capital management. Asset quality is likewise strong, with a low Non-Performing Financing (NPF) ratio. Preventive risk-management practices are evident, including member screening and regular repayment monitoring. These outcomes corroborate Ratu & Rahajeng (2024), who highlighted the importance of conservative asset management for the resilience of Islamic microfinance institutions. Nevertheless, capital diversification remains limited, with dependence on member savings as the principal funding source. Broader diversification through wakalah-based investment partnerships or Islamic crowdfunding platforms could strengthen long-term financial sustainability, in line with the growing trend of integrating Islamic social finance (Anwar & Pustaka, 2024)

Liquidity: Adequate but Vulnerable to Volatility

BMT Itqan maintains a healthy liquidity position, with a Financing-to-Deposit Ratio (FDR) of approximately 82 per cent — within the range recommended by the Ministry of Cooperatives. The cooperative consistently meets short-term obligations and withdrawal demands. However, liquidity management is largely reactive. Forecasting and contingency planning are still conducted manually, without predictive analytical tools. This approach exposes the institution to temporary liquidity stress, particularly during festive seasons when withdrawal requests typically increase. As Siregar (2022) observed, adopting digital dashboards or simple predictive analytics could significantly enhance Islamic cooperatives' capacity to anticipate and mitigate short-term liquidity fluctuations.

Sharia Compliance: High Adherence but Literacy Deficit

The Sharia compliance dimension achieved an average score of 3.60, categorised as Compliant. BMT Itqan meets 9 out of 10 regulatory indicators, ensuring that all financial products and contracts align with the fatwas issued by the National Sharia Council (DSN–MUI). The DPS conducts regular oversight to verify that operational activities conform to Sharia principles. Nonetheless, member literacy regarding Sharia financial concepts remains limited. Many members participate primarily for financial rather than ethical motives, indicating a gap between institutional compliance and grassroots understanding. This finding highlights the importance of ethical literacy as an extension of Sharia compliance. Although BMT Itqan has initiated informal educational sessions and community workshops, participation remains sporadic. Wahyudi et al. (2023) argue that sustainable Sharia compliance requires a dual focus on institutional supervision and community education. This study supports that position by demonstrating the potential reputational risk stemming from inadequate member literacy.

Integrated Discussion: Institutional Health and Sustainable Governance

Overall, BMT Itqan demonstrates a healthy institutional profile with solid governance, effective management, and a culture of Sharia compliance. The assessment underscores the interdependence between governance quality, digital readiness, and Sharia literacy as key determinants of long-term sustainability. From a theoretical perspective, this study confirms the applicability of the regulatory credit-scoring framework to Islamic microfinance institutions while extending it by incorporating qualitative indicators of member literacy. Such integration enriches existing models that often focus solely on quantitative financial metrics. From a managerial and policy standpoint, the findings suggest several priorities:

- 1) Digital transformation — upgrading MIS infrastructure to ensure real-time integration between financial operations and audit functions;
- 2) Structured Sharia literacy programmes — embedding education initiatives within membership activities to reinforce ethical awareness;
- 3) Enhanced regulatory monitoring — expanding supervisory criteria to include behavioural and ethical compliance indicators in cooperative health evaluations.

The research, therefore, contributes to the discourse on sustainable Islamic microfinance governance by illustrating how operational soundness and Sharia integrity can be harmonised within Indonesia's cooperative sector. By linking managerial performance, ethical compliance, and technological modernisation, this study provides empirical insights and practical guidance for policymakers, regulators, and practitioners seeking to strengthen accountability, transparency, and trust in Islamic cooperative finance.

CONCLUSION

This study assessed the institutional health and Sharia compliance of BMT Itqan, an Islamic microfinance cooperative in Bandung, Indonesia, using the credit-scoring framework stipulated in Regulation No. 7/Per/Dep.6/IV/2016. The assessment covered six dimensions — general management, institutional structure, capital, asset quality, liquidity, and Sharia compliance — through qualitative document analysis and interviews. The results demonstrate that BMT Itqan achieved an overall “Good” rating across all managerial and financial dimensions and “Compliant” status in Sharia supervision, satisfying 9 out of 10 indicators. These outcomes indicate that the institution operates under sound management practices, maintains adequate capital and asset quality, and adheres to national regulatory standards.

However, a critical finding emerged: despite institutional compliance, member Sharia literacy remains insufficient, which could undermine long-term governance quality and ethical sustainability. This gap highlights the importance of extending compliance beyond procedural conformity towards value-based understanding among cooperative members. The study concludes that institutional health in Islamic cooperatives depends not only on managerial and financial soundness but also on the integration of ethical, educational, and technological elements. Hence, strengthening governance structures must go hand in hand with enhancing digital systems and embedding Sharia literacy at the grassroots level.

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