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The transformation of the role of Sharia microfinance institutions in improving the quality of life of the community: Empirical evidence from BMTS in South Tangerang

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Abstract

This study aims to analyze the role of Islamic Microfinance Institutions (LKMS) in improving community welfare, particularly in terms of access to healthcare and the reduction of social inequality, in line with Sustainable Development Goals (SDGs) 3 and 10. This research employs a descriptive qualitative approach, with data collected through in-depth interviews with management and members, as well as observations of financing activities at Baitul Maal wat Tamwil (BMT) Universitas Muhammadiyah Jakarta (UMJ). The findings reveal that LKMS plays a significant role in enhancing financial inclusion by providing accessible financing based on Islamic principles. The financing is utilized not only for productive purposes but also for education and healthcare needs, thereby contributing to improved household economic resilience. In addition to its commercial function, LKMS also performs a social role by providing qardhul hasan financing for vulnerable groups, serving as a protective alternative against exploitative online lending practices.

Public interest statements

The study identifies several challenges, including perceptions of relatively high financing costs, limited service outreach, and suboptimal use of technology to support access and service efficiency. This study contributes by reinforcing the role of LKMS as an instrument of socio-economic empowerment based on maqashid sharia, particularly in safeguarding wealth (hifz al-mal) and life (hifz al-nafs), in supporting inclusive and equitable sustainable development.

Keywords: Islamic Microfinance Institutions; Financial Inclusion; Community Welfare; Healthcare Access; Social Inequality; Maqashid Sharia; Qardhul Hasan; Online Lending
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Abstrak

Penelitian ini bertujuan untuk menganalisis peran Lembaga Keuangan Mikro Syariah (LKMS) dalam meningkatkan kesejahteraan masyarakat, khususnya terkait akses layanan kesehatan dan pengurangan ketimpangan sosial, sejalan dengan Tujuan Pembangunan Berkelanjutan (SDGs) nomor 3 dan 10. Penelitian ini menggunakan pendekatan kualitatif deskriptif, dengan pengumpulan data melalui wawancara mendalam bersama pihak manajemen dan anggota, serta observasi terhadap kegiatan pembiayaan di Baitul Maal wat Tamwil (BMT) Universitas Muhammadiyah Jakarta (UMJ). Hasil penelitian menunjukkan bahwa LKMS berperan signifikan dalam meningkatkan inklusi keuangan dengan menyediakan akses pembiayaan yang mudah dijangkau berdasarkan prinsip-prinsip syariah. Pembiayaan tersebut tidak hanya dimanfaatkan untuk tujuan produktif, tetapi juga untuk kebutuhan pendidikan dan kesehatan, sehingga berkontribusi pada peningkatan ketahanan ekonomi rumah tangga. Selain fungsi komersialnya, LKMS juga menjalankan peran sosial dengan menyediakan pembiayaan *qardhul hasan* bagi kelompok rentan, yang berfungsi sebagai alternatif perlindungan dari praktik pinjaman online yang eksploitatif.

Pernyataan relevansi bagi publik

Penelitian ini mengidentifikasi beberapa tantangan, antara lain persepsi mengenai biaya pembiayaan yang relatif tinggi, jangkauan layanan yang terbatas, serta pemanfaatan teknologi yang belum optimal dalam mendukung akses dan efisiensi layanan. Penelitian ini memberikan kontribusi dengan memperkuat peran LKMS sebagai instrumen pemberdayaan sosial-ekonomi yang berlandaskan maqashid syariah—khususnya dalam menjaga harta (*hifz al-mal*) dan jiwa (*hifz al-nafs*)—guna mendukung pembangunan berkelanjutan yang inklusif dan berkeadilan.

Keywords: Asuransi Lembaga Keuangan Mikro Syariah; Inklusi Keuangan; Kesejahteraan Masyarakat; Akses Layanan Kesehatan; Ketimpangan Sosial; Maqashid Syariah; Qardhul Hasan; Pinjaman Online

Introduction

Over the past two decades, Indonesia has experienced consistent economic growth, as evidenced by the steady increase in Gross Domestic Product (GDP). Nevertheless, these achievements do not fully reflect an equitable distribution of prosperity. The Comprehensive Wealth Report — Indonesia confirms that, in real per capita terms, Indonesia's GDP rose from Rp27.5 million (USD 5,860) to Rp54.1 million (USD 11,500), with an average annual growth rate of just 2.8%. This finding suggests a discrepancy between increases in national wealth and its conversion into real economic output (Nandita, 2024). The report (Askar, 2024) also reveals that the wealth of the 50 richest people in Indonesia is equivalent to that of the 50 million poorest residents, while the majority of low-income people still struggle to meet their basic needs, including healthcare and education. Consequently, the economically disadvantaged, as well as Micro, Small, and Medium Enterprises (MSMEs) – which should serve as the foundation of the people's economy – continue to encounter constrained access to formal financial services and healthcare. This discrepancy is becoming increasingly evident as the public increasingly relies on informal loans and online lending platforms (pinjol). Whilst these platforms offer convenience and expediency, concerns have been raised regarding their role in facilitating high-interest debt and inhumane collection practices, particularly for individuals and SME owners. This situation has been shown to exacerbate the economic burden on households and perpetuate a cycle of poverty (Hadiyati, 2022). From an Islamic perspective, such practices are considered to constitute usury, as Allah the Almighty states, "Allah has permitted trade and forbidden usury." (Quran 2:275) (Cordoba, 2018).

The emergence of Sharia Microfinance Institutions (LKMS) has been identified as a solution to this problem, with a financing system based on Islamic values. LKMS is committed to providing equitable, ethical, and community-oriented financial alternatives through mechanisms that uphold the principles of honesty, justice, and inclusion. Sharia Microfinance Institutions (LKMS) have been shown to play a crucial role in improving the welfare of MSME actors (Rinawati et al., 2025). The principles of ta'awun (mutual aid) and social justice form the foundation of LKMS in fulfilling the social and economic functions of the community. The utilization of contractual frameworks, including mudharabah, musyarakah, and qardhul hasan, enables LKMS to promote community-driven economic growth, enhance well-being, and address healthcare requirements without resorting to usury. Irfan Syauqi Beik, Nur Rianto, and Irfan Syauqi Beik (2022) emphasize that Islamic Microfinance Institutions (IMFIs), such as Baitul Maal wat Tamwil (BMT), represent a concrete implementation of Islamic microeconomics. These institutions fulfill a dual function, acting not only as conduits for the distribution of financing but also as instruments for community empowerment through the integration of the financial and social sectors, as exemplified by zakat, infaq, and sedekah. It is anticipated that, in accordance with this principle, LKMS will establish a financial system that is both equitable and oriented toward enhancing the socio-economic status of disadvantaged populations. Although LKMS are normatively expected to perform both commercial and social functions, empirical evidence demonstrating how these dual roles contribute to improving healthcare access among low-income communities remains limited.

Existing studies have predominantly examined LKMS from the perspective of productive financing and MSME development. At the same time, relatively little attention has been paid to their contribution to public health and social equity. This empirical gap underscores the importance of examining the role of LKMS beyond economic outcomes, particularly in relation to SDGs 3 and 10. In his book Microfinance Handbook (Ledgerwood, 2000), the author explores microfinance. In an Institutional and Financial Perspective*, the author explains that poverty is not solely attributable to low income, but also stems from the exclusion of the economically disadvantaged from the conventional financial system. Microfinance institutions function as conduits, connecting low-income communities with productive financial resources, while concurrently operating as instruments for social empowerment, enhancing household economic independence. In the context of global development, the United Nations' Sustainable Development Goals (SDGs) underscore the significance of inclusive and sustainable development. Two goals that are pertinent to this study are SDG 3 (Good Health and Well-being) and SDG 10 (Reduced Inequalities). As elucidated by the Sustainable Development Goals, SDG 3 emphasizes the importance of enhancing access to healthcare for all societal demographics, whilst SDG 10 highlights the reduction of economic and social inequalities. These two goals align with Islamic values of justice, well-being, and equity. Within the Indonesian context, LKMS fulfills a pivotal function in supporting the achievement of these SDGs. An inclusive microfinance model can be utilized by Islamic microfinance institutions (LKMS) to facilitate enhanced access for economically disadvantaged individuals to health services, productive enterprises, and community-based social funds. LKMS's provision of enhanced access to financing contributes to improved well-being and reduced inequality (Setiadi, 2021). The present study focuses on the role of LKMS in improving health and alleviating poverty based on SDGs 3 and 10, to explore the extent to which Islamic microfinance institutions can serve as instruments of economic empowerment and drivers of equitable social welfare. It is anticipated that this study will contribute to the enhancement of Islamic microeconomic policies, rendering them more inclusive, robust, and sustainable.

Research on Sharia Microfinance Institutions (SMIs) has primarily focused on their role in economic empowerment, poverty alleviation, and the development of MSMEs (Yolanda et al., 2024; Syahdanur & Suyadi, 2018). SMIs have been demonstrated to facilitate business financing and social activities for low-income communities, drawing upon zakat, infak, and sedekah. However, there has been a paucity of research linking the role of LKMS to improvements in public health and the reduction of social inequality. Ledgerwood (2000) posits that poverty is not solely a matter of income, but also pertains to limited access to fundamental services, including healthcare. Within the context of the Sustainable Development Goals (SDGs), Goals 3 (Good Health and Well-Being) and 10 (Reduced Inequality) underscore the importance of equitable distribution of well-being and health. There has been a paucity of research in Indonesia examining the contribution of LKMS to the achievement of these two SDGs through value-based social and economic activities. The present study is distinguished by several aspects that set it apart from previous research. Firstly, it combines economic and health dimensions in examining the role of LKMS, rather than focusing solely on income generation. Secondly, it links the role of LKMS to SDGs 3 and 10, thereby making this study relevant to the global sustainable development agenda. Thirdly, it employs the maqashid syariah perspective (hifz al-nafs and hifz al-mal) to explain how LKMS contributes to the physical and spiritual well-being of the economically disadvantaged. The fourth point to consider is the provision of a conceptual model of the socio-economic role of LKMS in supporting health and equitable well-being.

Furthermore, this study operationalizes the Islamic principle of ta'awun as the conceptual foundation explaining how LKMS integrates its commercial and social functions to improve community welfare, healthcare access, and social inclusion (Beik et al., 2022). Accordingly, this study positions LKMS not merely as a microfinance institution, but also as a financial enabler that complements broader efforts to improve public health and reduce social inequality in line with SDGs 3 and 10 (Ledgerwood, 2000; Setiadi, 2021).

The objective of this research: Firstly, the manner in which LKMS contributes to the reduction of social and economic inequality in accordance with Sustainable Development Goals (SDGs) 3 and 10 concerning the promotion of healthy and prosperous lives and the reduction of economic inequality must be determined. Secondly, the factors influencing the effectiveness of LKMS's role must be identified. Thirdly, the determination of strategies for the enhancement of LKMS, with a view to its capacity to provide more effective support for social welfare and public health in accordance with Sharia principles.

Literature Review

The notion of al-ma'un and its role in promoting well-being

From an Islamic perspective, economic inequality and limited access to healthcare are not merely economic issues, but also moral and social concerns. The Qur'an places significant emphasis on the imperative of ensuring equitable distribution of wealth, and it prohibits the hoarding of wealth by a select few. This principle is articulated in Surah Al-Hasyr: 7, which states, "So that wealth does not circulate only among the wealthy among you..." (Cordoba, 2018). The distribution of wealth is a key factor in perpetuating social inequality, so individuals from disadvantaged backgrounds are often unable to achieve an adequate standard of health and well-being. Consequently, Sharia Microfinance Institutions (LKMS) must function as instruments to achieve justice ('adl) and the common good (maslahah 'ammah). The concept of Sharia Microfinance Institutions (LKMS) is rooted in the principles of ta'awun (mutual aid) and ukhuwah insaniyah (human brotherhood) as taught in Islam. This principle aligns with the spirit of Al-Ma'un, which forms the foundation of the Muhammadiyah movement (Pimpinan

Muhammadiyah, 2000). It is important to note, however, that the spirit of Al-Ma'un serves as the ethical and philosophical foundation of LKMS rather than a direct representation of its operational mechanisms. While Al-Ma'un emphasizes charitable assistance without expectation of return, LKMS integrates both social instruments (such as zakat, infaq, and sadaqah) and Sharia-compliant commercial financing contracts, including mudharabah, musyarakah, and qardhul hasan, to achieve sustainable community empowerment through his interpretation of Surah Al-Ma'un, KH. Ahmad Dahlan's teachings emphasized the necessity of religion being manifest in tangible social action, particularly through assistance to the economically disadvantaged, orphans, and other vulnerable groups. Consequently, when LKMS provides microfinance to economically disadvantaged individuals, particularly for healthcare expenses or small business ventures, it can be considered an implementation of the principles of Al-Ma'un, specifically the concept of utilizing social services as a demonstration of faith. The Al-Ma'un Movement is the ideological foundation upon which all of Muhammadiyah's initiatives in the domains of education, health, and the economy are based. These initiatives seek to assist others as a tangible expression of faith.

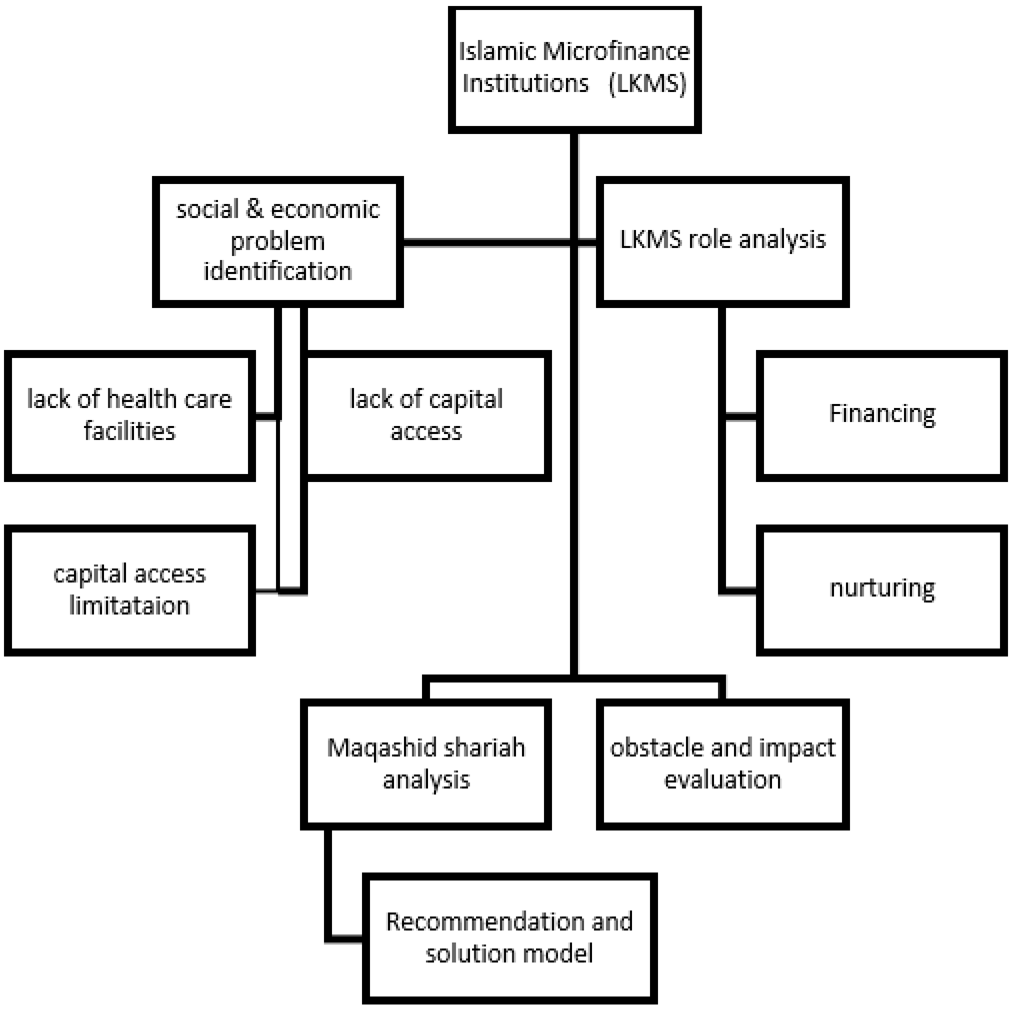

Figure 1.
Conceptual Framework

Technology and financing

The advent of digital technology has concomitantly engendered both convenience and challenges for society, most notably the proliferation of online lending platforms, which have at times been likened to "digital loan sharks". Illegal online lenders promise swift access to funds; however, they ensnare low-income individuals and small business owners in a pernicious cycle of exorbitant interest rates and unconscionable debt collection practices. From an Islamic standpoint, such practices are considered to fall under the category of usury, which Allah SWT explicitly prohibits. In Surah Al-Baqarah 275, Allah states: "Allah has permitted trade and forbidden usury." The contemporary manifestation of usury, in the guise of digital lending platforms, represents an economic system that stands in direct opposition to the principles of justice and social compassion (ta'awun). Consequently, the function of LKMS in enhancing health and reducing poverty, as outlined in SDGs 3 and 10, can serve as a secure alternative to the exploitative nature of online loans. In relation to Sharia fintech, Hartutik et al. (2023) observe that despite the nascent stage of development of this field, it has already attracted significant public interest.

The approach employed in this study is a microfinance-based empowerment strategy grounded in Islamic finance, with a focus on analyzing the socioeconomic role of LKMS in supporting the enhancement of the well-being of the economically disadvantaged. This approach combines empirical, social and normative aspects of Islamic finance. The following conceptual framework has been developed to examine the role of LKMS in relation to health services and income inequality.

Methods

Sampling procedure

This study employs a descriptive qualitative approach, utilizing purposive sampling to select informants. Purposive sampling involves selecting informants based on specific criteria pertinent to the research objectives (Creswell & Poth, 2018). The informants in this study consist of managers and members of the Baitul Maal wat Tamwil (BMT) at the University of Muhamadiyah Jakarta (UMJ) who have direct experience in financing activities. The following criteria are used to identify suitable informants: Active members who have previously engaged in financing; managers who understand financing policies and practices.

Parties involved in the social functions of the BMT. The selection of informants was meticulously executed to procure exhaustive data concerning the role of LKMS in supporting welfare, access to healthcare, and the reduction of social inequality. This study was conducted at the Baitul Maal wat Tamwil (BMT) of the University of Muhamadiyah Jakarta (UMJ) as the research subject. The selection of BMT UMJ was based on the consideration that this institution is one of the Sharia Microfinance Institutions (LKMS) that actively provide financing to the community in accordance with Sharia principles, and that it fulfills a social function through the distribution of charitable funds. Additionally, UMJ BMT is readily accessible to researchers, facilitating in-depth data collection through interviews and observations. In consideration of these characteristics, UMJ BMT is regarded as a suitable subject for examining the role of Sharia-based Microfinance Institutions (LKMS) in enhancing community welfare.

Measurement

In qualitative research, measurement is not conducted in numerical terms but rather through the exploration of informants' meanings and perceptions regarding the phenomena under study. Consequently, this study uses thematic indicators developed based on the research objectives and conceptual framework (Creswell, John W.; Poth, 2018). The indicators employed in this study encompass a range of factors, including the ease of access to financing, the utilization of financing for productive, educational, and health-related purposes, the impact on household economic well-being, the contribution to access to health (SDG 3), the role in reducing social inequality (SDG 10), and the social functions facilitated by qardhul hasan. The analysis also addresses the challenges encountered, such as perceptions of costs, service limitations, and technology utilization. To this end, a comprehensive set of measurements was conducted through the interpretation of data from interviews and observations. This approach was taken to gain a comprehensive understanding of the role of LKMS.

Analysis Techniques

The data analysis technique employed in this study is descriptive qualitative analysis, conducted through several stages, namely: data reduction, defined as the process of selecting and simplifying data from interviews and observations in accordance with the research focus (Miles, 2014). Data presentation is the organization of data into thematic narratives to facilitate understanding of patterns and relationships among findings. Concluding is the process of interpreting the meaning of the data to address the research objectives. To enhance the validity of the data, this study employed source triangulation, which involves comparing information obtained from BMT managers and members (Creswell & Poth, 2018).

Results and discussion

The findings of this study are based on primary data obtained through in-depth interviews with two groups of informants: the management of BMT UMJ (the director) and BMT members, consisting of faculty and staff. To facilitate analysis and enhance the clarity of the findings, the interview data are not presented solely in a descriptive narrative format. However, they are grouped according to key themes relevant to the research focus. This thematic grouping was conducted by identifying patterns in responses, shared experiences, and key issues emerging from each informant. The perspective of BMT management was analyzed to understand the strategies, policies, and institutional roles in fulfilling social and economic functions. Concurrently, the members' viewpoint was utilized to investigate their experiences, advantages, and perceptions concerning the financing services furnished by the BMT. This approach is expected to provide a more systematic and comprehensive overview of the role of Sharia Microfinance Institutions (LKMS), particularly BMT UMJ, in supporting improved well-being, health, and the reduction of social inequality in line with the Sustainable Development Goals (SDGs) framework. To elucidate the research findings, the interview results are presented in the following thematic Table.

The role of LKMS (in the context of BMT UMJ) in supporting Sustainable Development Goals (SDGs) 3 and 10.

The research findings indicate that BMT UMJ, as part of LKMS, makes a tangible contribution to achieving the SDGs, particularly Goal 3 (Good Health and Well-being) and Goal 10 (Reduced Inequalities). This finding is derived from the interview results with the BMT manager, staff, and members, which consistently indicate that financing provided by BMT UMJ is utilized not only for productive business activities but also to support education, healthcare, and other essential household needs (see Table 1).

From a health perspective (SDG 3), the contribution of LKMS is evident through financing used for productive activities, education and health needs, as well as the distribution of social funds via the qardhul hasan scheme. This financing facilitates members' access to resources that address fundamental needs, a benefit that is particularly salient for economically disadvantaged communities. This finding indicates that LKMS functions as a financial instrument that is not solely profit-oriented but also fulfills a social function in improving the quality of life for the community.

Concurrently, regarding the objective of reducing inequality (SDG 10), LKMS undertakes initiatives to broaden financial inclusion for demographic groups that are otherwise underrepresented, including MSMEs, contract teachers, and the general public. The ease of access to financing offered by BMTs provides an alternative for communities not served by formal financial institutions. Consequently, LKMS functions as a conduit, facilitating the connection between marginalized communities and valuable financial resources (see Table 2).

This finding aligns with the conclusions of Ledgerwood (2000), who asserts that microfinance institutions function as conduits to facilitate financial inclusion for economically disadvantaged populations, as well as the instrument of social and economic empowerment. Furthermore, this finding is strengthened by interviews with the business owners at UMJ food court. They said that financing from BMT was used to support their business sustainability and fulfill their needs, including for education. These findings demonstrate that LKMS generates multidimensional impacts encompassing both economic and social dimensions simultaneously.

Table 1.
Access to finance and financial inclusion (Theme 1)

Perspective	Key Findings	Informant Quotes
Management	Financial resources are available to the UMJ community and the general public, with a particular focus on SMEs in the Ciputat area.	"Membership in BMT is open to the general public as well as SMEs in Ciputat."
Members	The application and disbursement process is characterized by its ease and expediency.	"Easy and fast disbursement"
Micro Business Owner (food court at UMJ)	Enrolment process is very easy for members and the process is simple	Easy process due to already be a member

Factors affecting the effectiveness of the role of LKMS

Several key factors influence the effectiveness of LKMS in poverty alleviation and health improvement. This discussion is based on findings from interviews with the BMT manager, staff, and members, which consistently identified accessibility, service efficiency, financing flexibility, and social values as key factors influencing the effectiveness of LKMS. First, ease of access and speed of service have been identified as dominant factors that enhance the appeal of LKMS. The expeditious process of applying for and disbursing funds provides solutions for members in urgent situations, enabling LKMS to compete with other digital financial services. This factor strengthens LKMS's position as a competitive alternative to non-Sharia digital financial services and online lending platforms.

Secondly, the flexibility of the financing scheme, particularly through the weekly installment system, is a distinct advantage. This scheme is considered better suited to the characteristics of micro-enterprises' cash flow, which tends to be volatile. Consequently, members do not face excessive financial pressure in meeting their payment obligations. This flexibility reflects the principles of justice (adl) and the public good in Islamic economics.

Thirdly, social values and a family-oriented approach are distinctive strengths of LKMS. The persuasive approach to financing management, including in the collection process, reflects the value of ta'awun (mutual assistance), which forms the operational basis of Islamic financial institutions. This is a key distinguishing feature from online lending practices, which tend to be exploitative and inhumane.

Fourthly, the use of simple technologies such as WhatsApp and Google Forms also supports service efficiency. Although not yet optimal, this digitalization demonstrates LKMS's adaptation to technological developments in improving the accessibility of financial services. However, there is a limiting factor that requires attention, namely the perception among some members that the financing costs are relatively high. Furthermore, the interview findings indicate that awareness-raising regarding the financing services is still not optimal, meaning that not all members of the community are aware of the existence and benefits of the LKMS. This suggests that the challenges facing the LKMS lie not only in operational aspects, but also in education and communication with the community.

Table 2.
The utilization of financing for the promotion of well-being and health (SDG 3) (Theme 2)

Perspective	Key Findings	Informant Quotes
Management	BMT facilitates social financing, otherwise referred to as "qardhul hasan," to address pressing needs within communities, such as those related to healthcare and education	"Qardhul hasan for teachers... urgent needs"
Members	The funds are used for education, household expenses, and business	"Used for education… family needs"
Micro Business Owner (food court at UMJ)	Loans are used for business capital and family's education	"used for business and school fees"

Strategies for Strengthening Community-Based Microfinance Institutions to Support Well-being

In light of the research findings, efforts to strengthen LKMS must prioritize several integrative key strategies. First, the integration of social and business functions must continue to be strengthened so that LKMS can fulfill their dual role as both financial institutions and community empowerment organizations. Achieving a balance between social and commercial objectives. With this integration, LKMS will not only serve as a financial institution but also as an instrument of community empowerment based on Islamic values.

Secondly, there is a need to expand community-based microfinance initiatives to reach a more extensive segment of the population. Community-based approaches, including those involving MSME groups, teachers, and religious study groups, have the potential to enhance the effectiveness of collective economic empowerment.

Thirdly, enhancing financial literacy regarding Islamic financial instruments is imperative to facilitate a deeper understanding among members of contracts and financing mechanisms. This, in turn, is expected to mitigate existing ambiguities concerning costs and profit-sharing systems. Fourthly, optimizing digitalization is a pivotal strategy for enhancing the competitiveness of LKMS in the fintech era. Digitalization has been shown to improve service efficiency, broaden reach, and strengthen institutional transparency. Implementing these strategies is expected to enhance the efficacy of LKMS in promoting sustainable community welfare. The development of a simple yet effective digital platform could further expand service outreach and improve accessibility for a wider community. With this strategy, LKMS has great potential to become a financial instrument that is not only profit-oriented but also plays a role in fostering social justice, improving quality of life, and sustainably reducing economic inequality in society.

Table 3.
The Role of Community-Based Organizations in Reducing Social Inequality (SDG 10) (Theme 3)

Perspective	Key Findings	Informant Quotes
Management	BMT serves unbanked groups such as MSMEs, teachers, and the general public	"For MSMEs… homemakers… teachers"
Members	BMT helps members overcome limited access to financial services	"It's been a huge help"
Micro Business Owner (food court at UMJ)	BMT helps businessmen to run their businesses without capital limitation	"its very useful for running our businesses"

Table 4.
Social Values and Humanistic Approaches of LKMS (Theme 4)

Perspective	Key Findings	Informant Quotes
Management	A persuasive approach is used in credit management and collections	"A persuasive approach… waiting until they can afford to pay"
Members	BMT places a strong emphasis on a sense of community in its services	"The family system comes first"
Micro Business Owner (food court at UMJ)	Relationship between BMT and members are very close and support the business sustainability	" very helpful and not burdensome"

Table 5.
Challenges and Perceptions Regarding Financing Costs (Theme 5)

Perspective	Key Findings	Informant Quotes
Management	Financing costs are needed to cover the institution's operating expenses	"They must cover operating expenses"
Members	There is a perception that financing costs are relatively high	"The share shouldn't be too high"
Micro Business Owner (food court at UMJ)	In order to be known by public, it need the improvement of payment service socialisation	"need many more socialisations"

Table 6.
Strategies for Strengthening Community-Based Organizations (Theme 6)

Perspective	Key Findings	Informant Quotes
Management	The strategy includes strengthening social functions, microfinance, business mentoring, and community development	"Strengthening social functions… business mentoring… community"
Members	Efforts to strengthen LKMS should focus on digitalization, service improvement, financial education, and a balance between social and commercial objectives	Findings from the researchers' analysis

A central theme emerging from the research is the necessity for LKMS to maintain a delicate balance between its social mission and its commercial viability. This concept aligns directly with the first recommended strategy of integrating social and business functions. The data robustly supports the dual role of these institutions. As indicated in Table 3, LKMS, specifically BMT, play a crucial role in reducing social inequality (SDG 10) by serving "unbanked groups such as MSMEs, teachers, and the general public." This finding aligns with management's outreach, which effectively targets segments of the population often excluded from traditional financial systems.

This social function is further reinforced by the humanistic approach detailed in Table 4. Management's emphasis on a "persuasive approach" in credit management and collections, coupled with members' feeling that "the family system comes first," demonstrates a service model grounded in social values and community bonds. A micro-business owner's affirmation that the relationship with BMT is "very helpful and not burdensome" underscores how this approach fosters trust and business sustainability. This human-centric model is central to its social function, ensuring that the institution's operations are not purely transactional but deeply embedded in the community's social fabric. The challenge, however, lies in ensuring that this social function does not compromise the financial sustainability required to operate effectively.

The second key strategy emphasizes enhancing financial literacy regarding Islamic financial instruments, and the research highlights a critical gap. Table 5 reveals a clear divergence in perception regarding financing costs. While management justifies these costs as necessary to "cover the institution's operating expenses," a significant portion of members perceive that "The share shouldn't be too high," indicating potential ambiguity or a lack of understanding about the profit-sharing and fee structures intrinsic to Islamic finance.

This perception of high cost, as articulated by members, directly challenges the institution's mission of community empowerment. It suggests that current financial literacy may be insufficient for members to understand the "why" behind the cost structure fully. The finding that there is a need for "more socialisations" regarding payment services, as noted by a micro-business owner in Table 5, directly supports the strategy for enhancing financial education. To mitigate these ambiguities and align member expectations with institutional necessities, LKMS must implement targeted educational programs that demystify Islamic financial contracts, financing mechanisms, and the rationale for operational costs. This will not only build trust but also empower members to make more informed financial decisions.

The fourth strategic pillar, optimizing digitalization, is pivotal to enhancing LKMS's competitiveness and reach. While the data in the tables does not explicitly cite digitalization as a current strength, members' perspectives in Table 6 on "Efforts to strengthen LKMS" identify "digitalization" and "service improvement" as key areas of focus. This member-driven demand for digitalization aligns perfectly with the strategic recommendation.

As argued in the main findings, developing a simple yet effective digital platform could dramatically expand service outreach, improve accessibility for a wider community, and strengthen institutional transparency. Digitalization addresses several challenges simultaneously: it can enhance efficiency by reducing manual administrative burdens, broaden reach to serve more members, and foster transparency by providing clear, real-time information on transactions and profit-sharing, which could directly help alleviate the perceptions of high financing costs discussed earlier. In the fintech era, digitalization is not merely an option but an imperative for the sustainability and growth of community-based microfinance.

The final strategy, as detailed in the "Strategies for Strengthening Community-Based Organizations" (Table 6), provides a roadmap that synthesizes all the other components. The management's strategy, which includes "strengthening social functions, microfinance, business mentoring, and community development," is comprehensive. However, the members' perspective brings the conversation full circle, calling for a focus on "digitalization, service improvement, financial education, and a balance between social and commercial objectives."

Conclusion

This study aimed to examine the role of Sharia Microfinance Institutions (LKMS), particularly BMT UMJ, in supporting the achievement of Sustainable Development Goals (SDGs) 3 (Good Health and Well-being) and 10 (Reduced Inequalities), as well as to identify the factors influencing the effectiveness of this role. The findings demonstrate that the research objectives have been achieved through identifying LKMS's social and economic contributions and the key factors supporting its effectiveness in improving community welfare. The extant research findings indicate that Sharia Microfinance Institutions (LKMS), particularly BMT UMJ, play a pivotal role in improving community welfare by offering inclusive, expeditious, and Sharia-compliant financing.

Firstly, LKMS contributes to achieving the Sustainable Development Goals (SDGs), particularly Goal 3 (Good Health and Well-being) and Goal 10 (Reduced Inequalities), through microfinance, the distribution of social funds based on qardhul hasan, and community economic empowerment. The financing provided is utilized not only for productive activities but also to meet educational and health needs, thereby contributing to improved quality of life and household economic resilience. Secondly, the effectiveness of LKMS's role is influenced by ease of access to services, the flexibility of financing schemes, social values and a family-oriented approach, as well as the use of digital technology. However, there are still challenges that need to be addressed, namely the perception that financing costs are relatively high and the fact that public awareness of the services has not yet been optimized. Thirdly, efforts to strengthen the role of LKMS should focus on integrating social and business functions, developing community-based financing, improving Islamic financial literacy, and optimizing service digitalization to enhance competitiveness and service reach in the modern financial era.

The findings of this study are further supported by field data from micro-entrepreneurs in the UMJ Canteen area, which indicate that LKMS financing tangibly supports business sustainability whilst having a direct impact on family welfare, particularly in meeting educational needs and ensuring household economic stability. This underscores that the role of LKMS is not merely economic but also possesses a strong social dimension in fostering inclusive and equitable welfare. Consequently, LKMS possesses considerable potential as a financial instrument that is not solely profit-oriented but also serves a role in establishing social justice, enhancing quality of life, and sustainably reducing economic inequality in society.

Limitations

The present study is subject to certain limitations, primarily due to the relatively small number of informants and the exclusive focus on a single case study, namely BMT UMJ. Consequently, the results obtained cannot yet be generalized. The data employed are qualitative and derived from the informants' perceptions; consequently, they are not yet equipped to quantitatively assess the impact on health improvement and the reduction of inequality. It is recommended that future research employ a mixed-methods approach and include a greater number of LKMS participants to ensure more comprehensive results. It is imperative to acknowledge the necessity for further research to ascertain the impact of LKMS on public health and the efficacy of digitalization in promoting Islamic financial inclusion.

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Declarations

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