



The Strategy and Effectiveness of Baitul Maal wa Tamwil in Eradicating Loan Shark Practices in Java and Sumatra

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Abstract, This study aims to analyze the role of Baitul Maal wa Tamwil (BMT) as an Islamic microfinance institution in eliminating loan shark practices in communities, particularly in Java and Sumatra. Loan shark practices persist due to the ease and speed of loan disbursement, despite the high interest rates that entrap small communities in difficult-to-escape debt cycles. BMT offers a fair and interest-free Islamic financing solution based on profit-sharing principles and a more inclusive approach. This study discusses BMT's financing strategies, such as lenient requirements, fast processing, and financial education programs designed to compete with loan sharks. The main findings indicate that BMT plays a significant role in providing fairer financing access to small communities and helping reduce their dependence on loan sharks. However, this study also reveals several challenges BMT faces, such as limited capital, strict regulations, and low financial literacy among the public. These challenges hinder BMT's ability to effectively compete with loan sharks in terms of speed and accessibility. The results of this study emphasize the importance of strengthening BMT's capital, developing human resources, and innovating Islamic financing products so that BMT can play a more prominent role in eradicating loan shark practices in the community. With the right strategy and support from various stakeholders, BMT has great potential to continue growing as a more equitable and empowering financing solution.

Keyword: Baitul Maal wa Tamwil (BMT); Islamic Financing; Loan Sharks

1. INTRODUCTION

The inability to meet daily living needs often forces people to seek quick and easily accessible financial solutions. One of the common ways is by taking out loans. In modern societies, especially in developing countries like Indonesia, access to formal financing remains limited for a significant portion of the population, particularly those in the lower economic sectors. This creates opportunities for illegal practices such as loan sharking to thrive. Loan sharks, commonly referred to as "lintah darat" (bloodsuckers), become the choice for many financially distressed people due to their fast and uncomplicated processes. However, the consequences of borrowing from loan sharks are often far worse, with extremely high interest rates and inhumane collection practices (Simamora, 2014).

Java and Sumatra are two regions in Indonesia with high potential for the proliferation of loan shark practices, considering their large populations and dynamic economies. The need for business capital among small traders, farmers, fishermen, and micro-entrepreneurs is very high, but access to formal financial institutions like banks is still out of reach. Low financial literacy among rural and underdeveloped urban populations exacerbates this situation (Nengsih, 2013). Many small and medium-sized entrepreneurs get trapped in high-interest loans, making it difficult to repay debts and improve their economic conditions (Dewi & Kurnia, 2015).

In the context of Islamic economics, loan sharking clearly violates Sharia principles because it involves *riba* (usury), which is forbidden in Islam. *Riba* is an addition taken from debt transactions that burdens the borrower and enriches the lender without any real effort or hard work (Mutahhari, 1995). Islam strongly opposes the practice of *riba* as it is considered harmful and exploitative, especially to the economically weak. Therefore, it is crucial to find financial solutions that align with Sharia principles to replace the role of loan sharks in society. One such solution can be implemented through Islamic microfinance institutions, such as Baitul Maal wa Tamwil (BMT).

Baitul Maal wa Tamwil (BMT) is an Islamic microfinance institution that serves as an alternative financing option for non-bankable individuals—those who do not meet the requirements to obtain loans from conventional banks. BMT has two main functions: as Baitul Maal, it collects social funds like *zakat*, *infaq*, and *sadaqah*, and as Baitul Tamwil, it distributes commercial funds in the form of Sharia-compliant financing. With this concept, BMT aims to reduce the community's reliance on loan sharks by offering fair and Sharia-compliant financing solutions (Imaniyati, 2010).

The role of BMT is critical in supporting the economic development of the Muslim community, particularly in empowering micro, small, and medium enterprises (MSMEs). BMT operates in various regions of Indonesia, including Java and Sumatra, where loan shark practices are still rampant. Several studies have shown that BMT has great potential to help communities break free from loan shark traps, especially through its profit-sharing financing model and easy access provided to small communities (Dewi & Kurnia, 2015). However, BMT also faces various challenges, especially in terms of speed, collateral, and the loan approval process. These challenges make BMT struggle to compete with loan sharks, who offer quicker loans without complicated requirements (Sahroni & Falahuddin, 2019).

This study aims to analyze the role and strategies of Baitul Maal wa Tamwil in eradicating loan shark practices in society, particularly in Java and Sumatra. Additionally, this research seeks to identify the challenges faced by BMT in implementing Sharia principles on the ground, as well as to explore opportunities and challenges that can strengthen BMT's role in combating loan shark practices. Previous research by Titin Agustin Nengsih (2013) shows that public interest in BMT is greatly influenced by factors such as education, income, and understanding of interest and *riba*. These factors must be considered when developing BMT strategies to reach a wider audience.

The strategies employed by BMT to tackle loan sharks involve various approaches. Some BMTs, such as BMT Beringharjo and BMT Sidogiri, have successfully minimized the role of

loan sharks in their operational areas by providing fast, easily accessible financing that adheres to Sharia principles (Sahroni & Falahuddin, 2019). Educating the public about the dangers of *riba* is also one of BMT's focus areas through regular financial literacy and religious training programs in various community groups. This demonstrates that BMT's role extends beyond just financial services to include education and economic empowerment of the Muslim community.

Nonetheless, the challenges faced by BMT are significant. One of the biggest challenges is the low financial literacy among the communities BMT targets. Many people still do not understand the importance of conducting financial transactions in accordance with Sharia, and they prefer loan sharks due to the quicker and easier processes, despite the heavy interest rates. Therefore, BMT needs to develop more effective strategies to increase financial literacy and Sharia awareness among the public (Simamora, 2014). Additionally, strict regulations from the Financial Services Authority (OJK) also pose a challenge for BMT in speeding up the financing process, making it difficult to compete with loan sharks who are not bound by formal rules (Nengsih, 2013).

Opportunities for BMT in combating loan sharks are substantial, especially with the growing public preference for Sharia-compliant financial services. Global trends show that Islamic finance continues to grow rapidly, both in Muslim-majority countries and in Western countries. In Indonesia, the government has also provided significant support for the development of the Islamic finance industry, including policies that promote the growth of BMT (Imaniyati, 2010). With the right support, BMT has the potential to become a microfinance institution that not only provides financing services but also plays an important role in building a fair and *riba*-free economy.

This research is expected to provide new insights into how BMT can contribute more effectively to eradicating loan shark practices in society and identify strategies to overcome the challenges BMT faces. Thus, this research can also serve as a reference for developing more inclusive Sharia financial policies that have a broader impact on Indonesian society.

2. METHODS

The approach used in this study is descriptive qualitative, providing a comprehensive description of the research object and examining the cause-and-effect relationships of the observed phenomena. Data were obtained through direct interviews with BMT administrators, small business owners who are BMT clients, and members of the community involved in loan shark practices. In addition, documentation from related literature and relevant secondary data was also utilized to strengthen the analysis (Bogdan & Taylor, 1975). This research aims to

contribute to the development of BMT as an Islamic financial institution that is more effective in eradicating loan shark practices and building a just and welfare-based economic system.

3. RESULT AND DISCUSSION

The Role of Baitul Maal wa Tamwil as an Islamic Microfinance Institution in Combating Loan Sharks

Baitul Maal wa Tamwil (BMT) is an Islamic microfinance institution designed to assist the community by providing *riba*-free financing aligned with Islamic principles. In Islam, *riba* or interest is viewed as a form of injustice in economic transactions, as it burdens the weaker party with obligations that do not correspond to the benefits received. Hence, BMT emerges as an alternative for communities vulnerable to loan shark practices, offering a fair, profit-sharing financing model in line with Sharia principles (Obaidullah & Khan, 2008).

The primary role of BMT as an Islamic microfinance institution is to provide more equitable financial solutions to small communities, particularly those often neglected by conventional banking systems. In Indonesia, many micro, small, and medium enterprises (MSMEs) lack access to formal banking due to the absence of collateral, low financial literacy, or other administrative barriers. These conditions drive a portion of the population to seek loans from loan sharks, who, despite their fast and easy processes, often impose exorbitant and unreasonable interest rates (Huda & Heykal, 2010). In this situation, BMT offers financing that is not only free of *riba* but also based on profit-sharing principles, meaning that both risks and rewards are shared fairly between BMT and the borrower (Ascarya, 2014).

The profit-sharing principle applied by BMT differs from the interest-based system used by conventional financial institutions. In an interest-based system, the borrower bears the entire risk, having to repay a fixed interest rate regardless of whether their business succeeds or fails. On the other hand, in the profit-sharing system, both BMT and the borrower share the business risk. BMT only earns a profit if the borrower's business is profitable. This creates a more just and mutually beneficial relationship between the financial institution and the entrepreneur (Karim, 2010). Consequently, this principle avoids the exploitation of the weaker party and provides an opportunity for them to grow economically without the pressure of burdensome interest payments.

BMT also plays a crucial social role through the Baitul Maal mechanism, which collects and distributes social funds like *zakat*, *infaq*, and *sadaqah*. These funds are used to assist the most vulnerable groups, including the *mustahik* (those eligible to receive *zakat*), who

often have no access to formal financing sources. Thus, BMT not only functions as a commercial financial institution but also as one that fulfills a social mission by empowering small communities (Furqani, 2009). This aligns with Islamic economic concepts that emphasize social welfare and equitable wealth distribution, in contrast to conventional banking's focus on profit maximization.

In addition, BMT plays a key role in educating the public on Islamic financial principles. Many small communities do not fully understand the differences between interest-based and profit-sharing financial systems. Therefore, BMT actively provides education on Sharia principles in economic transactions, both through direct training and religious programs within local communities. This initiative is crucial to improving Sharia financial literacy and reducing society's dependence on loan sharks (Rifki, 2013). The education programs also aim to change the public's perception of financial practices in accordance with Islamic values, helping them understand the long-term benefits of Sharia-based financing compared to high-interest loans from loan sharks.

As an Islamic microfinance institution, BMT also offers a variety of more flexible financing products compared to loan sharks. One of the most popular financing products is Murabaha, a sale-based financing model in which BMT purchases the goods required by the customer and sells them at an agreed-upon profit margin. This ensures that there is no element of riba or exploitation, and the customer knows exactly how much they must repay without any additional burdensome interest (Antonio, 2001). In addition to Murabaha, BMT provides financing products based on Musyarakah (partnership) and Mudharabah (profit-sharing), which allow small entrepreneurs to access capital without the pressure of fixed loan repayments.

BMT's role in improving the economic welfare of small communities is also closely tied to their efforts to empower micro and small enterprises. One of BMT's strengths is its ability to reach rural areas that are difficult for conventional banks to access. BMT often has an extensive local network, even in remote villages, allowing them to bring financial services closer to the most in-need communities and provide faster, easier access to financing. By doing so, BMT helps create an inclusive financial ecosystem where all layers of society can access fair and Sharia-compliant financial services (Dhumale & Sapcanin, 1999).

BMT Financing in Eradicating Loan Shark Practices in Society

Baitul Maal wa Tamwil (BMT) plays a crucial role in combating loan shark practices in Indonesia, especially among the middle to lower economic groups who often fall victim to high-interest loans. As an Islamic microfinance institution, BMT offers a more equitable and

Sharia-compliant financing solution, free from riba and based on profit-sharing principles. To compete with loan sharks, BMT has developed several concrete strategies to attract people away from high-interest loans and provide alternative financing that supports small and medium enterprises. Some of the main strategies implemented by BMT to eradicate loan shark practices include flexible loan requirements, quick processing times, and financial education programs.

One of the most effective strategies employed by BMT is offering flexibility in loan requirements. BMT understands that many low-income individuals cannot access formal financial institutions, such as banks, due to complicated requirements or the need to provide collateral, which is often beyond their means. Therefore, BMT strives to simplify the loan application process with more flexible requirements so that the community does not have to worry about burdensome documents or collateral. According to Rizkika (2016), BMT does not always require physical collateral, especially for clients involved in microenterprises. Instead, BMT focuses more on analyzing the character and business potential of the borrower. This system aims to provide more inclusive financing access to underserved communities who are often neglected by conventional financial institutions.

In addition to flexible requirements, the speed of loan processing is also a significant advantage that BMT has over formal financial institutions. In the business world, particularly for micro and small enterprises, time is extremely valuable. Often, they need capital quickly to cover daily operational expenses. Loan sharks are often chosen because they offer fast disbursement, albeit at extremely high-interest rates. To compete with loan sharks, BMT accelerates the loan processing time by simplifying procedures. A study conducted by Setiawan (2019) found that BMTs in Java and Sumatra are able to process loan applications in less than a week, with minimal requirements but still within the framework of prudent lending practices.

For example, BMT Beringharjo in Yogyakarta implements a policy where potential borrowers only need to undergo one field survey to obtain a loan. This process includes checking the borrower's business and conducting a brief interview with family members to ensure that the loan will be used appropriately. This system not only speeds up the disbursement process but also strengthens the trust between BMT and its clients. Additionally, this process enables BMT to monitor the use of funds more effectively, minimizing the risk of non-performing loans (Fauzi & Rahman, 2020).

Another key strategy is BMT's financial education programs, which aim to inform the public about the dangers of riba and the benefits of Sharia-compliant financing. Many people,

especially in lower-income communities, do not understand the concept of *riba* and the risks it poses, which leads them to fall into the trap of loan sharks that offer quick cash with exorbitant interest rates. Therefore, BMT plays a vital role in educating the public about *riba* and the importance of avoiding interest-based loans. Through these educational programs, BMT also introduces Sharia principles in financial transactions, such as profit-sharing, fairness in transactions, and social responsibility in the use of funds. According to research by Mubarak and Hafisah (2017), financial education programs conducted by BMT in several rural areas of West Java successfully increased public awareness of Sharia-compliant financing and reduced their dependence on loan sharks.

The educational programs provided by BMT are not just one-way communication but also involve training and mentoring for small business owners. For instance, BMT Al-Hikmah in Karawang offers simple financial management training to its clients, especially for micro-enterprises in the early stages of development. This training helps entrepreneurs understand how to manage their finances more efficiently so that they can avoid relying on high-interest loans in the future. According to Iskandar (2018), such mentoring is highly effective in helping small business owners not only gain access to equitable financing but also build sustainable businesses.

Additionally, BMT offers various financing products tailored to the needs of small communities. These financing products include *Murabaha*, *Musyarakah*, and *Mudharabah*. In *Murabaha*, BMT purchases the goods needed by the client and sells them at a price that includes an agreed-upon profit margin. This scheme ensures price transparency for the client, as they know exactly how much they need to repay without the risk of additional interest or penalties (Huda & Nasution, 2008). On the other hand, *Musyarakah* and *Mudharabah* financing allow BMT to become a business partner, where risks and profits are shared proportionally between BMT and the client. This creates a more just and transparent financing system, allowing clients to avoid the burden of debt.

Another example of a successful BMT strategy in eradicating loan shark practices is BMT Sidogiri, which operates in East Java. BMT Sidogiri is known as one of the largest BMTs in Indonesia and has helped thousands of micro and small business owners gain access to fairer financing. One of BMT Sidogiri's main strategies is engaging with local communities, such as religious study groups and traditional markets, to provide education and introduce Sharia-compliant financing products. With this personal and community-based approach, BMT Sidogiri has successfully reached communities that previously relied on loan sharks. According to Wibowo (2020), the level of dependence on loan sharks in BMT

Sidogiri's operational areas decreased by up to 40% after five years of implementing Sharia-based financing programs.

However, despite BMT's successes in many cases, challenges remain. One of the biggest challenges is how to improve Sharia financial literacy in communities that still tend to choose loan sharks due to the ease of their processes. Additionally, in some cases, BMT's limited capital has become an obstacle in providing broader and faster financing. Therefore, collaboration between BMT, the government, and the private sector is necessary to strengthen BMT's capacity to face these challenges (Nugraha, 2016).

Overall, BMT's financing strategies—such as flexible loan requirements, quick processing times, and Sharia financial education programs—have proven effective in reducing loan shark practices in society. Through a more inclusive and Sharia-compliant approach, BMT has successfully provided a fairer alternative for small and medium enterprises that need access to financing. BMT's success in combating loan sharks is not only evident in the number of clients it has helped but also in the social impact it has created, as more people transition from high-interest loans to sustainable, Sharia-compliant financing.

Challenges Faced by BMT in Combating Loan Shark Practices

Baitul Maal wa Tamwil (BMT) has played an important role in eradicating loan shark practices, especially among communities that lack access to formal financial institutions. However, in its efforts to fight against these practices, BMT faces several internal and external challenges that affect its ability to provide equitable and inclusive Sharia-compliant financing to the community. The main challenges BMT faces include limited resources, strict regulations, low financial literacy among the public, and competition with loan sharks, who offer easy and fast loan processes.

One of the biggest internal challenges faced by BMT is the limitation of resources, both in terms of capital and infrastructure. BMT, as a microfinance institution, operates with limited capital, making it difficult for them to provide large or numerous loans. According to Wahyudi (2015), many BMTs struggle to raise funds from the public due to a lack of trust in Islamic financial institutions, which are still considered less popular than conventional banks. This limitation in capital affects BMT's ability to disburse loans to its clients, especially for larger-scale financing, forcing some clients to return to loan sharks to meet their urgent capital needs.

Aside from limited capital, another internal challenge BMT faces is the shortage of skilled human resources (HR) in managing Sharia-compliant microfinance institutions. Many BMTs are still managed by HR with limited capacity in financial management and Sharia

financing. This affects the operational performance of BMT, including the loan application and disbursement processes. According to research conducted by Arifin (2016), the lack of skilled HR in Sharia finance is one of the main factors that hinder the development of BMT in various regions, particularly in rural areas where access to financial training or education is limited.

On the other hand, a significant external challenge is the strict regulations imposed by the government, particularly by the Financial Services Authority (OJK). As a microfinance institution, BMT must comply with various regulations set by the OJK and Bank Indonesia. These regulations include minimum capital requirements, transparent financial reporting, and rules related to consumer protection. While these regulations aim to protect customers and ensure financial system stability, many BMTs find it challenging to meet all these requirements due to their limited resources (Yunus, 2018). Additionally, the lengthy bureaucratic processes involved in obtaining permits or complying with regulations often slow down BMT's operations, making it difficult for them to compete with loan sharks, who operate without legal constraints.

Low financial literacy among the public is also a significant challenge for BMT. Many people do not understand the differences between Sharia-compliant and conventional financial systems, nor do they comprehend the concept of *riba* and its dangers. This lack of understanding leads people to continue choosing loan sharks as an alternative financing option, even though the interest rates are exorbitantly high. According to Suraya and Adiwarmanto (2017), many low-income individuals are not aware of the benefits of Sharia financing and are more attracted to the fast, hassle-free processes offered by loan sharks. This situation is exacerbated by the fact that loan sharks often have extensive networks and are more easily accessible to low-income communities, making them more well-known than BMT.

Furthermore, the competition with loan sharks, who offer quick cash without complicated requirements, is another significant challenge for BMT. Loan sharks often offer loans with minimal conditions and extremely fast disbursement, sometimes within hours. In contrast, even though BMT has made efforts to expedite its loan application and disbursement processes, it is still bound by procedures such as field surveys and borrower eligibility checks. These processes take longer than the informal and unregulated methods used by loan sharks (Fauzi & Rahman, 2020). In many cases, small business owners prefer loans from loan sharks because they urgently need capital for daily operations, even though they are aware of the high interest rates.

Overcoming these challenges requires more comprehensive and integrated strategies. First, BMT needs to increase its capital capacity through various efforts, such as expanding its customer base, enhancing the collection of zakat, infaq, and sadaqah funds, and establishing partnerships with other Islamic financial institutions or investors with aligned visions. According to Aminah (2019), BMT can also leverage Sharia-based financial technology (fintech) to broaden its reach and increase operational efficiency. By utilizing fintech, BMT can process financing more quickly and easily, enabling them to compete with loan sharks in terms of disbursement speed.

Second, BMT must invest in human resource development. Training and education for BMT managers on Sharia financial management, risk analysis, and financial product innovation are crucial to improving the quality of services provided. Some BMTs in urban areas, such as BMT Al-Ikhlas in Jakarta, have successfully enhanced their HR capacity through regular training programs in collaboration with universities and Sharia financial training institutions (Zuhdi & Azizah, 2018). This success can serve as a model for other BMTs in rural areas facing similar challenges.

Third, BMT needs to be more proactive in increasing financial literacy among the public, especially in rural areas where loan sharks tend to target. Education programs on Sharia-compliant financing and the dangers of riba need to be conducted more intensively and systematically. These programs can be delivered in partnership with community leaders, educational institutions, or religious organizations that have influence at the local level. According to Rahmawati (2020), BMTs that have succeeded in rural areas often collaborate with Islamic boarding schools or other religious institutions to provide Sharia financial education to the community. This helps strengthen public trust in BMT as a financial institution that aligns with Islamic principles.

Additionally, BMT needs to develop more innovative and flexible financial products to attract a broader range of clients. One strategy could be to create financing products tailored to the specific needs of micro-entrepreneurs, such as profit-sharing financing for agriculture or fisheries businesses. According to Iskandar (2021), financing products that are adapted to the characteristics of microenterprises can help BMT compete more effectively with loan sharks, who tend to offer one-size-fits-all loans for all types of businesses.

Finally, collaboration with the government and the private sector is essential to help BMT overcome its challenges. The government can provide incentives or more flexible regulations for BMT, such as simplifying the licensing process or providing access to low-cost capital. Additionally, partnerships with the private sector can help BMT develop the

technology and infrastructure needed to improve efficiency and competitiveness. According to Santoso (2019), collaboration between BMT and Sharia-based fintech companies in Indonesia has successfully expanded access to financing for micro-entrepreneurs in remote areas.

In conclusion, the challenges faced by BMT in combating loan shark practices can be addressed with the right strategies, ranging from increasing capital and developing human resources to product innovation and collaboration with the government and the private sector. Although these challenges cannot be overcome quickly, these steps will help BMT enhance its effectiveness in providing inclusive and equitable Sharia-compliant financing to small communities, ultimately contributing to the eradication of loan shark practices in Indonesia.

4. CONCLUSION

The conclusions of this study highlight the crucial role that Baitul Maal wa Tamwil (BMT) plays in combating loan shark practices in communities through Sharia-compliant financing strategies that are fair and inclusive. As an Islamic microfinance institution, BMT offers a riba-free alternative through profit-sharing financing that benefits both the borrower and BMT. BMT's financing strategies, such as flexible requirements, fast loan processing, and Sharia financial education, have proven effective in reducing communities' reliance on loan sharks. However, in its fight against loan sharks, BMT also faces several challenges, including limited capital resources, strict government regulations, and low financial literacy among the public. Competition from loan sharks, who offer fast and easy loans without conditions, also poses a significant barrier that BMT must overcome. To address these challenges, BMT needs to strengthen its capital, enhance the quality of its human resources, and expand Sharia financial literacy programs. Additionally, developing innovative financing products and collaborating with the government and private sector are strategic steps that will help BMT increase its effectiveness in eradicating loan shark practices. In conclusion, although BMT faces many obstacles, it has significant potential to continue playing a role in building a more inclusive and empowering Sharia-compliant financial system, particularly for small communities vulnerable to financial exploitation.

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