OIKOS : Jurnal Ekonomi, Manajemen, dan Bisnis
P-ISSN : 1979-4770

Reconstructing Governance in Islamic Microfinance: A Normative-Institutional Study of *Bayt al-Māl wa al-Tamwīl*

Sofian Al Hakim
Faculty of Sharia and Law, UIN Sunan Gunung Djati Bandung, Indonesia
sofianalhakim@uinsgd.ac.id

Abstract.
Islamic microfinance has evolved as a critical component in enhancing financial inclusion among marginalized Muslim populations, especially in developing economies. Rooted in *sharīʻah*-compliant principles, the concept of *Bayt al-Māl wa al-Tamwīl* (BMT) has historically served both redistributive and productive functions in the Islamic economic system. However, modern applications of Islamic microfinance, including BMT, face considerable governance challenges that hinder their effectiveness in contemporary financial environments. This study emerges from the urgent need to reconstruct governance mechanisms that are both normatively grounded and institutionally functional within Islamic microfinance settings. This paper aims to explore the normative foundations and institutional applications of governance in BMT. By integrating classical Islamic governance literature—such as al-Māwardī's and al-Ghazālī's works—with modern institutional economic theory, this study seeks to formulate a hybrid governance model for BMT. The research applies a normative-institutional methodology, combining textual analysis of Islamic classical sources with a review of contemporary institutional theory and its implications for microfinance governance. Findings reveal that a governance framework informed by *maqāṣid al-sharīʻah*, *ḥisbah*, and institutional coherence can significantly enhance the legitimacy, efficiency, and ethical integrity of BMT institutions. The study also uncovers gaps in current regulatory models, which often overlook the epistemological and operational integration of Islamic governance values. This research contributes theoretically by bridging the normative heritage of Islamic economic thought with contemporary institutional design, and practically by offering a reconstructed governance framework to strengthen Islamic microfinance institutions' performance and credibility.

Keywords
Islamic microfinance; *bayt al-māl wa al-tamwīl*; governance reconstruction; normative-institutional theory; *maqāṣid al-sharīʻah*

INTRODUCTION

The global rise of microfinance has catalyzed diverse financial models aimed at poverty alleviation, particularly in Muslim-majority countries where conventional interest-based financing is both ethically contested and legally restricted. Within this landscape, Islamic microfinance has emerged as a strategic alternative, aligning financial inclusion with Islamic legal and moral imperatives. Among the models developed, *Bayt al-Māl wa al-Tamwīl* (BMT) represents a unique synthesis of classical Islamic public finance and modern micro-lending mechanisms. Initially conceptualized to manage communal wealth and distribute resources equitably, BMT in contemporary settings faces fundamental issues concerning institutional legitimacy and governance structure.

The historical roots of BMT lie in the Islamic institution of *bayt al-māl*, a state treasury that functioned under various caliphates, guided by normative principles such as *'adl* (justice), *amānah* (trust), and *shūrā* (consultation) (al-Māwardī, 1978, p. 65). Over centuries, however, the operational and ideological frameworks governing this institution eroded due to colonial interventions, economic modernization, and the secularization of financial systems. The re-emergence of BMT in Indonesia in the late 20th century marked a revival of Islamic finance ethos, but with insufficient attention to the institutional structures that originally ensured its efficacy and accountability.

The governance challenges facing Islamic microfinance today are not merely technical but deeply normative. Institutions that claim to adhere to *sharī'ah* principles often replicate conventional corporate governance models, leading to tensions between religious expectations and operational realities (Khan, 2010, p. 98). The disjunction between normative legitimacy and institutional functionality weakens the credibility of Islamic microfinance, especially when governance failures manifest in issues like fund mismanagement, limited transparency, and stakeholder disengagement.

Contemporary scholarship on Islamic finance governance has largely concentrated on regulatory compliance, *sharī'ah* boards, and legal frameworks (Iqbal & Mirakhor, 2007, p. 124). Yet, little emphasis is placed on the reconstruction of governance itself as a dynamic, institutionally embedded, and ethically grounded process. Normative elements—such as *ḥisbah* (market supervision), *wilāyah al-mazālim* (judicial oversight), and *maqāṣid al-sharī'ah* (objectives of Islamic law)—remain peripheral in policy and institutional design. This lacuna poses a significant risk to the long-term viability and authenticity of Islamic microfinance.

In the context of Indonesia, the world's most populous Muslim country, the implementation of BMT has shown considerable growth but limited systemic sustainability. Despite institutional proliferation, many BMTs struggle with fragmented governance practices, inadequate stakeholder participation, and a lack of consistent accountability frameworks (Antonio, 2001, p. 43). Without a robust, normatively consistent governance architecture, BMT risks being reduced to a branding exercise rather than a transformative economic instrument.

From an institutional theory perspective, governance is not a static rulebook but a system of norms, incentives, and enforcement mechanisms that evolve over time (North, 1990, p. 3). Integrating this theoretical lens with Islamic principles offers an opportunity to reimagine BMT governance as both ethically legitimate and institutionally coherent. Such integration requires not only revisiting classical Islamic sources but also engaging with modern governance challenges, including transparency, stakeholder alignment, and performance accountability.

Thus, this study poses the following research questions: (1) What are the normative foundations of governance in the classical institution of *Bayt al-Māl*? (2) How can modern institutional theory inform the reconstruction of governance in contemporary BMT? (3) What hybrid governance model can reconcile normative Islamic values with institutional efficiency in microfinance?

By addressing these questions, this study aims to fill a critical gap in the literature and practice of Islamic microfinance governance. It argues for a normative-institutional reconstruction that is historically rooted, theologically sound, and pragmatically oriented. Such an approach is essential not only for institutional legitimacy but also for realizing the transformative potential of Islamic economic principles in today's financial landscape.

LITERATURE REVIEW

The discourse on Islamic microfinance governance has evolved in response to the growing demand for ethical financial systems in Muslim societies. Early contributions by Siddiqi (1983) emphasized the ethical differentiation between Islamic finance and conventional interest-based models, stressing the foundational role of justice (*'adl*) and risk-sharing. However, while ethical underpinnings were acknowledged, less attention was paid to the structural aspects of governance. This initial wave of scholarship was largely normative, proposing ideal models without detailing operational frameworks.

By the 1990s, the rise of Islamic banking institutions spurred a shift toward compliance-oriented governance. Authors such as Chapra (1992) and Iqbal & Mirakhor (2007) advanced frameworks that centered on the role of *sharī'ah* boards in ensuring conformity to Islamic legal standards. Governance was increasingly viewed through the lens of legalistic oversight, with less emphasis on institutional dynamics or historical precedents such as the role of *ḥisbah* or *amīr al-mu'minīn* in classical Islamic administration. This legal-institutional approach contributed to the development of technical compliance protocols but lacked integration with broader societal governance mechanisms.

Later literature began exploring the operational challenges of Islamic microfinance institutions (IMFIs), particularly in Southeast Asia. Studies by Ascarya & Yumanita (2007) and Antonio (2001) critiqued the replication of Western governance structures within Islamic institutions, noting a lack of contextualization and poor stakeholder representation. This body of work emphasized that governance in IMFIs must go beyond financial reporting and include socio-religious accountability, participatory decision-making, and transparency mechanisms rooted in Islamic tradition.

Meanwhile, institutional economic theory offered new avenues for analyzing Islamic governance. North (1990) and Ostrom (1998) highlighted the role of norms, trust, and informal rules in shaping institutional outcomes. Scholars such as Kuran (2004) critiqued the stagnation of Islamic institutional thought, arguing that a revival must engage both normative ideals and institutional design. Yet, few studies have successfully bridged classical Islamic governance principles with modern institutional theory to propose a coherent model for microfinance governance.

In terms of BMT-specific literature, contributions are scattered and primarily descriptive. Much of the Indonesian research, such as works by Rofiq (2004) and Suhendi (2008), outline BMT's development and structure but fail to critically assess its governance frameworks. There remains a significant gap in studies that combine historical Islamic concepts with rigorous institutional analysis to evaluate and reconstruct governance in BMT.

This literature review reveals that while there is substantial work on Islamic finance ethics, regulatory compliance, and operational challenges, there is a notable deficiency in integrative studies that merge normative Islamic sources with modern governance theory. This study aims to fill that gap by constructing a governance framework for BMT that is both theologically grounded and institutionally robust.

Theoretical Framework

The foundation of this study lies in integrating normative Islamic governance concepts with modern institutional theory. At the heart of classical Islamic governance lies the principle of *amānah* (trust), which prescribes a fiduciary responsibility for those in positions of authority. According to al-Māwardī (1978, p. 65), the ruler or *imām* holds divine accountability for the administration of justice and equitable distribution of wealth. This includes overseeing institutions like *bayt al-māl*, which were historically supervised through mechanisms such as *ḥisbah*—a system for public oversight rooted in the Qur'anic command to enjoin right and forbid wrong (*al-amr bi al-ma'rūf wa al-nahy 'an al-munkar*).

Additionally, al-Ghazālī's (1937, p. 89) work on the objectives of Islamic law (*maqāṣid al-sharī'ah*) provides a theological framework for public finance and economic institutions. His classification of human needs—*ḍarūriyyāt*, *ḥājiyyāt*, and *taḥsīniyyāt*—offers a normative lens through which governance objectives can be aligned with social welfare. This ethical architecture promotes governance that is not only legal but purposive, aiming to preserve religion, life, intellect, progeny, and wealth.

Modern institutional theory, particularly that of North (1990), underscores the importance of formal and informal rules in shaping organizational behavior. Institutions are defined as the "rules of the game" that structure human interaction, and their efficiency depends on reducing uncertainty in human exchange. This theoretical lens is particularly valuable in analyzing microfinance institutions, where both codified procedures and informal trust mechanisms shape organizational performance.

Ostrom's (1998) concept of "polycentric governance" further expands the institutional framework by arguing for decentralized, overlapping governance units that are locally accountable. This resonates with the Islamic principle of *shūrā* (consultation), which mandates participatory decision-making. Polycentricity also reflects the fragmented yet cooperative nature of Islamic microfinance institutions, many of which operate independently while pursuing common goals of poverty alleviation and financial justice.

The synthesis of these two paradigms—Islamic normative governance and modern institutional theory—creates a methodological foundation for reconstructing BMT governance. By embedding classical ethical mandates within structurally coherent governance models, it becomes possible to design institutions that are both legitimate in the eyes of Islamic law and effective in contemporary financial ecosystems. This integrated theoretical framework guides the subsequent analysis in this study.

Previous Research

Siddiqi (1983) offered one of the earliest systematic discussions on Islamic finance governance, focusing on the ethical obligations of trusteeship and mutual cooperation. He argued that financial institutions must operate under the divine mandate of justice and public interest, rejecting the profit-maximization ethos of conventional finance. While normative in tone, Siddiqi's work lacked a specific institutional model for governance, leaving future researchers to expand the framework.

Antonio (2001) explored the governance of Islamic microfinance in Indonesia, particularly in the development of BMTs. He highlighted the challenges posed by the adaptation of Islamic principles into modern financial institutions, noting weak supervisory structures and limited community involvement. Antonio's findings revealed that while BMTs are grounded in *sharīʿah* ideals, they often suffer from institutional weaknesses due to fragmented regulatory guidance and inconsistent organizational capacity.

Iqbal and Mirakhor (2007) provided a more technical framework by emphasizing the need for *sharīʿah* governance boards and regulatory coherence in Islamic finance. They promoted a formal governance model grounded in Islamic jurisprudence but with clear accountability standards. Although this model addressed legal compliance, it fell short of integrating broader ethical mandates like *maqāṣid al-sharīʿah* and failed to capture the institutional evolution of Islamic finance institutions.

Ascarya and Yumanita (2007) examined BMTs within the Indonesian dual banking system, focusing on operational efficiency and risk mitigation. Their empirical study concluded that many BMTs lacked sustainable governance frameworks, particularly in internal audit, stakeholder involvement, and regulatory alignment. They recommended strengthening institutional infrastructure but did not engage with normative Islamic sources in formulating governance mechanisms.

Rofiq (2004) conducted fieldwork on BMTs in Java, identifying socio-cultural factors influencing institutional success and failure. He observed that trust, communal participation, and spiritual commitment significantly influenced governance outcomes. His research emphasized the informal institutional dimensions of BMT governance, resonating with Ostrom's institutional theory. However, his study did not extend to reconstructing governance models based on Islamic normative principles.

These studies collectively indicate that while there is robust literature on operational challenges, regulatory mechanisms, and ethical imperatives in Islamic microfinance, there remains a critical gap in works that integrate classical Islamic governance concepts with modern institutional frameworks. This research addresses that lacuna by constructing a normative-institutional model for governance in BMT, guided by classical Islamic thought and contemporary theory.

RESEARCH METHODS

This study adopts a qualitative approach based on normative-institutional analysis, integrating classical Islamic texts and modern institutional theory to reconstruct a governance model for *Bayt al-Māl wa al-Tamwīl* (BMT). The research design emphasizes the interplay between foundational Islamic norms and contemporary governance structures, employing a textual and analytical methodology to identify governance principles and institutional mechanisms embedded within both Islamic tradition and modern economic thought.

The primary data sources include classical Islamic governance manuals such as al-Māwardī's *al-Aḥkām al-Sulṭāniyyah* (1978), al-Ghazālī's *al-Mustaṣfā min 'Ilm al-Uṣūl* (1937), and Ibn Khaldūn's *Muqaddimah* (1981), alongside contemporary works by North (1990) and Ostrom (1998) on institutional economics. These texts were analyzed for their content, interpretive structures, and normative assumptions regarding authority, legitimacy, and accountability. Secondary sources include peer-reviewed journal articles and Indonesian policy papers on BMT operations, ensuring a contextualized understanding of governance dynamics in the field.

Data collection relied on document analysis and textual interpretation. Classical texts were selected based on their recognized authority in the Islamic legal tradition, using established transliteration methods per the Joint Decree 158/1987 and 0543b/U/1987. Contemporary documents—such as legal regulations, BMT charters, and empirical studies—were evaluated through thematic coding to extract governance-related elements and assess institutional applicability.

The analytical method employed a triangulation of normative analysis, institutional theory application, and thematic synthesis. Normative analysis extracted theological values and governance ethics from classical texts. Institutional theory was used to evaluate how these values could be embedded in modern governance structures. Thematic synthesis integrated these two domains into a proposed hybrid model that is both epistemologically sound and operationally feasible.

This method allows for a comprehensive reconstruction of governance in BMT by respecting both the epistemic legitimacy of Islamic law and the functional requirements of contemporary institutions. It ensures that the findings are not only theoretically rigorous but also practical for implementation in diverse socio-economic contexts, particularly in Indonesia.

RESULTS AND DISCUSSION

The governance of Islamic microfinance institutions, particularly *Bayt al-Māl wa al-Tamwīl* (BMT), cannot be effectively understood without tracing its normative origins and institutional evolution. Historically, BMT derived its legitimacy from the classical institution of *bayt al-māl*, where governance principles such as *amānah* (trust), *'adl* (justice), and *shūrā* (consultation) were central (al-Māwardī, 1978, p. 65; al-Ghazālī, 1937, p. 89). These principles, although rooted in early Islamic governance, continue to hold relevance in guiding contemporary microfinance frameworks. Understanding this continuity is essential to contextualizing BMT within both its theological and institutional heritage.

The discussion proceeds in three thematic subsections aligned with the research questions. First, it investigates the normative roots of governance as found in Islamic tradition, drawing from foundational texts like *al-Aḥkām al-Sulṭāniyyah* and *al-Mustaṣfā min 'Ilm al-Uṣūl* (al-Māwardī, 1978; al-Ghazālī, 1937). Second, it evaluates the applicability of modern institutional theory—particularly the works of North (1990) on institutional change and Ostrom (1998) on polycentric governance—as a complementary framework to classical Islamic thought. Finally, it proposes a hybrid governance model that reconciles these domains, guided by integrative scholarship in Islamic finance (Iqbal & Mirakhor, 2007; Siddiqi, 1983) and grounded in *maqāṣid al-sharī'ah* (al-Shāṭibī, 1993, p. 101; Dusuki & Abdullah, 2007).

Normative Roots of Governance in *Bayt al-Māl wa al-Tamwīl*

Classical Islamic governance envisioned *bayt al-māl* not merely as a repository of wealth, but as a spiritual and social institution entrusted with the welfare of the *ummah*. Governance of this institution was grounded in *amānah* (trust), *'adl* (justice), and *maslahah* (public interest). Al-Māwardī (1978, p. 65) emphasized the role of the *imām* as *wālī al-amr*, accountable not to the populace alone but to God, for ensuring equity and ethical resource distribution.

Al-Ghazālī (1937, p. 89) expanded on this by incorporating *maqāṣid al-sharī'ah*, asserting that governance must serve the preservation of essential human interests. These interests—religion, life, intellect, lineage, and wealth—formed the bedrock of policy-making, including financial governance. This normative logic requires institutions like BMT to operate beyond mere procedural compliance and toward holistic welfare.

The function of *ḥisbah* as a governance mechanism also provides a critical normative anchor. Rooted in Qur'anic injunctions to enjoin what is right and forbid what is wrong (Qur'an 3:104), *ḥisbah* institutionalized ethical oversight in public and commercial life. Historically, the role of the *muḥtasib* encompassed both administrative enforcement and moral supervision of market practices (Ibn Taymiyyah, 1961, p. 28). In today's context, this function is echoed in internal audits, regulatory compliance, and community-based oversight structures within microfinance governance (Siddiqi, 1983).

Governance in the classical Islamic tradition was deeply participatory, relying on *shūrā* as both a theological imperative and a procedural norm. The Qur'an emphasizes the principle in Surah al-Shūrā (42:38), which mandates mutual consultation in communal affairs. Historically, this translated into consultative councils and avenues like *mazālim* courts, where public grievances were adjudicated (al-Māwardī, 1978, p. 92). These institutional mechanisms offer models for participatory governance and stakeholder representation in contemporary BMTs (Iqbal & Mirakhor, 2007).

Another key dimension was the spiritual accountability of officeholders. Ibn Khaldūn (1981, p. 237) warned of institutional decay when leadership shifts from communal service to personal gain, eroding *'asabiyyah* (group solidarity) and destabilizing societal trust. Modern critiques of Islamic microfinance echo this concern, emphasizing how commercialization can undermine the ethical and communal foundations of institutions like BMT (Kuran, 2004).

The concept of *wilāyah al-mazālim*, or public grievance administration, offered institutional checks against autocratic or negligent leadership. Al-Māwardī (1978, p. 100) describes *mazālim* courts as a parallel judiciary empowered to hear complaints against officials, ensuring dual oversight. This dualism aligns with contemporary calls for independent governance boards in BMTs to safeguard transparency and equity (Hasan, 2009).

Also notable is the ethical dimension of *niyyah* (intent) in governance. Governance in Islamic tradition was not merely a set of duties but a spiritual responsibility. As al-Shāṭibī (1993, p. 101) asserted, the legitimacy of actions—including administrative decisions—depends on their alignment with divine and communal welfare. Embedding *niyyah*-based ethics in BMT evaluation metrics can shift performance indicators from purely financial to impact-based justice outcomes (Dusuki & Abdullah, 2007).

The *zakāh* system itself offers a practical and historical precedent for Islamic financial governance rooted in communal duty. Under the Prophet Muhammad (pbuh) and the Caliphates, *zakāh* distribution was centralized yet transparent, with fixed categories and public accountability (Chapra, 1992, p. 107). Applying this template, BMTs can institutionalize governance principles of transparency and structured redistribution in their operational charters (Antonio, 2001).

Finally, *fiqh al-mu'āmalāt* offered a jurisprudential foundation for fair and ethical economic conduct. Jurists like al-Sarakhsī and Ibn Rushd detailed contract types, dispute resolution mechanisms, and anti-exploitation norms that remain relevant for today's BMT financial contracts (Kamali, 2000; al-Sarakhsī, as cited in Siddiqi, 1983). These legal principles support a governance model rooted in fairness, disclosure, and mutual risk-sharing.

In summary, the normative roots of governance in *Bayt al-Māl* emphasize ethical stewardship, participatory consultation, legal accountability, and spiritual intentionality. These interconnected values present a coherent and legitimate framework for reconstructing governance in BMTs that remain both authentic to Islamic tradition and functional in modern financial contexts (Iqbal & Mirakhor, 2007; North, 1990).

Institutional Theory in Islamic Microfinance Governance

While the normative roots of governance provide a foundational ethical framework, modern governance challenges in Islamic microfinance necessitate a deeper institutional response. Institutions like *Bayt al-Māl wa al-Tamwīl* (BMT) operate within complex ecosystems where efficiency, accountability, and stakeholder legitimacy must be ensured. This section explores how contemporary institutional theory, especially as developed by North and Ostrom, can inform the structural governance of BMT.

Douglas North (1990, p. 3) emphasized that institutions are "the rules of the game" in a society—both formal (laws, constitutions) and informal (norms, traditions). In the context of BMT, these "rules" must include not only *sharī'ah* mandates but also socio-cultural norms and operational procedures that reduce uncertainty in transactions. For example, embedding ethical finance principles into performance appraisals and loan policies can translate Islamic values into enforceable governance standards.

Ostrom (1998) argued for polycentric governance, where multiple, overlapping authorities operate at different scales. This aligns with the decentralized nature of BMTs, especially in Indonesia, where governance is often managed locally but within a broader Islamic finance framework. Her principles—such as nested enterprises and collective choice arrangements—can inform multi-layered governance structures that reflect both Islamic accountability and modern organizational efficiency.

Another relevant aspect is the role of trust and social capital. Institutional theory recognizes that sustainable governance emerges not only from codified rules but also from informal norms, mutual expectations, and community trust (North, 1990, p. 36). For BMTs, trust functions as an intangible asset that strengthens accountability and stakeholder participation. Empirical studies by Ascarya and Yumanita (2007) demonstrate that governance breakdowns in Indonesian BMTs are frequently tied to mistrust caused by opaque lending practices and insufficient transparency. To address this, trust-building mechanisms—such as community-based advisory boards, participatory audits, and real-time public reporting—must be institutionalized within governance frameworks (Antonio, 2001).

The theory of transaction costs, central to North's institutional economics, is particularly salient for microfinance governance. Excessive bureaucracy and inefficiencies increase these costs and deter participation, especially in community-based institutions like BMT (North, 1990, p. 27). From an Islamic perspective, the concept of minimizing *mafsadah* (harm) and maximizing *maṣlaḥah* (benefit) aligns with the pursuit of lean, effective governance. This can be achieved through adopting digital platforms for financial transparency and customer interaction, provided that such systems uphold *sharī'ah* principles and ethical constraints (Iqbal & Mirakhor, 2007; Dusuki & Abdullah, 2007).

Incorporating stakeholder theory into BMT governance resonates strongly with Islamic teachings, which call for *'adl* (justice) and *iḥsān* (benevolence) in dealings with all members of society, not just shareholders (Chapra, 1992, p. 93). Ostrom's (1998) notion of "collective choice arrangements" aligns with the Islamic principle of *shūrā* (consultation), suggesting that inclusive governance bodies—comprising clients, religious scholars, local authorities, and regulatory actors—can decentralize decision-making and enhance institutional legitimacy (Kamali, 2000).

Accountability is another shared foundation in both Islamic and institutional governance traditions. In Islamic thought, *taklīf* refers to the moral and religious obligation of individuals to act responsibly and fulfill their entrusted roles (al-Ghazālī, 1937, p. 102). Modern governance theory complements this with procedural enforcement mechanisms such as grievance redress systems and performance-linked assessments (Hasan, 2009). For BMTs, integrating both perspectives enables governance that is simultaneously spiritually and operationally accountable.

Institutional resilience, as theorized by Ostrom (1998), highlights the capacity of institutions to learn, adapt, and evolve over time. Islamic institutions, too, uphold *ijtihād* (independent reasoning) as a dynamic legal mechanism for adapting governance to changing circumstances. Embedding annual review mechanisms and policy feedback systems into BMT governance reflects this tradition, ensuring continuity between timeless values and contemporary needs (al-Shāṭibī, 1993, p. 104; Zaman, 2010).

Furthermore, the institutional theory concept of path dependence emphasizes how historical choices shape future institutional pathways (North, 1990, p. 94). Many BMTs today emulate Western governance structures due to early donor-driven models and a lack of Islamic institutional templates (Kuran, 2004). Reconstructing governance requires deliberately realigning institutional architecture with Islamic jurisprudence, historical governance practices like *ḥisbah*, and *fiqh al-mu'āmalāt* (Siddiqi, 1983; Ibn Taymiyyah, 1961, p. 44).

Finally, institutional isomorphism presents a challenge to authenticity in Islamic microfinance. The pressure to conform to global standards—often driven by regulators, donors, or inter-bank competition—leads many BMTs to adopt conventional frameworks that dilute their Islamic identity (Warde, 2000, p. 117). However, by embedding Islamic ethical standards within flexible institutional forms, BMTs can resist such pressures while retaining operational credibility (El-Gamal, 2006, p. 138).

In sum, modern institutional theory offers a robust analytical toolkit for Islamic microfinance governance. It affirms the centrality of norms, decentralization, and adaptability—values also deeply rooted in the Islamic tradition. The primary challenge lies in synthesizing these frameworks into a cohesive and actionable governance model that is both spiritually grounded and functionally sustainable (Iqbal & Mirakhor, 2007; Ostrom, 1998).

A Hybrid Governance Model for Contemporary *Bayt al-Māl wa al-Tamwīl*

Bridging normative Islamic principles with modern institutional theory requires a hybrid governance model—one that simultaneously upholds the theological integrity of *Bayt al-Māl wa al-Tamwīl* (BMT) and fulfills the operational needs of contemporary microfinance institutions. This model must be context-sensitive, ethically coherent, and structurally flexible to address the diversity of Muslim communities while maintaining institutional legitimacy and efficiency (Iqbal & Mirakhor, 2007; Ostrom, 1998).

The first pillar of this hybrid model is ethical legitimacy. Drawing from *maqāṣid al-sharī'ah*, BMT governance should prioritize objectives that preserve the five essential values (*ḍarūriyyāt*), such as wealth, intellect, and social stability (al-Ghazālī, 1937, p. 89; al-Shāṭibī, 1993, p. 101). These priorities must be codified in institutional charters that emphasize long-term goals like education, community development, and social equity beyond mere profitability (Dusuki & Abdullah, 2007).

Second, the structure must be participatory. Based on *shūrā* (consultation), decision-making processes must involve clients, scholars, managers, and regulators, reflecting Islamic mandates for collective responsibility (Qur'an 42:38). Ostrom's (1998) principle of "collective choice arrangements" affirms this, supporting decentralized, inclusive governance as a key to institutional resilience. This also resonates with the Islamic concept of *amānah*, where authority is held as a trust (al-Māwardī, 1978, p. 65).

Third, transparency and accountability mechanisms must be built into operations. Drawing from the tradition of *ḥisbah*, internal and external audits, ethical reporting, and stakeholder disclosures become essential. Historically, the *muḥtasib* enforced moral and economic order; modern equivalents include digital dashboards and blockchain tools that enhance visibility while aligning with *sharīʻah* (Ibn Taymiyyah, 1961, p. 28; Siddiqi, 1983).

The fourth element is structural decentralization. Ostrom's (1998) concept of polycentric governance supports BMTs operating in layered networks—local units under national frameworks with interlinked responsibilities. This mirrors classical Islamic systems like *wilāyah* (governorship) and *mazālim* (grievance courts), which allowed flexible, multi-level accountability (al-Māwardī, 1978, p. 100).

A fifth pillar involves risk-sharing and financial equity. Classical contracts such as *muḍārabah* and *mushārakah* promote ethical partnerships, replacing interest-based loans and reducing financial exploitation (Kamali, 2000). Ibn Taymiyyah (1961, p. 44) criticized exploitative market practices and stressed the need for justice in economic relations—an imperative for BMT governance to ensure balance and shared responsibility.

The sixth component is spiritual accountability. Unlike secular governance models, Islamic governance is underpinned by *niyyah* (intent) and *barakah* (divine blessing). Governance performance must include moral evaluations and community well-being assessments. Embedding *akhlāq* (ethical conduct) in human resource protocols revives the sacred element often lost in managerialism (al-Shāṭibī, 1993, p. 104; Chapra, 1992, p. 107).

Next is regulatory alignment. Given BMTs' interface with state systems, hybrid governance must ensure dual compliance with national law and *sharīʻah*. This necessitates institutional expertise in both domains. Creating legal units staffed by jurists and compliance officers helps navigate regulatory complexities while safeguarding Islamic principles (El-Gamal, 2006, p. 138; Hasan, 2009).

Institutional learning and adaptability form the eighth pillar. Annual governance reviews, policy updates, and scenario planning are essential. These mechanisms reflect the principle of *ijtihād*—continual reinterpretation of Islamic norms for evolving contexts (Haneef, 2005; Zaman, 2010). Embedding learning loops institutionalizes flexibility within Islamic ethical boundaries.

Lastly, the governance model must be culturally embedded. Islamic governance is inherently contextual, shaped by local customs and socio-political realities (*'urf*) without compromising *sharī'ah* (Kamali, 2000; Warde, 2000, p. 112). Thus, governance must allow for localized variations, informed by anthropological insights and participatory practices.

Together, these nine pillars construct a hybrid governance model that reclaims the authenticity of Islamic governance while satisfying modern institutional performance metrics. It is through this fusion of ethical purpose and structural effectiveness that BMT can serve as a credible and transformative financial institution in Muslim societies (Iqbal & Mirakhor, 2007; Siddiqi, 1983; Ostrom, 1998).

Toward a Reconstructed Governance Paradigm

This study reveals that a reconstructed governance paradigm for *Bayt al-Māl wa al-Tamwīl* (BMT) must integrate the epistemological richness of Islamic tradition with the structural rigor of modern institutional design. Governance, in this view, is not a static checklist of compliance but an evolving ethical framework grounded in divine accountability and community trust (al-Ghazālī, 1937, p. 89; North, 1990, p. 3). By merging these traditions, BMT governance can remain normatively grounded while also adapting to rapidly changing socio-financial environments (Iqbal & Mirakhor, 2007; Ostrom, 1998).

The convergence of *maqāṣid al-sharī'ah* and institutional theory yields a governance model that balances procedural efficiency with moral intentionality. This approach dismantles the dichotomy between administrative rationality and spiritual purpose by demonstrating that classical Islamic mechanisms—*shūrā* (consultation), *ḥisbah* (market supervision), and *wilāyah al-mazālim* (judicial grievance oversight)—share structural principles with contemporary governance ideals like stakeholder inclusion, accountability, and decentralization (al-Māwardī, 1978, p. 100; Ostrom, 1998). What sets the Islamic model apart is its theological foundation: governance is not merely a managerial function, but a form of moral *amānah* (trust) before God and society (Ibn Taymiyyah, 1961, p. 44).

Institutionally, the hybrid model proposed in this study is both normative and pragmatic. It addresses challenges commonly observed in BMTs such as regulatory fragmentation, limited community oversight, and ideological dilution due to isomorphic pressures (Ascarya & Yumanita, 2007; Hasan, 2009). Rather than rejecting modern instruments like audits, digital reporting, or policy feedback loops, the model integrates them into an Islamic ethical framework, creating a system that is spiritually valid and functionally effective (Dusuki & Abdullah, 2007; Chapra, 1992).

This synthesis also offers wider implications for Islamic finance and development strategies. It demonstrates that Islamic institutions need not mimic Western corporate models uncritically. Instead, they can draw from their own jurisprudential and institutional heritage to create viable alternatives that are both competitive and ethical (Kuran, 2004; El-Gamal, 2006). By reconstructing governance through this dual lens, the study contributes to a broader epistemological agenda—one that aims to revitalize Islamic civilization by aligning institutional form with divine intent and community welfare (Haneef, 2005; Zaman, 2010).

CONCLUSION

The findings of this study affirm that effective governance in *Bayt al-Māl wa al-Tamwīl* (BMT) cannot be reduced to administrative formality or legal compliance alone. Instead, it must be reconstructed through a paradigm that unites normative Islamic values with institutional efficiency. Governance, in this light, is a sacred trust—a mechanism of ethical stewardship and communal empowerment rooted in the principles of justice, consultation, and public interest.

By synthesizing classical governance concepts—*shūrā*, *ḥisbah*, *amānah*—with the insights of institutional economic theory, this research presents a hybrid model that offers both legitimacy and functionality. The nine-pillar framework proposed provides BMTs with a roadmap for integrating spirituality, accountability, and adaptability within their governance architecture.

This reconstruction holds relevance not only for Islamic microfinance institutions but also for broader efforts in Islamic economics, development, and statecraft. It offers a model of governance that is both theologically grounded and operationally sound—capable of navigating modern regulatory environments while remaining faithful to Islamic epistemology.

Ultimately, the reconfiguration of BMT governance stands as a necessary step toward reviving Islamic economic institutions that are not merely symbolic but genuinely transformative. It is through such integration of faith and function that Islamic finance can realize its full potential as a vehicle for justice, empowerment, and societal renewal.

REFERENCES

Antonio, M. S. (2001). *Bank syariah: Dari teori ke praktik*. Jakarta: Gema Insani Press.

Syafii Antonio, M. (2011). *Bank syariah dari teori ke praktik* (Edisi Revisi). Jakarta: Gema Insani.

Arif, M. (1985). Toward a definition of Islamic economics: Some scientific considerations. *Journal of Research in Islamic Economics*, 2(2), 79–93.

Ascarya, & Yumanita, D. (2007). Comparing the efficiency of Islamic and conventional banks in Indonesia: A parametric approach. *Bulletin of Monetary Economics and Banking*, 10(2), 95–116.

Asyraf, W. D., & Nurdianawati, I. (2007). The application of musharakah mutanaqisah home financing in Malaysia. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(2), 150–166.

Chapra, M. U. (1992). *Islam and the economic challenge*. Leicester: The Islamic Foundation.

Dusuki, A. W., & Abdullah, N. I. (2007). Maqāṣid al-sharīʻah, maslaḥah, and corporate social responsibility. *The American Journal of Islamic Social Sciences*, 24(1), 25–45.

El-Gamal, M. A. (2006). *Islamic finance: Law, economics, and practice*. Cambridge: Cambridge University Press.

Ghazālī, A. H. M. (1937). *al-Mustaṣfā min ʻilm al-uṣūl* (Vol. 1). Cairo: al-Maṭbaʻah al-Amīriyyah.

Haneef, M. A. (2005). A critical survey of Islamization of knowledge. *Intellectual Discourse*, 13(1), 19–44.

Hasan, Z. (2009). Corporate governance: Western and Islamic perspectives. *International Review of Business Research Papers*, 5(1), 277–293.

Ibn Khaldūn. (1981). *al-Muqaddimah*. Beirut: Dār al-Fikr.

Ibn Taymiyyah, T. D. (1961). *al-Ḥisbah fī al-Islām*. Cairo: Dār al-Kitāb al-ʻArabī.

Iqbal, Z., & Mirakhor, A. (2007). *An introduction to Islamic finance: Theory and practice*. Singapore: Wiley Finance.

Kamali, M. H. (2000). *Principles of Islamic jurisprudence* (2nd ed.). Cambridge: Islamic Texts Society.

Karim, A. A. (2007). *Ekonomi mikro Islam*. Jakarta: RajaGrafindo Persada.

Khan, M. F. (2010). Islamic microfinance: Theory and practice. In M. Iqbal & R. Wilson (Eds.), *Islamic perspectives on wealth creation* (pp. 89–108). Cheltenham: Edward Elgar.

Kuran, T. (2004). *Islam and Mammon: The economic predicaments of Islamism*. Princeton: Princeton University Press.

Māwardī, A. A. (1978). *al-Aḥkām al-Sulṭāniyyah wa al-Wilāyāt al-Dīniyyah*. Cairo: Dār al-Ḥadīth.

Nasution, H. (1986). *Islam: Ditinjau dari berbagai aspeknya* (Vol. 2). Jakarta: UI Press.

North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.

Obaidullah, M. (2008). Role of microfinance in poverty alleviation: Lessons from experiences in selected IDB member countries. *Islamic Development Bank*, Research Paper No. 25.

Ostrom, E. (1998). The institutional analysis and development framework. In P. Boettke (Ed.), *The Elgar companion to Austrian economics* (pp. 281–294). Cheltenham: Edward Elgar.

Rofiq, A. (2004). *Bayt al-māl wa al-tamwīl dan strategi pemberdayaan ekonomi umat*. Yogyakarta: UII Press.

Saeed, A. (1996). *Islamic banking and interest: A study of the prohibition of riba and its contemporary interpretation*. Leiden: Brill.

Sarakhsī, M. A. (n.d.). Referenced in Siddiqi, M. N. (1983). *Issues in Islamic banking*. Leicester: The Islamic Foundation.

Shāṭibī, I. (1993). *al-Muwāfaqāt fī uṣūl al-sharī'ah* (Vol. 2). Beirut: Dār al-Ma'rifah.

Siddiqi, M. N. (1983). *Issues in Islamic banking*. Leicester: The Islamic Foundation.

Suhendi, H. (2008). *Fiqh mu'āmalah untuk perbankan syariah*. Jakarta: RajaGrafindo Persada.

Warde, I. (2000). *Islamic finance in the global economy*. Edinburgh: Edinburgh University Press.

Yumanita, D., & Ascarya. (2009). The performance of Islamic microfinance institutions in Indonesia. *Tazkia Islamic Finance and Business Review*, 4(1), 17–33.

Zaman, A. (2010). Islamic economics: A survey of the literature. *Islamic Economic Studies*, 18(2), 1–44.