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THE PHILOSOPHICAL FOUNDATION OF RAHN FINANCING IN ADVANCING AGRICULTURAL CAPITAL

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ABSTRACT

Access to capital is not only an economic necessity but also a matter of distributive justice and social inclusion for smallholder farmers, who remain underserved by conventional financial institutions. Collateral-oriented banking systems and dependence on informal usurious lending continue to create structural barriers that hinder sustainable agricultural development and conflict with the ethical values of Islamic finance. This study investigates Rahn financing implemented by KSPPS BMT Mandiri Sejahtera Dukun Branch as a sharia-compliant and ethical model for agricultural capital provision. Using a qualitative approach based on literature review, document analysis, and descriptive–analytical methods, the research examines the financing mechanism, contractual integration, and development of the Pertanian Barokah (TABUR) product. The findings show that the integration of *Qard, Rahn, and Ijarah* enhances accessibility, strengthens trust, and promotes shared responsibility between the institution and farmers. Membership growth during 2020–2024 demonstrates the model's social acceptance and practical relevance. The study concludes that Rahn financing represents a value-based paradigm that advances financial inclusion, community empowerment, and equitable agricultural development while providing practical insights for farmer-oriented Islamic microfinance

Keyword: *Rahn Financing, Agriculture Sector, Islamic Microfinance.*

A. Introduction

The agricultural sector continues to play a strategic role in Indonesia's economy, particularly in terms of food security, employment, and rural income generation. Despite gradual structural shifts toward non-agricultural sectors, agriculture remains a significant contributor to national gross domestic product (GDP)(Sharma et al., 2024; Syahyan et al., 2022; Yaghubinejad et al., 2014). Recent data indicate that agriculture consistently contributes more than twelve percent of Indonesia's GDP, underscoring its macroeconomic relevance. However, at the micro level, many farmers continue to face structural constraints, with limited access to affordable capital being one of the most persistent challenges. According to the Central Statistics Agency (BPS), in 2023, this sector contributed 12.53% to the total national GDP, an increase of 0.13% compared to the previous year (BPS, 2023).

These verses and hadith explain that the Prophet Muhammad taught us to do good deeds without delay. However, it is important to remember that ultimately, it is Allah who determines the outcome of every effort. These verses and hadith also explain that planting trees is a noble act. Any fruit produced by a good tree, if consumed by others, will be considered charity for the person who planted it (Amri, 2025; Nugraha, n.d.)

As crop diversification and production methods increase, advances in agricultural technology, post-harvest management, and rapid growth in agricultural processing create a significant need for capital among farmers (Abbas et al., 2016; Dhillon, 2025; Gaikwad et al., 2024). In the era of agricultural technology, the mobilization of large amounts of capital for production equipment and infrastructure is inevitable. Problems arise because most farmers cannot finance their own operations, which require significant investment, making external financing an important option(F. H. Saragih et al., 2017).

Lack of capital is a fundamental problem for rural communities. Farmers find it difficult to access bank financing. The main reasons for this are weak agricultural management services and complicated credit procedures that do not take into account the socio-cultural realities of rural areas, making it difficult for farmers to access credit(M. A. Saragih, 2020). These complicated procedures are deliberately implemented by banks because they reinforce the perception that agricultural activities are high risk and unprofitable. This perception stems from the fact that agricultural income depends on the season and uncertain prices (Feuerbacher et al., 2020; Prayoga, 2019).

The main problem faced by the agricultural sector lies in the difficulty of mobilising capital (financing) to manage and develop agricultural activities. Financing needs increase in line with rising prices of agricultural inputs such as seeds, fertilisers, agricultural tools and wages. This makes it difficult for farmers to finance their operations. This situation highlights the crucial role of financial institutions in overcoming the difficulties faced by farmers. However, the agricultural sector is considered risky and unstable, so financial institutions tend to apply credit terms that burden farmers, such as high and fixed interest rates, financing limited to high-value commercial goods, and fund distribution that is more directed towards government programmes. The limited access of farmers to formal financing ultimately leaves them with no choice but to borrow from informal lenders or loan sharks who charge very high interest rates (Balana & Oyeyemi, 2022; Hesthria & Pajaria, 2023; Shukla et al., 2026). However, this situation not only burdens farmers in repaying their loans, but is also related to the practice of usury, which is a major concern in Islamic economics (Irfan, 2023).

Based on this background, the research is guided by the following questions: (1) How is Rahn financing implemented in the TABUR agricultural financing scheme at BMT Mandiri Sejahtera Dukun Branch? and (2) To what extent is Rahn financing effective as a capital solution for farmers? The objective of this study is to analyse the financing mechanism and evaluate its relevance and effectiveness in supporting agricultural capital needs (Santosa, 2023).

Given this, it is clear that many of our farmers need solutions to the various problems they face. They need an intermediary institution, in this case Baitu Maal wat Tamwil (BMT), which is expected to bridge the gap and provide the necessary agricultural equipment and technology, as well as capital, so that their businesses can be fruitful and they can grow (F. H. Saragih et al., 2017).

Therefore, alternative financing is needed to provide capital solutions for farmers so that they can develop their farming businesses. One financing model available at KSPPS BMT Mandiri Sejahtera Dukun Branch that focuses on agriculture is barokah agricultural financing (TABUR), which uses rahn contracts that are in accordance with Islamic principles.

This study adopts a qualitative research design with a descriptive–analytical approach. Data were collected from secondary sources, including academic journals, policy reports, institutional documents, and official records from KSPPS BMT Mandiri Sejahtera Dukun Branch. In addition, supporting information was obtained from internal reports and documented interviews conducted by the institution. Data analysis was carried out through content analysis, focusing on the financing mechanism, contractual structure, and empirical trends in TABUR financing membership. This approach allows for an in-depth understanding of how Rahn financing operates in practice and its implications for agricultural capital access.

B. Implementation of Agricultural Financing at KSPPS BMT Mandiri Sejahtera Dukun Branch

Agricultural financing offered by KSPPS BMT Mandiri Sejahtera's Dukun branch uses barokah (tabur) agricultural financing. This financing, available through KSPPS BMT Mandiri Sejahtera, allows farmers to obtain all their agricultural needs, from seeds and fertilizers to medicines and other equipment, in order to increase crop yields. This financing is based on a pawn agreement (Rahn) given to farmers, with a repayment schedule.

Financing needs for various purposes in the agricultural sector are very important for the sustainability of farming businesses. Farmers need capital to purchase agricultural tools, fertilizers, and seeds. In this context, the existence of financial institutions or banks is very important. Sharia Savings and Loan Cooperatives (KSPPS) operate in this sector, specifically offering loan-based financing programs (rahn). The implementation of rahn (sharia pawn) agreements at the Dukun branch of KSPPS BMT Mandiri Sejahtera is as follows:

1. The contracts used for Rahn financing at KSPPS BMT Mandiri Sejahtera's Dukun branch consist of three types of contracts: Qardh contracts for loans, Rahn contracts for collateral transactions between customers and banks, and Ijarah contracts for collateral storage (marhun).
2. The administrative costs of Rahn financing at KSPPS BMT Mandiri Sejahtera's Dukun branch include the payment of administrative and material costs incurred at the beginning of the contract, as well as collateral maintenance costs (marhun), which are borne by the customer at the end of the contract/after loan repayment.

Administrative costs are borne by the bank. Researchers agree that all costs related to collateral are borne by the collateral holder. Therefore, administrative costs related to collateral are borne by the BMT. Because the BMT bears the administrative costs, it is in the right position to calculate the details of the administrative costs. After the BMT calculates the total administrative costs, the customer will reimburse them. In principle, the Murtahin cannot use the Marhun without the Rahin's permission, provided that its value is not reduced and its use is only to cover administrative costs. The administration of the Marhun is primarily the responsibility of the Rahin, but it can also be carried out by the Murtahin. Administrative costs remain the responsibility of the Rahin. The amount of these costs cannot be determined based on the loan amount (Gunawan, Febri, Bahari Raha, 2022). The contract used is an ijarah (lease) agreement, which stipulates that the creditor leases space from the BMT to store the mortgaged property, and the BMT sets the rental fee. In other words, the creditor uses the BMT's services to store the property until the contract expires. Through this ijarah agreement, the BMT receives income that is lawful and in accordance with halal principles. The BMT receives a commission (profit sharing) or compensation for the services provided to the creditor, or compensation for renting the premises (Nanik Arifatin, Yuni Rohmah, 2022).

In terms of collateral, BMT offers flexible payment options tailored to the needs of each member. BMT allows its members to determine the monthly payment amount and choose the payment frequency: daily, weekly, monthly, or according to market interest rates. In addition, BMT offers its members the opportunity to save or deposit money. The aim is to ease the burden of monthly payments on its members. In all its activities, especially in the financial sector, financial institutions are not always immune to difficulties. Sometimes, members or customers are late or unable to pay. Each financial institution implements its own policy regarding non-performing loans.

Furthermore, based on interviews conducted with the marketing policy department at BMT Mandiri Sejahtera's Dukun branch, it was revealed that when farmers experience difficulties in paying installments due to poor harvests, BMT communicates with its members. For example, if the payment due date falls in March, but the harvest occurs in April, BMT offers an extension by allowing payments to be made until the harvest, either in installments or within a certain period of time.

Based on this statement, it is very helpful for farmers who experience crop failure to wait until harvest time to pay their installments, with the solution being that their installments are paid off or extended.

C. Beyond Collateral: *Rahn* Financing as an Ethical Paradigm for Agricultural Capital in Islamic Microfinance

Membership data for the Pertanian Barokah (TABUR) financing program during the 2020–2024 period demonstrate a sustained upward trend in the number of participating farmers, indicating the growing acceptance of Rahn-based financing within rural communities. The number of members increased from 283 in 2020 to 460 in 2024, representing an overall growth of more than 62%, with the most substantial increase occurring between 2021 and 2022 (KSPPS BMT Mandiri Sejahtera, 2025). This consistent expansion suggests that TABUR has become an increasingly trusted financing alternative, reflecting not only the product's operational effectiveness but also the institutional credibility of BMT Mandiri Sejahtera. In the context of Islamic microfinance, membership growth may be interpreted as an indicator of public confidence in financing models that emphasize ethical transactions, transparency, and mutual responsibility rather than purely commercial objectives. Similar findings indicate that Islamic microfinance institutions strengthen rural economic development by providing financing models that are more responsive to community needs and aligned with social welfare objectives (Syahrurromdhoni et al., 2024).

Beyond representing institutional growth, the increasing participation of farmers also reflects the capacity of Rahn financing to address long-standing structural barriers in agricultural finance. Smallholder farmers often experience limited access to formal credit because of strict collateral requirements, lengthy administrative procedures, irregular income patterns, and the high level of production risk associated with agriculture. Consequently, many depend on informal lenders who impose excessive interest rates and exploitative repayment arrangements. The TABUR financing model offers a viable alternative by integrating *Qard, Rahn,* and *Ijarah* contracts into a financing mechanism that is accessible, flexible, and compliant with sharia principles. This contractual integration reduces financial pressure while fostering trust and cooperation between the institution and its members. More importantly, the increasing adoption of TABUR suggests that farmers perceive Rahn financing not merely as a source of short-term working capital but as an instrument of economic empowerment that enhances financial inclusion, supports business continuity, strengthens household resilience, and contributes to sustainable agricultural development. From this perspective, the observed membership growth represents more than numerical expansion; it reflects the emergence of a value-based financing ecosystem in which Islamic financial principles are translated into practical mechanisms for promoting distributive justice, rural prosperity, and inclusive economic development.

D. Conclusion

The findings demonstrate that the Rahn financing model implemented by KSPPS BMT Mandiri Sejahtera Dukun Branch constitutes more than an alternative financing mechanism; it represents an ethical and value-based approach to addressing structural capital constraints in the agricultural sector. Through the Pertanian Barokah (TABUR) financing product, smallholder farmers obtain timely and accessible financing that is consistent with sharia principles while avoiding the burden of interest-based transactions. The integration of *Qard*, *Rahn*, and *Ijarah* contracts establishes a balanced contractual framework that promotes legal certainty, mutual trust, and shared responsibility between the institution and its members. Moreover, flexible repayment arrangements accommodate the seasonal nature and production risks of agriculture, including the possibility of crop failure. The consistent increase in membership during the 2020–2024 period further reflects farmers' confidence in the financing scheme and highlights its contribution to strengthening business continuity, improving agricultural productivity, and supporting rural economic welfare. These findings reinforce the proposition that Rahn financing should be viewed not merely as a collateral-based instrument but as a practical embodiment of Islamic financial ethics that advances financial inclusion, economic justice, and community empowerment.

Despite these contributions, the study has several limitations. First, it focuses exclusively on a single BMT branch, limiting the generalizability of the findings across different institutional and regional contexts. Second, the qualitative design relies primarily on documentary evidence and descriptive analysis, without incorporating in-depth interviews or quantitative measures of farmers' economic performance. Consequently, the study cannot comprehensively assess the causal relationship between Rahn financing and improvements in income, productivity, or household welfare. Future research should therefore adopt comparative and mixed-method approaches involving multiple Islamic microfinance institutions and broader geographical coverage. Longitudinal studies are also recommended to evaluate the long-term socioeconomic impacts of Rahn financing and to examine its contribution to achieving sustainable agricultural development, financial resilience, and the objectives of *Maqasid al-Shariah* within Islamic microfinance.

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