



# The Role of Islamic Financial Institutions in Supporting the Economic Development of Muslim Communities

Rismayana<sup>1</sup>, Indana Almas Azhar<sup>1</sup>

<sup>1</sup>Universitas KH. Mukhtar Syafaat, Indonesia

✉ [rismayana1505@gmail.com](mailto:rismayana1505@gmail.com) \*

## Abstract

This research aims to analyze the role of *Baitul Maal Wat Tamwil* in financing *rabn* contracts in Islamic financial institutions, the importance of non-bank Islamic financial institutions in providing access to halal financing for the community, especially in the micro and small sectors. This research uses a qualitative approach with a case study method. This type of research is descriptive qualitative which is to analyze the role of the *rabn* contract applied by the *Baitul Maal Wat Tamwil* Islamic financial institution. Data sources include primary data, which is obtained through in-depth interviews with two administrators, two members who use *rabn* contract financing facilities, and three other informants such as field staff and sharia auditors. Data analysis techniques used include data reduction, data presentation, and conclusion drawing. Data validity was maintained through triangulation of sources and methods to ensure consistency and validity of findings. The results of this study show that access to financing for members through the *rabn* contract with valuable asset collateral such as gold and motor vehicle owner books. This approach creates a sense of security and trust through a transparent process, thus forming a good relationship between members and institutions. *Baitul Maal Wat Tamwil's* commitment to sharia principles supports member satisfaction and engagement and community welfare.

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## INTRODUCTION

Non-bank-based Islamic financial institutions are institutions that operate based on sharia principles, but are not included in the bank category, such as *Baitul Maal Wat Tamwil*, Islamic cooperatives, and other Islamic microfinance institutions (Aljughaiman et al., 2023; Jan et al., 2021). These institutions focus on community economic empowerment, especially in the micro and small sectors, by offering various sharia-compliant financial products and services, such as *mudharabah*, *musarakabah*, *murabahab*, and *rabn* financing. *Baitul Maal Wat Tamwil*, for example, is often an alternative solution for people who are not reached by conventional banking services, especially in rural areas.

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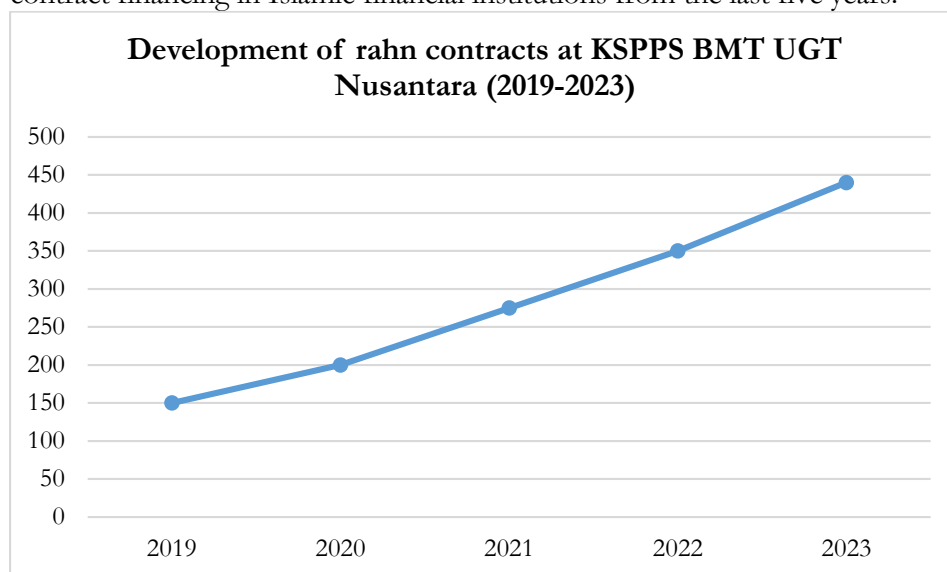
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The role of *Baitul Maal Wat Tamwil* in empowering micro, small, and medium enterprises can be said to be good enough to get proper support by the government. Basically, *Baitul Maal Wat Tamwil* is a microfinance institution which is also classified as a micro, small and medium enterprise because *Baitul Maal Wat Tamwil* is institutionally included in the cooperative business type (Amri, 2018).

Islamic financial institutions, especially non-bank-based ones, have an important role to play in creating financial inclusion, as they reach out to people who often do not have access to formal banking institutions (Ahmad et al., 2023; Razak & Asutay, 2022). The presence of non-bank Islamic financial institutions can reduce economic and social disparities among low-income communities (Hidayat et al., 2022). Furthermore, Lestari emphasized that by applying the principles of justice and cooperation, non-bank Islamic financial institutions can be a driving force for an inclusive and sustainable economy, especially in supporting micro and small businesses (Haruna et al., 2024). Thus, non-bank Islamic financial institutions such as *Baitul Maal Wat Tamwil* act as an important instrument in the Islamic economy, which not only supports economic growth, but also ensures fair and ethical distribution, in accordance with Islamic values (Anwar et al., 2023).

The role of *Baitul Maal Wat Tamwil* in providing *rahn* akad financing to members in Islamic financial institutions is based on several relevant and significant reasons both from an academic and practical perspective (Biancone & Radwan, 2018; Hassan et al., 2023). First, this topic has a high relevance to the development of the Islamic finance industry in Indonesia, which is growing rapidly and becoming an alternative for people seeking sharia-based financial solutions (Soedarmono & Yusgiantoro, 2023; Wijayanti & Setiawan, 2023). *Rahn*, as one of the Islamic financing products that offers easy access to loans with collateral, is an option for people to fulfill their financial needs without violating sharia principles, such as *riba* (Meslier et al., 2020).

Thus, financing through the *rahn* contract not only provides a practical solution but also supports the improvement of Islamic financial literacy among the community (Ma'wa et al., 2024). To illustrate the development of the use of *rahn* contracts in recent years, the following graph shows the trend of *rahn* contract financing in Islamic financial institutions from the last five years.



**Fig 1. Development of *rahn* contracts**

Figure 1 above shows that the increasing trend of *rahn* contracts over the past five years shows that Islamic financial institutions play an active role in strengthening the Islamic economy through the provision of fair and sharia-

compliant financing (Bin-Armiya et al., 2024). This development not only helps members meet their financial needs, but also reduces people's dependence on conventional financial institutions (Ghafran & Yasmin, 2024). Thus, Islamic financial institutions are expected to continue to expand their reach and improve the quality of their services to support the economic stability of the community and achieve more inclusive sustainability (Harun et al., 2021; Magnin & Nenovsky, 2021; Mousa & Samara, 2023).

Second, Islamic financial institutions as a growing Islamic financial institution, especially in the Purwoharjo area, make an important contribution to the economic welfare of members and the surrounding community (Maulina et al., 2023). In the local context, it is important to understand how these services are implemented, especially in the Purwoharjo branch, which can have its own characteristics compared to other areas (Faizi et al., 2024). It is also possible to evaluate how *Baitul Maal Wat Tamwil* performs its duties and functions in helping to improve the welfare of members through Islamic financial products.

Third, this research is also driven by the lack of in-depth academic studies on the implementation of rahn contracts in Islamic microfinance institutions, especially in rural areas (Shabbir, 2020). Thus, this research is expected to make a significant contribution to the development of literature on the role of *Baitul Maal Wat Tamwil* in providing rahn financing, as well as a reference for other Islamic financial institutions operating at the local level (Suci & Hardi, 2020; Sukardi et al., 2023; Taufik et al., 2023). Finally, from an academic perspective, this title is relevant to the growing field of Islamic economic studies, and is expected to provide new insights for the development of Islamic finance policies and practices in Indonesia (Candra Sari et al., 2022; Saifurrahman & Kassim, 2024). This research also aims to provide practical recommendations for *Baitul Maal Wat Tamwil* in improving rahn-based Islamic financial services to help improve the lives of its members.

The existence of *Baitul Maal Wat Tamwil* product financing can reduce the addiction of people who deal with addiction to conventional financial institutions socially, the existence of *Baitul Maal Wat Tamwil* with *rahn* contract financing products has a significant positive impact on society, especially in terms of economic empowerment and strengthening the welfare of members (Faizi et al., 2024; Yaya et al., 2021). With this facility, *Baitul Maal Wat Tamwil* members can access funds for urgent needs or business development without having to be trapped in high usury interest (Abdeldayem & Aldulaimi, 2023; Sukardi et al., 2023). This is in line with sharia principles that prioritize justice and blessings in financial transactions. Furthermore, *Baitul Maal Wat Tamwil* plays a role in building public trust in Islamic financial institutions and reducing dependence on conventional financial institutions that often apply the interest system (De Jong et al., 2023; Nabisaalu & Bylund, 2021). In this way, *Baitul Maal Wat Tamwil* not only provides financial solutions, but also supports the social and economic stability of communities through a more inclusive and ethical approach to finance (Baihaqi, 2023).

As a sharia-based microfinance institution, it plays an important role in providing financing in accordance with sharia principles through the *rahn* or sharia pawn contract (Adusei & Sarpong-Danquah, 2021). According to researchers, the *rahn* contract allows members to obtain cash by pledging valuables, such as gold, which is in line with the principles of justice and the prohibition of usury in Islam (Fedro et al., 2019; Sandberg & Cranmer, 2019). The literature also shows that the use of *rahn* contracts can improve access to finance for people in need, while maintaining the integrity of sharia (Ahmad et

al., 2019). In addition, previous studies note that *Baitul Maal Wat Tamwil* can have a positive impact on members' economic welfare and build trust in Islamic financial institutions, but it also faces challenges in terms of service effectiveness and member satisfaction that need to be identified and addressed.

The role of *Baitul Maal Wat Tamwil* in providing *rahn* akad financing to members in Islamic financial institutions is to explain the financing mechanism of the *rahn* contract applied in this institution, and analyze the social and economic impacts caused to members. In addition, this objective also includes assessing the level of member satisfaction with the services provided, as well as identifying the challenges faced and finding solutions to improve the effectiveness of financing. Thus, this discussion aims to provide a comprehensive understanding of how the *rahn* contract plays a role in economic empowerment and member welfare, as well as how *Baitul Maal Wat Tamwil* can continue to improve their services (Bintoro, 2021).

In the context of Islamic finance, the *rahn* contract has a very important role. This agreement is defined as collateral provided by the debtor to the creditor to obtain a loan. In Islamic finance literature, Majid et al., (2020) stated that the *rahn* contract not only protects creditors, but also allows debtors to obtain halal financing. This is the basis for Islamic financial institutions to implement this financing product, so that members can overcome various financial needs in a way that is in accordance with sharia principles (Bintoro, 2021). *Baitul Maal Wat Tamwil* also functions as a driver of community economic empowerment, especially in rural areas.

*Baitul Maal Wat Tamwil* provides financial access to individuals who may not be able to access conventional banking institutions (Amir et al., 2024). The provision of *rahn* (sharia pawn) contract-based financing by *Baitul Maal Wat Tamwil*, especially in Islamic financial institutions, has great relevance in supporting the financial needs of rural communities, which are often difficult to access formal financing. The *rahn* contract applied by *Baitul Maal Wat Tamwil* is not only an alternative to Islamic finance, but also reflects efforts to empower the economy based on sharia values, which aims to strengthen the welfare of members and local communities (Bintoro, 2021).

This study aims to analyze the strategic role of the *rahn* contract applied by the Islamic financial institution *Baitul Maal Wat Tamwil*, especially in supporting access to halal financing and economic empowerment of rural communities. By focusing on the implementation mechanism of the *rahn* contract. The novelty of this research lies in the focus of analysis which not only discusses the technical mechanism of the *rahn* contract but also identifies its contribution to sharia-based economic empowerment in the micro and small sectors. In the context of non-bank Islamic financial institutions such as *Baitul Maal Wat Tamwil*, this research offers a new perspective on the effectiveness of the *rahn* contract as a sustainable inclusive financial instrument. This research is expected to provide practical contributions in the form of recommendations for the optimization of Islamic financial services that are more adaptive to the needs of rural communities. In addition, academically, this research adds insight into the development of the *rahn* contract as a sharia-based socio-economic welfare-oriented financing model.

## METHODS

This research uses a qualitative approach with a case study method to obtain an in-depth understanding of the application of the *rahn* contract at sharia finance saving and loan cooperative *Baitul Maal Wat Tamwil* integrated joint venture nusantara Purwoharjo branch. This type of research is descriptive

qualitative, which aims to analyze the phenomenon of implementing the *rahn* contract in detail (Adel & Anoraga, 2023; Al Ikhlas et al., 2022; Asrida et al., 2023; Ganefri et al., 2017). The data sources in this research consist of primary data and secondary data. Primary data was obtained through in-depth interviews with two informants of sharia finance saving and loan cooperative *Baitul Maal Wat Tamwil* integrated joint venture nusantara Purwoharjo branch management, two informants of members who have used *Rahn* contract financing facilities, and three informants of other related parties such as field staff and sharia auditors. The selection of informants was carried out using purposive sampling technique, namely selecting informants based on certain criteria, such as direct experience in the implementation of the *rahn* contract. Secondary data were obtained from internal institutional documents, such as annual reports, and other supporting literature (Yafi, 2024; Yusuf et al., 2024).

The main instrument in this research is the researcher as the key instrument (human instrument), which is supported by an interview guide to explore information in depth. In addition, an observation sheet was used to record the process of implementing the *rahn* contract directly in the field. The data collected was analyzed using data analysis techniques, which included the stages of data reduction, data presentation, and conclusion drawing. Data reduction is done by filtering and simplifying raw data from interviews, observations, and documents. The simplified data was then presented in the form of descriptive narratives based on relevant themes. In the final stage of analysis, researchers interpreted the findings to identify deep meanings related to the implementation of the *rahn* contract, resulting in conclusions that answered the research objectives. Data validity was maintained through source and method triangulation techniques, by comparing the results of interviews, observations, and documents to ensure the consistency and validity of the findings (Engkizar et al., 2022; Santoso et al., 2024; Syarif & Setiadi, 2024).

## RESULT AND DISCUSSION

### ***Aqad rahn* financing using gold and motor vehicle owner's book**

In the context of Islamic financing, the *rahn* contract makes it easy for *Baitul Maal Wat Tamwil* informants to gain access to finance through the collateral of valuables, such as gold and motor vehicle owner books. The research findings show that the use of gold and motor vehicle owner's books as collateral is a popular choice among informants, as both types of collateral have a stable value and can be easily evaluated. This not only provides security for the lender but also increases informants' confidence to use the financing services offered by *Baitul Maal Wat Tamwil*.

Financing with this *rahn* contract also opens up opportunities for informants to meet urgent needs, such as education, health, or business capital costs, without having to fall into usury practices. Informants feel that by using the goods they own as collateral, they can maintain liquidity without having to sell their valuable assets. To understand more about this practice, the researcher conducted an interview with one of the *Baitul Maal Wat Tamwil* members who had utilized the *rahn* contract financing facility. An interview with one *Baitul Maal Wat Tamwil* member showed that the use of gold as collateral in contractual *rahn* provides more benefits, as in the following interview.

*I chose gold because its value is relatively stable, allowing me to expand my business when I need funds. The application process at Baitul Maal Wat Tamwil is recognized as easy and transparent, providing a sense of security because the pawned item is maintained. I emphasized the importance of a clear explanation of the rahn contract*



*process, which made her feel comfortable in utilizing this facility (I-1)*

Informants consider this way of obtaining funds without being trapped in interest-bearing debt to be a good solution. His positive experience reflects that *Baitul Maal Wat Tamwil* not only provides financial support but also maintains good relationships with its members. With financing services through contract rahn, *Baitul Maal Wat Tamwil* has succeeded in meeting the needs of members in a sharia manner, increasing the trust and involvement of members in using existing services.

Interpretation of the findings regarding the financing of rahn contracts using gold and motor vehicle owners' books at *Baitul Maal Wat Tamwil* shows that this approach succeeds in answering informants' financial needs efficiently and in accordance with sharia principles. The use of valuables as collateral creates a sense of security for informants, as they can maintain liquidity without having to sell their assets. It also reflects the informants' increased trust in the institution, where transparency in the application process contributes to their satisfaction. Trust theory in the context of financial relationships explains that transparency and clear communication between financial institutions and customers play an important role in building trust.

According to [Khoirunnisa et al., \(2023\)](#) in this case, the trust of *Baitul Maal Wat Tamwil* informants in the rahn contract is based on the understanding that the institution prioritizes sharia principles and provides guarantees in accordance with Islamic values. Thus, the rahn contract is not only a financial instrument, but also a means to strengthen the relationship between *Baitul Maal Wat Tamwil* and its members, increasing informants' involvement and loyalty to the services offered. This approach provides an opportunity for informants to meet urgent needs, while maintaining compliance with the sharia principles on which *Baitul Maal Wat Tamwil* operates ([Adawiyah & Masse, 2024](#)).

#### **Increased access to financing for members**

*Baitul Maal Wat Tamwil* has succeeded in increasing access to financing for its members through the rahn contract. With the collateral system, informants who previously had difficulty getting loans from conventional financial institutions can now use valuables as collateral. This expands opportunities for informants to meet their financial needs without being trapped in usury practices. Increasing access to financing for *Baitul Maal Wat Tamwil* informants through the rahn contract is one of the strategic steps in meeting the financial needs of the community. The collateral system implemented allows members, who previously may have faced obstacles in obtaining loans from conventional financial institutions, to utilize valuables as collateral. This not only expands access to finance, but also provides an alternative that complies with sharia principles, avoiding the practice of usury that is often an obstacle in conventional financial institutions. With this service, *Baitul Maal Wat Tamwil* informants feel more empowered in meeting urgent needs, whether for education, health, or business capital. To further explore this positive impact, the researcher conducted an interview with one of the *Baitul Maal Wat Tamwil* informants who felt the direct benefits of this financing facility.

*I think the use of contractual rahn to obtain financing provides an effective solution for informants who have difficulty accessing loans from banks. Previously I had difficulties due to the complicated application process and many requirements. But after joining Baitul Maal Wat Tamwil, she was able to use gold jewelry as collateral to obtain funds for her child's education. The application process at Baitul Maal Wat Tamwil was recognized as easy and without the burden of burdensome interests. I felt safer because Baitul Maal Wat Tamwil provided a clear explanation of the*

*procedures and requirements, and ensured that the pledged goods remained under supervision (I-2)*

Based on the informant's explanation, it shows that the *rahn* contract not only expands financial access, but also provides a sense of security for the informant, in accordance with sharia principles, without being trapped in usury practices.

Interpretation of the findings regarding increasing access to financing for *Baitul Maal Wat Tamwil* informants through the *rahn* contract shows that this system effectively answers the challenges faced by informants in obtaining loans from conventional financial institutions. The existence of a collateral mechanism based on valuables, such as gold, provides an opportunity for informants to meet financial needs without having to be trapped in usury practices. This is in line with the access to finance theory, which states that innovations in financial services can increase financial inclusion, especially for previously underserved communities.

According to [Muhardani, \(2023\)](#) by utilizing the *rahn* contract, informants feel the direct benefits of a system that makes it easy to apply without complicated conditions and without burdensome interest. The clarity of information provided by *Baitul Maal Wat Tamwil* also contributes to the informants' sense of security and comfort in transactions. Thus, *Baitul Maal Wat Tamwil* not only acts as a financial institution, but also as an agent of change that empowers informants to achieve their financial goals. This increase in access to financing shows *Baitul Maal Wat Tamwil's* commitment to creating solutions that are in accordance with sharia principles, as well as increasing members' trust and involvement in utilizing the financial services offered ([Syarifudin & Silvia, 2023](#)).

### **Enforcement of sharia principles in transactions**

*Baitul Maal Wat Tamwil* Integrated joint venture Nusantara is committed to applying sharia principles in every transaction of the *rahn* contract. The results showed that all transactions are carried out with transparency, avoiding elements of usury. This increases informant satisfaction because they feel protected in transactions that are in accordance with Islamic law. The enforcement of sharia principles in *rahn* contract transactions at *Baitul Maal Wat Tamwil* is one of the main focuses in the operation of this institution. *Baitul Maal Wat Tamwil's* commitment to applying sharia principles, such as avoiding the element of usury. Not only reflects the integrity of the institution but also contributes to member satisfaction and trust. Research shows that all transactions are conducted with transparency, which creates a safe and comfortable environment for informants to conduct financing activities. With this enforcement of sharia principles, members feel protected in every transaction, in accordance with the values upheld in Islamic law. To better understand the impact of upholding these sharia principles, the researcher conducted an interview with one of the *Baitul Maal Wat Tamwil* informants who directly benefited from this approach.

The results of an interview with one of the informants, a member of *Baitul Maal Wat Tamwil*, showed that the enforcement of sharia principles in *rahn* contract transactions has a significant positive impact.

*...the enforcement of sharia principles in the transaction of the rahn contract has a significant positive impact. One of the reasons I chose Baitul Maal Wat Tamwil was the institution's commitment to sharia principles, which made me feel at ease transacting without the burden of interest. The transparent process and clear information made him feel protected and safe, in contrast to his experience with conventional banks. She also emphasized that a good understanding of sharia at*

*Baitul Maal Wat Tammwil increased her confidence to use the service (I-3)*

This experience reflects that *Baitul Maal Wat Tammwil* succeeded in creating an environment that supports informants' trust and ensures the services provided are in line with sharia values, increasing informants' satisfaction and engagement in utilizing the facilities.

Interpretation of the findings regarding the enforcement of sharia principles in *rahn* contract transactions at *Baitul Maal Wat Tammwil* Nusantara shows that the institution's commitment to sharia principles not only increases integrity, but also affects informant satisfaction and trust. Transparency in every transaction creates a safe environment for informants. This is in line with the theory of trust in the relationship between financial institutions and customers, which states that trust is built through the practice of transparency and consistency in service. According to Masruroh & Sugiono, (2022) in this context, *Baitul Maal Wat Tammwil* provides confidence to its members that all transactions will be carried out in accordance with sharia, which increases a sense of security and comfort in transactions. As an informant, he directly benefited from this approach, where he felt protected and not burdened by loan interest. Thus, *Baitul Maal Wat Tammwil* functions not only as a financial institution, but also as an institution that supports the welfare of its members through practices based on sharia principles. This enforcement of sharia principles creates a mutually beneficial relationship between *Baitul Maal Wat Tammwil* and its members, which has a positive impact on increasing informants' involvement in utilizing the financial services offered (Hamidah & Yandono, 2016).

## CONCLUSION

This research shows that *Baitul Maal Wat Tammwil* integrated joint venture nusantara Purwoharjo branch has a significant role in increasing access to financing for its members through the *rahn* contract mechanism. By using valuables such as gold and motor vehicle owner's books as collateral, the institution is able to provide flexible financing solutions, without requiring members to sell their assets. This approach not only provides a sense of security, but also builds trust through a transparent application process, which contributes to the creation of a harmonious relationship between members and the institution. The enforcement of sharia principles in the application of the *rahn* contract ensures that transactions are conducted in accordance with Islamic values, strengthening the integrity and sustainability of the institution. As an Islamic financial institution, *Baitul Maal Wat Tammwil* serves as an agent of change that empowers its members to achieve their financial goals in a way that complies with sharia principles, supporting higher engagement in the use of financial services. The findings also show that *Baitul Maal Wat Tammwil's* commitment to sharia principles contributes to member satisfaction and improved community welfare. Based on these findings, it is recommended that *Baitul Maal Wat Tammwil* continue to strengthen financing services based on the *rahn* contract, by increasing public understanding of the benefits of Islamic financing, and establishing partnerships with other Islamic financial institutions to expand access to financing.

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