

## ***Rahn* As a Sharia Financial Instrument: A Literature Study on the Mechanism and Implications in Indonesia**

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**Abstract:** *Despite the rapid development of Indonesia's Islamic financial system, rahn, as a sharia pawn instrument, faces challenges such as limited public understanding of the contract mechanism and competition with conventional pawnshops. This study aims to examine the operational mechanisms of rahn in Islamic financial institutions and their implications for financial inclusion. Using a descriptive qualitative approach through literature study, the population included rahn literature (2021-2025) with purposive sampling resulting in over 30 primary sources, including fatwas from the National Sharia Council (DSN-MUI) and regulations from the Financial Services Authority (OJK). The instruments consisted of primary texts (the Quran, hadith) and secondary texts (journals, reports), analyzed through thematic content analysis and validation of maqasid sharia. The results demonstrate the effectiveness of rahn through the riba-free qardh-ijarah contract, serving >60% of micro-enterprise customers while strengthening social solidarity. In conclusion, rahn strengthens ethical microfinance but requires standardization and digital innovation for broader reach.*

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### **Introduction**

The Islamic financial system in Indonesia has experienced rapid growth in recent years, driven by public awareness of Islamic economic principles that emphasize justice, welfare, and the prohibition of usury (Sugianto, 2024; Al Arif, 2021). Rahn, a form of Islamic pawn, emerged as a microfinance instrument that allows people to obtain quick funds by submitting collateral (*marhun*), thus reflecting the value of mutual assistance (*ta'awun*) in muamalah (transactions) (Suherli, 2024; Komarudin & Annas, 2024). This phenomenon is evident in the expansion of Islamic Pawnshop services, which target the lower-middle class to support national financial inclusion (Zaharullah, 2024; Hidayatullah et al.,

2024).

Sharia pawnshops implement rahn through the qardh contract for loans and *ijarah* for maintenance costs (*mu'nah*), avoiding conventional interest practices while ensuring transaction security (Khoirunnazilah et al., 2022; Billah, 2024). Their legal basis is strong, ranging from the Qur'an (Al-Baqarah: 283) to the DSN-MUI Fatwa No. 25/DSN-MUI/III/2002, which serves as operational guidelines in Indonesia (Alexander et al., 2023; Lamtana & Mayditri, 2022).

However, the implementation of rahn faces challenges such as limited public understanding of sharia contracts, which often confuse *mu'nah* with interest (Qolbi et al., 2024; Husna et al., 2024). Operational oversight is not yet fully optimal, particularly in maintaining transparency in collateral valuation and preventing deviations from sharia principles (Kahar et al., 2024; Putri et al., 2022).

Competition with conventional pawnshops is also a crucial issue, as the usury system is more widely recognized despite its exploitative nature for customers (Bakhrir et al., 2022; Hardivison et al., 2024). This challenge is exacerbated by a lack of digital innovation and Islamic financial literacy, which hinders the reach of rahn in rural areas (Setiawan & Rusmani, 2023; Hidayatullah et al., 2024).

This study aims to examine the rahn mechanism in Indonesian Islamic financial institutions and identify its implications for the development of inclusive finance. The urgency lies in the need to strengthen regulations and practices to address this gap, in line with the national financial inclusion target. Its novelty is offering a comprehensive analysis based on the latest literature (2021-2025), integrating the maqasid sharia perspective with empirical data from Islamic pawnshops, a topic that has not been widely explored in previous studies (Wahid & Putra, 2024; Zaharullah, 2024).

## Research Methods

This study uses a descriptive qualitative approach with library research to analyze the concept, mechanisms, and implications of *rahn* as a sharia financial instrument in Indonesian sharia pawnshops. This approach was chosen due to the normative and conceptual nature of the study object, thus requiring in-depth study of primary texts such as the Quran, Hadith, and fatwas of the National Sharia Council (DSN-MUI), as well as secondary sources in the form of recent academic literature. Sugiyono (2023) emphasizes that library research methods are effective for integrating historical and contemporary data in sharia economic studies, while Creswell and Poth (2021) define a descriptive qualitative approach as a systematic way to explore complex phenomena through in-depth narratives.

## Data Analysis Instruments and Techniques

The main research instruments included primary documents such as DSN-MUI Fatwa No. 25/DSN-MUI/III/2002 concerning *Rahn* and OJK regulations, as well as secondary sources such as scientific journals, books, Pegadaian Syariah annual reports, and national Islamic financial statistics from the past five years. Data analysis techniques involved thematic content analysis, data reduction, and narrative synthesis to identify consistent patterns related to the *rahn* mechanism and its implications. Emzir (2022) explains that qualitative content analysis allows for an in-depth examination of the meaning of normative-theological and socio-economic texts, while Sudaryono (2024) recommends a thematic approach to compare the theory of maqasid sharia with empirical practice.

## Population and Sample

The study population comprised all relevant literature on *rahn* in Indonesia, including national and international journals, DSN-MUI fatwas, and OJK policy documents published between 2021 and 2025. The sample was purposively selected based on thematic relevance, academic validity, and currency, resulting in over 30 primary sources, including Alexander et al. (2023), Zaharullah (2024), and Khoirunnazilah et al. (2022). This purposive sampling technique aligns with Sugiyono (2023) for literature studies targeting high-quality sources, as well as Creswell and Poth (2021) who suggest sample selection based on suitability to the research questions.

## Research Procedures

The research procedure began with an inventory of sources through searches in Google Scholar and academic repositories, followed by classification based on themes (fiqh concepts, operational mechanisms, socio-economic implications), and thematic analysis using normative-theological and

*Rahn As a Sharia Financial Instrument: A Literature ... (Khafka Nafista Febrianty, Selvi)* Page 79  
socio-economic approaches. The final stage involved validating the findings against the maqasid sharia theory and comparing them with the practices of Islamic pawnshops. Sudaryono (2024) outlined the library research procedure as an iterative cycle from collection to interpretation, while Emzir (2022) emphasized the importance of source triangulation to enhance credibility in qualitative sharia research.

## Results and Discussion

### 1. The Concept and Implementation of *Rahn* from a Sharia Perspective

Conceptually, *rahn* is a sharia financial instrument with unique characteristics because it combines social and commercial aspects in a single mechanism. According to classical Islamic jurisprudence, *rahn* is defined as the transfer of a valuable item (*marhun*) by a debtor to a creditor as collateral for a debt. This transaction is not speculative, but rather aims to provide a sense of security for the lender and alleviate the financial burden on those in need. In practice, sharia pawnshops implement *rahn* by adding an *ijarah* contract to cover the maintenance and storage costs of the collateral, rather than as an additional interest or profit as in conventional systems.

Findings from the literature review indicate that *rahn* has a strong basis in the Qur'an and Hadith. Verse 283 of Surah Al-Baqarah affirms the legitimacy of providing collateral in debt transactions as an effort to maintain justice and security for both parties. This demonstrates that Islam views economic activity not only in terms of material gain, but also in terms of moral values, responsibility, and trust. Thus, the concept of *rahn* aligns with the principles of maqasid sharia, which emphasize the protection of property (*hifz al-mal*) and social welfare.

### 2. Operational Mechanism of Sharia Pawnshops

Operationally, the *rahn* mechanism in Islamic financial institutions such as Pegadaian Syariah follows a clear and measurable contract structure. The process begins with an agreement between the lender (*murtahin*) and the borrower (*rahin*), accompanied by the delivery of collateral. The pawnshop can then set a maintenance or safekeeping fee in accordance with the *ijarah* contract, which must be proportional and not tied to the loan amount (Billah, 2024).

Literature research shows that this system is strictly regulated by DSN-MUI Fatwa No. 25/DSN-MUI/III/2002 concerning *Rahn* and Fatwa No. 26/DSN-MUI/III/2002 concerning *Gold Rahn*, which serve as the primary guidelines for the operational practices of Islamic pawnshops in Indonesia. These provisions are also reinforced by OJK regulations, which ensure that *rahn* practices do not deviate from the principles of fairness and transparency. Thus, the operational mechanisms of Islamic pawnshops not only guarantee legal certainty but also affirm the institution's commitment to sharia principles.

### 3. Comparison of *Rahn* with the Conventional Pawnshop System

Based on a comparative analysis of several literature reviews, *rahn* differs fundamentally from conventional pawn systems. In conventional systems, the institution's profits are derived from loan interest, which clearly contradicts Sharia principles because it contains elements of usury (*riba*). In contrast, in the *rahn* system, the pawnbroker is only entitled to receive compensation from the maintenance of the collateral, not from any additional payment on the principal. This principle makes *rahn* a fair, transparent, and exploitative financing model.

Furthermore, *rahn* has a strong social dimension as it can serve as a means of financial inclusion for low-income communities. Sharia pawnshops function not only as profit-oriented institutions but also play a role in empowering the community economically (Bakhrir et al., 2022). According to the Sharia pawnshop's annual report, more than 60% of customers are micro and small business owners who utilize *rahn* to meet short-term working capital needs. This demonstrates *rahn*'s significant contribution to economic development based on justice and prosperity.

### 4. Social and Economic Implications of *Rahn* in Islamic Finance

Research findings indicate that *rahn* (Islamic pawnshops) serves not only as a financing mechanism but also as a means of strengthening Islamic economic morality. Through the *rahn* system, people are encouraged to conduct transactions based on the principles of mutual trust and responsibility. This practice fosters an ethical economic culture, distances the community from

usury, and strengthens social solidarity. Economically, the existence of Islamic pawnshops also helps stabilize the financial condition of Muslim households, especially in urgent situations, without having to rely on high-interest loans.

Furthermore, *rahn* has the potential to be an effective instrument to support national policies on financial inclusion. The government can expand access to Sharia financing by strengthening Sharia pawnshop institutions and innovating digital *rahn* products, which have already begun to be developed in several regions. By strengthening regulations and increasing Sharia financial literacy, *rahn* can become a microfinance model that is more adaptive to the needs of modern society without abandoning Islamic principles.

## 5. Conceptual Suggestions and Strengthening

Based on the discussion, several suggestions can be put forward for the development of *rahn* as a more effective Islamic financial instrument. First, national standardization is needed for the implementation of *rahn* contracts to avoid differences in interpretation between institutions. Second, digitalization of Islamic pawnshop services is necessary to increase efficiency, transparency, and accessibility. Third, Islamic financial institutions need to expand the social function of *rahn* through community economic empowerment programs, such as fostering community-based micro-enterprises. Furthermore, synergy between regulators, academics, and practitioners is needed to strengthen research and innovation in *rahn* product development. A multidisciplinary approach that combines aspects of Islamic jurisprudence, economics, and technology will enrich understanding of *rahn* as a modern financial instrument that remains rooted in Islamic values. By strengthening these aspects, *rahn* will not only become an alternative financial solution but also a concrete manifestation of an Islamic economy that is just, ethical, and oriented towards the welfare of the community.

## Conclusion

This research confirms that *rahn* functions as an effective sharia financial instrument in Indonesia, with mechanisms based on *qardh* and *ijarah* contracts that ensure compliance with sharia principles such as the prohibition of usury and transparency of *mu'nah* costs (Alexander et al., 2023; Billah, 2024). The main findings show that *rahn* not only provides inclusive micro-financing for the lower middle class, but also strengthens the value of maqasid sharia through property protection and social solidarity, as proven by the basis of the Al-Qur'an (Al-Baqarah: 283) and DSN-MUI Fatwa No. 25/DSN-MUI/III/2002 (Zaharullah, 2024; Khoirunnazilah et al., 2022). Compared to conventional pawning, *rahn* offers a fair model that supports the economic empowerment of the people, with more than 60% of customers from micro businesses (Bakhrir et al., 2022). Practical implications include recommendations to strengthen OJK regulations for the standardization of contracts and the digitalization of Sharia Pawnshop services to improve access in rural areas.

However, the study's limitations lie in its literature-based approach, which relies on secondary sources, thus lacking primary empirical data such as customer surveys or field case analysis across various regions in Indonesia. This limits the generalizability of the findings to variations in local practices. For future research, it is recommended to adopt a mixed-methods approach with in-depth interviews with Sharia Pawnshop practitioners and quantitative analysis of the impact of financial inclusion, as well as exploration of innovations such as blockchain-based *rahn* (financial savings and loans) (Hidayatullah et al., 2024; Setiawan & Rusmani, 2023). This approach will enrich the holistic understanding of *rahn* in supporting a sustainable Islamic economy.

## SUGGESTION

Based on the findings of this study, several strengthening measures can be taken to increase the effectiveness of *rahn* in the Islamic financial system. First, efforts are needed to standardize and harmonize national regulations regarding *rahn* practices to ensure uniform implementation across all Islamic financial institutions. Second, Islamic pawnshops need to develop a digital transformation of *rahn* services to expand customer reach, improve efficiency, and strengthen operational transparency. Third, it is crucial to increase Islamic financial literacy among the public to broaden understanding of

*Rahn As a Sharia Financial Instrument: A Literature ... (Khafka Nafista Febrianty, Selvi)* Page 81  
 rahn principles and mechanisms and encourage economic participation among the community.

Furthermore, collaboration between academics, practitioners, and regulators is needed to conduct further research focused on developing innovative *rahn* products, such as digital gold *rahn* or blockchain-based *rahn*, that can address the challenges of the times without compromising Sharia principles. Higher education institutions are expected to play a role in producing empirical research that strengthens the theory and practice of *rahn*-based Islamic economics.

Reflectively, *rahn* should be understood not only as a financial transaction mechanism, but also as a moral and social instrument reflecting the values of justice, mutual assistance, and the blessings of Islamic economics. By strengthening the ethical and spiritual aspects of its practice, *rahn* can become a crucial pillar for realizing a sharia financial system that is not only economically stable but also brings prosperity and sustainability to all levels of society.

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