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Implementation of Rahn Guarantees in Islamic Finance and Their Contribution to Financial Inclusion: A Literature Review

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Abstrak

This study conducted a narrative literature review to examine the implementation of rahn in Islamic financial institutions and its contribution to financial inclusion. Using Scopus as the sole database, 264 documents were initially identified, of which 14 met the relevance criteria and were analyzed in depth. The findings show that rahn is implemented as a sharia-compliant collateral-based financing mechanism, supported by regulatory clarity, public acceptance, economic conditions, perceived benefits, and service quality. However, its implementation still faces challenges related to sharia compliance and legal recognition of collateral assets. This review also shows that rahn significantly improves financial inclusion by enhancing economic well-being, empowering vulnerable groups, and expanding access to financial services, especially for individuals without bank accounts. Despite its significant impact, its full potential requires strengthened regulation, improved literacy, and expanded institutional capacity. This study offers a conceptual synthesis linking rahn practices to the financial inclusion framework and highlights opportunities for future development.

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INTRODUCTION

The development of the Islamic finance industry has opened up various opportunities to expand access to inclusive financial services for all levels of society (Al-Isawi, 2024; Izhar & Kasri, 2021; Khan, 2024; Rosman et al., 2024). Among the financial instruments that play a strategic role is rahn (Abdul Razak & Asutay, 2022; Sharif & Ishak, 2020; Zain et al., 2024a), which is a sharia pawn mechanism that provides short-term financing with collateral (Bahari et al., 2021; Zain et al., 2024b). Compared to conventional pawn, rahn offers a more ethical and riba-free scheme, so it is widely used by low- to middle-income communities as a solution for liquidity needs.

Although the implementation of rahn has been regulated in fiqh provisions and regulations such as Fatwa DSN-MUI No. 25/DSN-MUI/III/2002, various studies show that its use in Islamic financial institutions still faces a number of challenges. These challenges include differences in operational models between institutions (Khasanah, 2021), limited access to Islamic rahn services (Nik Azman et al., 2021), a lack of public understanding, and limited product innovation (Rose et al., 2019).

The combination of these factors means that the contribution of rahn to financial inclusion, especially for the unbanked and underbanked groups, has not been fully explored or maximized (Kabir, 2022; Razak et al., 2017). In other words, although rahn has characteristics that make it a potentially inclusive financing instrument, such as ease of access, affordability, and compliance with sharia principles, its use to expand access, usage, and quality of sharia financial services is still not optimal.

Furthermore, the relationship between the implementation of rahn and the expansion of financial inclusion is still rarely discussed in an integrated manner in the literature. To date, there has been no comprehensive study that combines empirical findings, the operational practices of Islamic financial institutions, and regulatory perspectives to provide a comprehensive picture of the extent to which rahn

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contributes to financial inclusion indicators. This research gap underscores the need for a literature review that is able to systematically summarize and connect these three perspectives.
Based on these conditions, this study focuses on answering two main questions, namely:

1. How is rahn implemented in Islamic financial institutions and what factors influence its success?
2. To what extent does rahn contribute to the expansion of financial inclusion, especially for the unbanked and underbanked groups?

This study aims to present a narrative literature review on the implementation of rahn in Islamic finance and map its contribution to financial inclusion based on academic sources, industry reports, and regulations. The new contribution of this study lies in the preparation of a conceptual and thematic synthesis that integrates rahn practices with the financial inclusion framework, thereby clarifying the strategic role of rahn in economic empowerment while providing conceptual recommendations for strengthening policies and product innovation in Islamic financial institutions.

METHOD

The research method used in this study is a narrative literature review, which is an approach that focuses on the process of summarizing, interpreting, and synthesizing various publications descriptively and thematically without following strict protocols as in a systematic literature review (SLR). This approach was chosen because it provides flexibility in integrating various scientific perspectives related to rahn and financial inclusion, while also allowing for an in-depth analysis of the development of the concept, implementation, and contribution of rahn in Islamic finance. All sources used in this study are strictly limited to Scopus-indexed journal articles, so that all citations, theoretical discussions, and empirical findings in the analysis refer only to literature that meets international standards of credibility and scientific quality.

The data used in this study is entirely secondary data, namely peer-reviewed journal articles or conference documents and other documents, all of which are sourced from the Scopus database, so that the results of the study refer to literature that has been academically verified and has a high level of credibility. This approach ensures that the conceptual synthesis and findings obtained have a strong scientific basis and are able to make a significant contribution to the understanding of the strategic role of rahn in expanding Islamic financial inclusion.

The research procedure was carried out systematically through several operational steps, starting with determining the objectives and limitations of the study, followed by determining search keywords such as “rahn” to search for all relevant literature in the Scopus database as the only reference source. The initial search yielded 264 documents, but after an initial screening process and in-depth evaluation of their relevance, only 14 documents were found to be directly related to the topic and able to answer the research questions—some of which were also used as references in the introduction due to the limited number of studies specifically discussing rahn.

All selected articles were then comprehensively analyzed to assess their suitability to the focus of the study, classified into main themes, and systematically summarized to support the research findings synthesis process.

RESULTS AND DISCUSSION

A. Implementation of Rahn in Sharia Financial Institutions

Rahn, or Sharia-based pawnbroking, is implemented by various Islamic financial institutions as a fast financing mechanism that remains in accordance with fiqh principles. In practice, rahn allows customers to obtain funds by pledging valuable assets such as gold, buildings, or land. This scheme is widely used in Malaysia and Indonesia, where Sharia pawnshops are growing rapidly and operate alongside conventional pawnshops, often offering more competitive service fees (Bahari et al., 2021; Zain et al., 2024b).

The implementation of rahn must comply with Sharia principles, including the prohibition of usury and the requirement of fairness in transactions. In Indonesia, the National Sharia Council (DSN) has issued fatwas as operational guidelines, although in practice there are still ambiguities, for example regarding the distinction between debt (dain) and money lending (qardh) (Fedro et al., 2019). In addition, the cost structure of rahn generally refers to the mechanisms of ijarah al-hifz (custody fees) and wadia'h yad al-damanah (custody with collateral), which in some cases raise questions of Sharia compliance due to concerns that they are close to hidden interest practices (Abdul Khir et al., 2013).

However, the success of rahn implementation is determined by a number of important factors. First, the level of public acceptance is very influential, especially in Muslim-majority regions such as Indonesia, which tend to be more accepting of Sharia pawn services (Wijaya, 2022). Second, regulatory support through a clear legal framework and Sharia guidelines, such as in Malaysia, contributes significantly to strengthening Ar-Rahnu operations (Abdul Razak & Asutay, 2022; Bahari et al., 2021). Third, economic conditions also influence the demand for rahn; for example, during the COVID-19 pandemic, this service experienced an increase due to the community's need for access to emergency funds (Wijaya, 2022; Zain et al., 2024a). Fourth, perceptions of benefits and risks, which include social factors, perceptions of financial gains, and perceived risks, have been shown to encourage public acceptance of Ar-Rahnu financing (Mohd Thas Thaker et al., 2021). Fifth, service quality and product innovation also determine the success of implementation, as Islamic financial institutions are required to continuously improve service quality and offer competitive products in order to maintain customer satisfaction and loyalty (Saleh, 2024).

In addition to these success factors, the implementation of rahn also faces significant challenges. First, ensuring Sharia compliance—particularly in relation to contract structures and cost mechanisms—often poses an obstacle when it must be adapted to modern financial instruments (Hussain & Ali, 2017). Second, limited legal recognition of certain types of assets that can be used as collateral restricts the flexibility and acceptance of rahn in practice (Seff & Syarif Hidayatullah, 2020).

Overall, RM 1's response indicates that the implementation of rahn is a process that not only depends on the structure of the contract, but is also greatly influenced by the regulatory ecosystem, socio-economic conditions, customer behavior, and the innovative capacity of Islamic financial institutions. The combination of these factors determines the effectiveness, sustainability, and ability of rahn to meet the financing needs of the community.

B. Rahn's Contribution to Financial Inclusion

Rahn financing contributes significantly to expanding financial inclusion because it provides access to financing that complies with Sharia principles for groups that were previously underserved by formal financial services, particularly unbanked individuals who voluntarily avoid conventional systems for religious reasons (Abdul Razak & Asutay, 2022). Various studies show that access to rahn financing has a direct impact on improving economic welfare, with evidence that ar-rahn services contribute positively to improving the economic conditions of individuals and communities, thereby strengthening the relationship between the use of ar-rahn and the level of financial inclusion (Razak et al., 2017).

In addition to improving welfare, rahn also plays a significant role in socio-economic empowerment, especially for women who gain access to financial resources to improve their socio-economic stability and progress. Through the ease of access it offers, rahn is able to overcome various barriers to financial exclusion, expand access to formal financial services, and in turn support more inclusive economic growth and contribute to poverty reduction efforts.

However, although rahn's contribution to financial inclusion is quite significant, there are a number of challenges that must be overcome in order to maximize its impact. Constraints such as low financial literacy, limited service infrastructure, and regulatory barriers remain factors that hinder equitable access (Muchandigona & Kalema, 2023; Obiora & Ozili, 2023; Trotta et al., 2026). Therefore, strategic policies and efforts to increase the capacity of rahn institutions are urgently needed, including expanding service coverage and creating a more supportive regulatory environment to strengthen the role of rahn in financial inclusion.

Overall, the literature shows that rahn is an effective instrument not only as a collateral-based financing scheme, but also as a strategic mechanism for improving welfare, empowering vulnerable groups, and expanding sustainable financial access within the framework of Islamic finance. Rahn financing has been proven to contribute significantly to expanding financial inclusion through improved economic welfare, women's empowerment, and strengthening the socio-economic development of low-income communities.

However, optimizing the role of rahn still requires addressing various systemic challenges, including low financial literacy, limited service infrastructure, and regulatory barriers. Therefore, strengthening policy support, expanding service networks, and increasing the capacity of rahn institutions are crucial steps to maximize its impact on Sharia financial inclusion in a broader and more sustainable manner.

CONCLUSION

This study shows that the implementation of rahn in Islamic financial institutions is a process influenced by a combination of structural and operational factors, including Sharia compliance, regulatory support, socio-economic conditions, perceptions of benefits and risks, and the quality of institutional services. These findings answer RM 1 by showing that the effectiveness of rahn implementation does not solely depend on contract design, but on an ecosystem that enables credible, secure, and Sharia-compliant operations.

In answering RM 2, this study confirms that rahn has a real contribution to expanding financial inclusion. This mechanism provides access to affordable financing in accordance with Sharia principles, improves individual welfare, empowers vulnerable groups—especially women—and supports more inclusive socio-economic development. However, these benefits have not been optimized due to systemic challenges such as low financial literacy, limited infrastructure, and regulatory barriers.

Thus, this study confirms that rahn has the potential to become a strategic instrument in strengthening Sharia financial inclusion if supported by more progressive policies, product innovation, institutional capacity building, and service expansion. This study opens opportunities for further research to explore more adaptive and inclusive rahn operational models, including the use of digital technology in its development.

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