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Rahn Financing As Access To Agricultural Capital: A Field Study At Bmt Ugt Nusantara Wongsorejo, Banyuwangi

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Abstract

This study examines the role of rahn financing as an access-to-capital mechanism for agricultural activities among farmer-members of BMT UGT Nusantara Wongsorejo, Banyuwangi. Using a qualitative field research approach, data were collected through semi-structured interviews, direct observation, and documentation involving institutional officers and farmer-members. The findings show that rahn financing provides additional working capital for purchasing seeds, fertilizers, agricultural medicines, labor, and equipment, thereby supporting timely agricultural activities and production. The financing process is facilitated by relatively straightforward administrative requirements, collateral assessment, and timely disbursement. However, the effectiveness of financing is influenced by household financial pressures and agricultural risks. In particular, some financing may be diverted to urgent household needs, while crop failure caused by unfavorable weather can reduce agricultural income and subsequently affect repayment capacity. The study demonstrates that rahn financing functions not only as a source of additional agricultural capital but also as a short-term liquidity mechanism connecting production expenditures with expected agricultural income. Nevertheless, its practical effectiveness remains dependent on productive fund utilization, household financial conditions, and agricultural production outcomes.

Kata kunci:

Pembiayaan Rahn;
modal pertanian;
mikrofinansial Islam

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Abstrak

Studi ini meneliti peran pembiayaan rahn sebagai mekanisme akses modal untuk kegiatan pertanian di antara anggota petani BMT UGT Nusantara Wongsorejo, Banyuwangi. Dengan pendekatan penelitian lapangan kualitatif, data dikumpulkan melalui wawancara semi-terstruktur, observasi langsung, dan dokumentasi yang melibatkan pejabat institusi dan anggota petani. Temuan menunjukkan bahwa pembiayaan rahn menyediakan modal kerja tambahan untuk pembelian benih, pupuk, obat pertanian, tenaga kerja, dan peralatan, sehingga mendukung aktivitas dan produksi pertanian tepat waktu. Proses pembiayaan difasilitasi oleh persyaratan administratif yang relatif sederhana, penilaian jaminan, dan pencairan tepat waktu. Namun, efektivitas pembiayaan dipengaruhi oleh tekanan keuangan rumah tangga dan risiko pertanian. Secara khusus, sebagian pembiayaan dapat dialihkan ke kebutuhan rumah tangga yang mendesak, sementara kegagalan panen akibat cuaca tidak menguntungkan dapat mengurangi pendapatan pertanian dan kemudian memengaruhi kapasitas pelunasan. Studi ini menunjukkan bahwa pembiayaan rahn berfungsi tidak hanya sebagai sumber modal pertanian tambahan tetapi juga sebagai mekanisme likuiditas jangka pendek yang menghubungkan pengeluaran produksi dengan pendapatan pertanian yang diharapkan. Namun demikian, efektivitas praktisnya tetap bergantung pada pemanfaatan dana produktif, kondisi keuangan rumah tangga, dan hasil produksi pertanian.

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INTRODUCTION

Access to adequate capital remains an important issue in agricultural activities because farmers generally have to incur production costs before receiving income from harvests (Eswaran & Kotwal, 1986). Seeds, fertilizers, agricultural medicines, labor, land preparation, and equipment require financing at different stages of the production cycle (Behrens & Hawranek, 1991) . For farmers with limited personal capital, restricted access to financing can affect their ability to maintain agricultural activities and may even delay planting (Khan et al., 2024a) . In this context, Islamic microfinance institutions can provide an alternative source of financing that responds to the financial needs of rural communities while operating within Islamic principles (Wajdi Dusuki, 2008) .

Islamic microfinance institutions have an important role in expanding financial access among rural households (Obaidullah, 2015) . Previous research has demonstrated that access to Islamic microfinance is influenced by household and socioeconomic characteristics and can contribute to the availability of financing for rural communities (Islam, 2021) . In the agricultural sector, this issue becomes particularly important because farmers face a distinctive financial cycle: production expenditure occurs before agricultural revenue is realized (Belshaw, 1926) . Consequently, financing that can be accessed when inputs are needed may support the continuity of agricultural production (Jati, 2024) .

One financing mechanism relevant to this context is *rahn*. In Islamic financial practice, *rahn* involves the use of collateral as security for a financing relationship. Its practical relevance to farmers lies in its potential to provide access to funds based on acceptable collateral (Nurhayati et al., 2026) . Recent studies of agricultural financing have indicated that *rahn*-based financing can facilitate farmers' access to capital for production inputs, including seeds and fertilizers. At the same time, these studies also identify challenges such as crop failure, agricultural price fluctuations, collateral requirements, and limited financial literacy (Jacob et al., 2026) .

Although previous studies have discussed *rahn* as an instrument for agricultural financing, further empirical examination is needed regarding how this financing operates in the daily activities of farmers. Access to financing does not necessarily mean that funds will always be used productively or that farmers will automatically obtain sufficient income to meet repayment obligations (Kambali & Panakaje, 2022a) . The relationship between financing access, utilization of funds, agricultural production, household financial needs, and repayment therefore requires attention (Zehra & Singh, 2023) . This study addresses this issue through a field study of farmer-members at BMT UGT Nusantara Wongsorejo, Banyuwangi.

The empirical data show that *rahn* financing has been available at the Wongsorejo branch since 15 May 2010 and is used by members for various needs, including agricultural activities. According to the branch officer, farmers constitute the majority of *rahn* financing users, while the financing is commonly associated with the purchase of seeds, fertilizers, land preparation, and crop maintenance. The farmer informants also explained that financing helped them

overcome limitations in agricultural capital and obtain production inputs when they were needed.

However, the empirical evidence also reveals several limitations. Financing intended for agricultural purposes may sometimes be used to respond to urgent household needs, while crop failure can reduce agricultural income and make installment payments more difficult. These circumstances demonstrate that the role of *rahn* financing cannot be separated from the broader economic conditions experienced by farming households.

Therefore, this study aims to examine how *rahn* financing functions as an access-to-capital mechanism in supporting agricultural activities among members of BMT UGT Nusantara Wongsorejo, Banyuwangi. The analysis focuses on three dimensions: the accessibility of financing, the utilization of financing for agricultural activities, and the constraints and risks affecting its utilization and repayment. Through this focus, the study seeks to explain not only whether farmers can obtain financing, but also how financing is integrated into the agricultural production cycle and what factors influence its practical effectiveness.

RESEARCH METHOD

This study employed a qualitative field research design to examine the practical role of *rahn* financing in providing agricultural capital to members of BMT UGT Nusantara Wongsorejo, Banyuwangi. A qualitative approach was selected because the study focuses on the experiences, practices, and perceptions of financing users and institutional personnel in their actual context. The research particularly examines how financing is accessed, how the funds are utilized in agricultural activities, and what constraints emerge during the financing and repayment process.

The research was conducted at BMT UGT Nusantara Wongsorejo, Banyuwangi. The primary data were obtained from interviews with four informants representing both institutional and farmer perspectives. The institutional informants consisted of Agus Widayat, Head of Branch Operations, and Andi Habibullah, an AOAP officer. The farmer-member informants were Markus and A. Lani Mahdi. The interviews were conducted in July 2026. The research data indicate that Agus Widayat provided information regarding the implementation and mechanism of *rahn* financing, while the farmer-members described their experiences in obtaining and utilizing the financing for agricultural activities.

Data collection involved semi-structured interviews, direct observation, and documentation. Interviews were used to obtain information concerning the implementation of *rahn*, financing requirements, collateral assessment, disbursement, utilization of funds, and repayment problems. Observations were used to examine the actual service and administrative processes at the institution as well as the agricultural activities of farmer-members. The research documentation was used to complement information obtained through interviews and observations.

The interview data indicate that the *rahn* financing mechanism involves several stages. These include explanation of the financing arrangement,

administrative verification, submission and assessment of collateral, approval, and disbursement. Before the contract is signed, officers explain the financing amount, financing period, repayment obligations, and collateral requirements to the member. The requirements include identification documents, family documentation, marriage documentation, and collateral. Collateral may consist of land certificates, vehicle ownership documents, electronic goods, vehicles, or jewelry, depending on the assessment conducted by the institution.

The data were analyzed thematically (Dasopang & Siregar, 2026a) by organizing the empirical findings into three main analytical dimensions: (1) access to *rahn* financing, (2) utilization of financing for agricultural activities, and (3) constraints and risks affecting financing utilization and repayment. The analysis then connected these themes to identify the relationship between capital access, agricultural production, agricultural income, and repayment capacity. The findings were interpreted by comparing information obtained from institutional informants, farmer-members, observations, and relevant scholarly literature.

RESULTS AND DISCUSSION

Result

Rahn Financing as an Accessible Source of Agricultural Capital

The findings show that *rahn* financing at BMT UGT Nusantara Wongsorejo provides farmer-members with an alternative source of agricultural capital. According to Agus Widayat, *rahn* financing has been implemented at the Wongsorejo branch since 15 May 2010. From the institutional perspective, the financing serves both the interests of the institution and the financial needs of members. The financing is considered useful for members who require additional capital for agricultural activities, including purchasing seeds and fertilizers and maintaining their crops.

The farmer perspective confirms this function. A. Lani Mahdi explained that farmers frequently face insufficient capital to purchase seeds, fertilizers, agricultural medicines, and labor. *Rahn* financing therefore provides additional capital to fulfill these requirements. The findings also show that farmers constitute the majority of *rahn* financing users at the branch, and the financing process is perceived as relatively easy and not excessively time-consuming.

The accessibility of financing is closely associated with the simplicity of the administrative process and the availability of collateral. Markus explained that he selected *rahn* because the disbursement process was relatively fast and the requirements were straightforward. He used the financing to support his farming activities. Before the financing contract is completed, officers explain the financing amount, period, repayment obligations, and collateral requirements to the member.

Collateral plays an important role in the financing process. The institution accepts several forms of collateral, including land certificates, BPKB, electronic goods, vehicles, and jewelry. The collateral is assessed based on its physical condition, documentation, and estimated value. For jewelry, assessment considers purity, weight, and condition, while vehicle assessment includes the vehicle's year, engine condition, documentation, and physical condition.

The timing of disbursement varies according to the type of collateral. Gold can be disbursed on the same day, whereas other forms of collateral may require a survey, except under certain circumstances such as a car accompanied by its BPKB. Markus reported that after the survey, financing could be disbursed in approximately one week if no problems were identified. These findings indicate that accessibility is shaped not only by the existence of financing but also by administrative simplicity, collateral availability, assessment procedures, and disbursement timing.

Utilization of Rahn Financing in Agricultural Activities

The second major finding concerns the utilization of financing. The financing obtained by farmer-members is primarily directed toward agricultural production needs. Agus Widayat explained that farmers require capital for seeds, fertilizers, land preparation, and crop maintenance. Markus similarly reported using financing for fertilizer, seeds, agricultural medicines, labor, and equipment rental.

The financing is particularly important when farmers lack sufficient personal capital at the beginning or during the production cycle. A. Lani Mahdi explained that before obtaining financing, limited capital made it difficult to fulfill fertilizer and seed requirements. After receiving financing, these agricultural needs could be met more adequately. This indicates that *rahn* financing functions as additional working capital rather than as an independent source of agricultural income.

An important consequence identified by the informants is the relationship between financing access and production timing. Markus explained that financing allowed him to obtain agricultural inputs and avoid delays in planting. The observation data similarly show that farmer activities included land preparation, fertilization, and crop maintenance, which corresponded with the types of expenditures financed through *rahn*. A. Lani Mahdi further explained that timely planting could support the continuation of the production cycle until harvest and potentially enable farmers to obtain better income conditions.

The empirical findings can therefore be summarized as follows:

Table 1: Empirical Findings on Rahn Financing and Agricultural Capital Access

Analytical Dimension	Empirical Evidence	Primary Source
Capital access	Financing provides additional capital for farmers with limited personal funds.	Agus Widayat; A. Lani Mahdi
Accessibility	Requirements are perceived as relatively simple and the financing process is relatively fast.	Agus Widayat; Markus
Production inputs	Financing is used for seeds, fertilizer, agricultural medicine, and labor.	Markus; A. Lani Mahdi
Agricultural operations	Funds support land preparation, crop maintenance, and equipment rental.	Agus Widayat; Markus; observation
Timing of production	Financing helps farmers obtain inputs and avoid delayed planting.	Markus; A. Lani Mahdi
Collateral mechanism	Collateral is assessed according to its type, condition, documentation, and estimated value.	Agus Widayat; Andi Habibullah
Institutional function	BMT facilitates access to agricultural capital	Agus Widayat; Andi

Constraints and Risks in the Utilization of Rahn Financing

Although *rahn* financing provides access to agricultural capital, the findings reveal several constraints affecting its effectiveness. The first is the potential diversion of financing from its stated purpose. Institutional informants explained that financing intended for agricultural activities could sometimes be used for other household needs.

This finding is illustrated by Markus's experience. He explained that financing intended to support agricultural activities was used to pay for his wife's medical treatment because the household faced an urgent need. This demonstrates that farming households may simultaneously face productive and household financial needs, meaning that agricultural financing cannot always be isolated from broader household financial pressures.

The second major constraint is crop failure. According to the institutional informant, crop failure can reduce agricultural income and subsequently affect farmers' ability to pay installments. Markus described a specific experience in which chili crops failed because of unfavorable weather conditions. The resulting decline in income made installment payments more difficult.

When agricultural income is insufficient, farmers may seek alternative sources of income to maintain repayment. Markus reported attempting to obtain other income following the crop failure so that his financing obligations could continue to be fulfilled. The findings therefore demonstrate that repayment capacity depends not only on access to financing but also on the success of agricultural production and the household's ability to manage financial shocks.

The constraints identified in the study can be summarized as follows:

Table 2: Constraints Affecting the Utilization and Repayment of Rahn Financing

Constraint	Empirical Form	Observed Consequence
Diversion of financing funds	Funds intended for agricultural activities are used for other household needs.	Reduced productive use of financing.
Urgent household needs	Financing was used for the informant's wife's medical treatment because of an urgent household need.	Agricultural funds were redirected to household expenditure.
Crop failure	Chili crops failed because of unfavorable weather conditions.	Reduced agricultural output and income.
Reduced repayment capacity	Lower agricultural income after poor harvest.	Difficulty meeting installment obligations.
Delayed payment	Farmers may be unable to pay according to the scheduled installment.	BMT officers visit, remind, communicate, and discuss possible solutions.
Alternative income generation	Farmers seek other income sources when agricultural income is insufficient.	Helps maintain repayment obligations.

Synthesis of Findings

The overall findings reveal a sequential relationship between financing access and agricultural activities. Farmers with limited capital obtain access to *rahn* financing through administrative requirements and collateral assessment. After

disbursement, the financing is used for agricultural inputs and activities, including seeds, fertilizers, medicines, labor, and equipment. These inputs support agricultural production and timely planting, which may subsequently lead to harvest and agricultural income. Agricultural income then becomes an important source for meeting repayment obligations.

At the same time, the sequence can be disrupted by household financial needs and agricultural production risks. Financing may be redirected toward urgent household needs, while crop failure may reduce agricultural income even when the financing has been used productively.

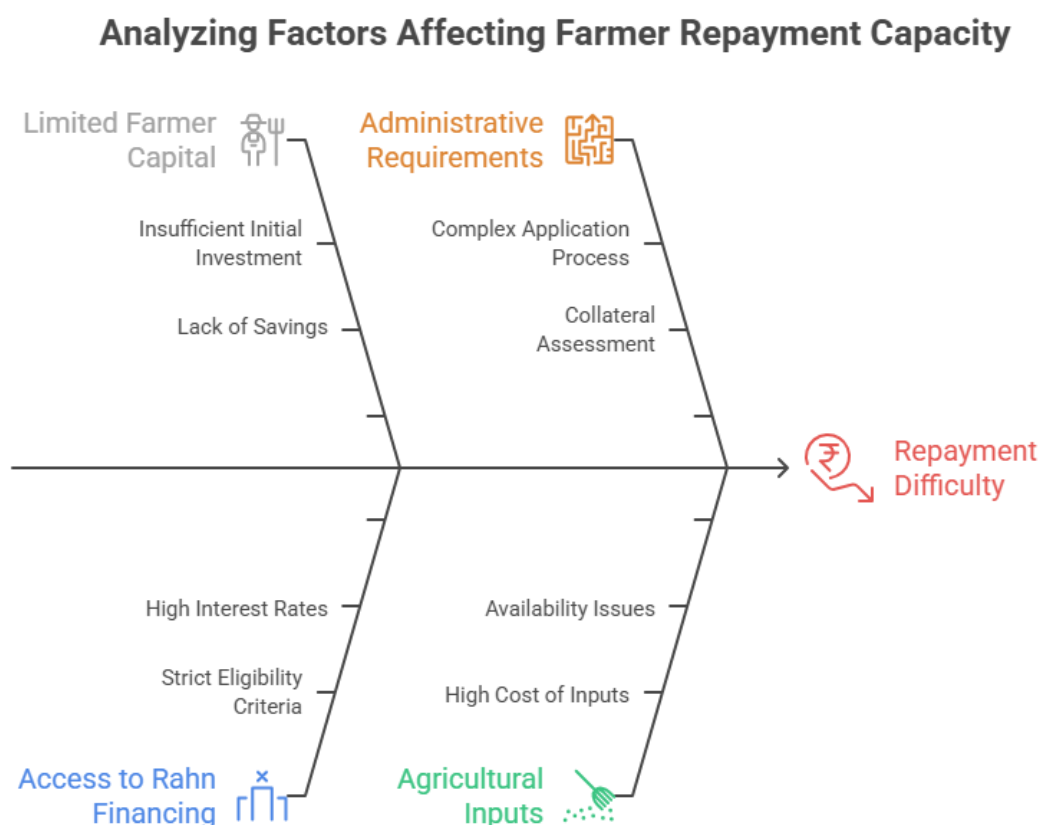


Figure 1. Conceptual Relationship between Rahn Financing and Agricultural Activities

Discussion

The findings of this study indicate that *rahn* financing at BMT UGT Nusantara Wongsorejo functions as an access mechanism for agricultural capital, particularly for farmer-members who experience limitations in their own working capital. The financing is used to meet expenditures that arise during the agricultural production cycle, including seeds, fertilizers, agricultural medicines, labor, land preparation, and equipment rental. This finding suggests that the relevance of *rahn* financing extends beyond the existence of collateral as a contractual requirement. In practice, collateral enables farmers with limited liquid capital to access funds that can subsequently be converted into agricultural production inputs. This is consistent with previous research showing that Islamic microfinance can contribute to rural financial inclusion by providing access to

Sharia-compliant financial services for households that face limitations in accessing formal financial institutions (Anwar, 2026) .

The accessibility of financing in this study is particularly significant because agricultural financing is closely connected to timing. Farmers must generally purchase production inputs before receiving income from the harvest (Kambali & Panakaje, 2022b) . The informants reported that the relatively straightforward requirements and relatively rapid disbursement of *rahn* financing enabled them to obtain funds when agricultural inputs were required. Markus, for example, explained that insufficient capital could delay the purchase of seeds and fertilizers and consequently delay planting, whereas financing allowed him to purchase the required inputs and begin planting according to the planned schedule. Therefore, the findings indicate that access to agricultural finance should not be understood only in terms of whether farmers receive financing, but also in terms of whether financing becomes available at the appropriate stage of the production cycle. In this sense, *rahn* financing provides a form of short-term liquidity support that connects farmers' immediate production expenditures with their future agricultural income (Zidane & Khayati, 2026) .

This finding also corresponds with research examining *rahn* as an agricultural financing instrument. Previous research has reported that *rahn*-based financing can facilitate farmers' access to capital for agricultural inputs such as seeds and fertilizers. At the same time, such studies identify crop failure, fluctuations in agricultural income, collateral requirements, and other rural financial constraints as continuing challenges (Khan et al., 2024b) . The present study strengthens this discussion by demonstrating how these issues appear in the actual experience of farmer-members. The financing is not obtained in an abstract financial environment; it is embedded within a production cycle in which farmers must continuously balance input requirements, household needs, agricultural risks, and repayment obligations (Khan et al., 2024c) .

The utilization of financing also demonstrates that the relationship between financial access and agricultural activity is mediated by the purpose for which funds are used (Dey et al., 2023) . In the present study, farmer-members generally reported using financing for productive agricultural requirements. Markus stated that the financing was used for seeds, fertilizers, agricultural medicines, agricultural labor, and equipment rental. From the institutional perspective, BMT personnel similarly reported that farmers commonly sought financing for seeds, fertilizers, land preparation, and crop maintenance. The consistency between these institutional and farmer perspectives strengthens the finding that *rahn* financing has a direct practical connection with agricultural working capital.

However, the findings also demonstrate that access to financing does not automatically guarantee successful utilization or improved economic outcomes (Mwansa et al., 2025) . One of the most important findings is the existence of a gap between the intended purpose of financing and its actual use. The institutional informant reported that some members stated agricultural purposes when applying for financing but subsequently used the funds for other needs. Markus provided a concrete example when he explained that financing initially intended for agricultural activities was used to pay his wife's medical expenses because the household faced an urgent need and had no other available funds. This case

demonstrates that agricultural households may simultaneously face productive and non-productive financial demands (Do et al., 2025) . Consequently, the effectiveness of financing cannot be assessed only from the perspective of the institution's intended financing purpose; it must also be understood within the broader financial circumstances of the household.

The findings further show that the benefits of financing remain vulnerable to risks inherent in agricultural production (Zhang & Zhao, 2025) . Crop failure was identified by the BMT officer as one of the main problems affecting farmer-members because a reduction in harvest directly affects agricultural income and subsequently creates difficulties in meeting installment obligations. The farmer's experience confirms this relationship. Markus reported that unfavorable weather had previously caused chili crops to deteriorate, resulting in lower production and income and making repayment more difficult. Thus, the findings reveal an important sequence: access to financing facilitates production, but the resulting repayment capacity remains dependent on agricultural outcomes (Adesiyan, 2025) .

This relationship can be conceptualized as access to *rahn* financing, agricultural inputs, production activities, harvest and income, repayment capacity.

The sequence may operate positively when financing is used productively and agricultural production proceeds as expected. However, it can be disrupted by two major factors identified in this study: the diversion of financing to urgent household needs and crop failure caused by unfavorable weather. In the first case, the productive capacity of the financing is reduced because some funds are no longer available for agricultural inputs. In the second case, even productive use of financing may not produce sufficient income because the agricultural output itself is uncertain. The findings therefore suggest that *rahn* financing should be understood as a facilitating mechanism rather than a complete solution to farmers' financial vulnerability.

The relationship between financing and repayment is particularly important in understanding the position of BMT as an Islamic microfinance institution (Abdul Zalim, 2022) . The farmers' repayment capacity is closely connected to agricultural income, while agricultural income itself is dependent on uncertain production outcomes. When crop failure occurs, farmers may need to seek alternative sources of income to maintain their repayment obligations. Markus explained that he attempted to obtain income from other work or business activities when agricultural income was insufficient. This illustrates that farmers' financial resilience does not depend exclusively on the financed agricultural activity. Rather, repayment may require the mobilization of other household income sources when agricultural returns are disrupted.

The institutional response to repayment difficulties is also noteworthy. The BMT does not appear to rely solely on immediate punitive measures when members experience delayed payments. Instead, officers reportedly visit members' homes, communicate about the reasons for the delay, provide reminders concerning due payments, and discuss possible solutions. From the perspective of the empirical findings, this practice demonstrates that the financing relationship includes an interpersonal dimension in which the institution attempts to

understand the member's circumstances.

The findings consequently provide a more nuanced understanding of *rahn* financing than the simple proposition that collateral-based financing provides capital to farmers. The evidence demonstrates that *rahn* creates an opportunity for farmers with limited personal capital to obtain funds for agricultural production, particularly when financing is required at specific points in the planting cycle. Nevertheless, the economic value of this access depends on subsequent fund utilization and the success of agricultural production. The financing may support timely planting and the fulfillment of production requirements, but it cannot eliminate household financial pressures or agricultural risks such as crop failure. From a broader perspective, the Wongsorejo case illustrates the interaction between financial inclusion and agricultural vulnerability. Financial inclusion provides farmers with greater access to capital, but the agricultural context introduces risks that can affect both the utilization and repayment of financing. The empirical findings therefore suggest that the role of *rahn* financing should be evaluated through the entire financing cycle rather than only at the point of disbursement. Access, utilization, production, income, and repayment constitute interconnected stages (Dasopang & Siregar, 2026b) .

Overall, the study demonstrates that *rahn* financing at BMT UGT Nusantara Wongsorejo serves as a financial channel for overcoming short-term agricultural capital constraints among farmer-members. Its contribution is evident in facilitating access to production inputs and supporting the continuity and timing of agricultural activities. At the same time, its effectiveness remains conditional upon the productive use of funds, household financial circumstances, agricultural production outcomes, and farmers' ability to meet repayment obligations. The central implication of these findings is that *rahn* financing provides an important financial bridge through which farmers can respond to immediate capital requirements while remaining exposed to the broader economic risks inherent in agricultural livelihoods.

CONCLUSION

This study concludes that *rahn* financing at BMT UGT Nusantara Wongsorejo, Banyuwangi, functions as an access-to-capital mechanism that helps farmer-members overcome limitations in agricultural working capital. The financing is accessible through a relatively straightforward process involving administrative verification, collateral assessment, approval, and disbursement. The availability of this financing enables farmers to obtain funds for production requirements such as seeds, fertilizers, agricultural medicines, labor, land preparation, and equipment rental.

The empirical findings further demonstrate that the significance of *rahn* financing lies not merely in providing funds but also in its timing within the agricultural production cycle. Access to financing enables farmers to obtain production inputs and avoid delays in planting and other agricultural activities. Nevertheless, the financing does not automatically guarantee increased agricultural income or successful production. Its outcomes remain dependent on how the funds are utilized and on agricultural conditions.

Two major constraints were identified. First, financing intended for

agricultural activities may be redirected to urgent household needs, reducing the funds available for productive activities. Second, crop failure and unfavorable weather can reduce agricultural income even when financing has been used productively. These conditions may subsequently affect farmers' ability to meet repayment obligations and may require them to seek alternative sources of income.

Thus, *rahn* financing should be understood as a financial access mechanism rather than a comprehensive solution to farmers' economic vulnerability. Its practical contribution is located in bridging farmers' short-term capital needs with agricultural production activities. The findings also indicate that the effectiveness of agricultural *rahn* financing is closely related to productive fund utilization, agricultural risk, household financial conditions, and repayment capacity. Further research could examine the effectiveness of different Islamic agricultural financing contracts and investigate how financing institutions can strengthen risk management and productive utilization of agricultural financing.

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