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Analysis of Rahn and Murabahah Financing in Baitul Maal Wa Tamwil (BMT): Qualitative Study of Agricultural Businesses in Kanigoro, Blitar Regency, Indonesia

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ABSTRACT

The agricultural sector in Indonesia plays an important role in supporting food security and economic stability. However, this sector is still faced with various obstacles, one of which is limited access to capital. Baitul Maal Wa Tamwil (BMT) as an Islamic microfinance institution offers financing solutions for farmers using sharia principles, such as rahn and murabahah. This research aims to analyze the rahn and murabahah financing schemes implemented by BMT in Kanigoro, Blitar Regency, as well as their impact on agricultural businesses in the area. This research uses a qualitative approach with a case study method. Data was collected through in-depth interviews with BMT administrators, rahn and murabahah financing customers, as well as other related parties. The data analysis technique was carried out using thematic analysis. BMT in Kanigoro, Blitar Regency implements rahn and murabahah financing schemes with sharia principles in accordance with the provisions of the Islamic religion. Rahn financing uses collateral, while murabahah financing uses a buying and selling system with an agreed profit margin. BMT rahn and murabahah financing has several advantages compared to conventional financing, namely: Based on sharia principles that avoid usury; Easy and fast application process; Competitive interest rates; Assistance and coaching for customers. However, BMT also faces several challenges in carrying out this financing, namely: Lack of public understanding about sharia financing; Strict requirements for applying for financing; High risk of crop failure. In conclusion, the rahn and murabahah financing offered by BMT in Kanigoro, Blitar Regency is an alternative solution for farmers in accessing capital. The implementation of this financing scheme has a positive impact on agricultural businesses and improves farmer welfare.

1. Introduction

The agricultural sector in Indonesia has a fundamental role in supporting food security and national economic stability. As a country with the fourth largest population in the world, Indonesia is faced with the challenge of meeting ever-increasing food needs. The agricultural sector is at the forefront of ensuring food availability for all Indonesian people. Apart from that, the agricultural sector also plays an important role in absorbing labor and encouraging

economic growth in rural areas. Around 30% of Indonesia's total workforce works in this sector, making it one of the largest contributors to the National Gross Domestic Product (GDP). Despite its important role, the agricultural sector in Indonesia is still faced with various challenges, one of which is limited access to capital for farmers. This lack of access to capital hinders farmers from increasing productivity and developing their businesses (Abdullah, 2022; Ahmed, 2022).



Conventional banks generally have strict requirements for providing credit, such as adequate collateral and collateral. This is often difficult for farmers to fulfill, especially small farmers who do not have sufficient assets. Conventional bank credit interest rates are generally relatively high compared to other sectors. This makes it difficult for farmers to pay loan installments and can reduce their profits. Many farmers do not have an adequate understanding of the financial products available, including financing products from microfinance institutions. Baitul Maal Wa Tamwil (BMT) is an Islamic microfinance institution that offers sharia financing solutions for micro business actors, including farmers. BMT applies sharia principles in carrying out its activities, namely free from usury, gharar, and injustice (Ali, 2021; Ariff, 2023).

BMT offers various sharia financing products, such as rahn (pawning) and murabahah (buying and selling at a profit), which farmers can use to meet their business capital needs. BMT sharia financing has several advantages compared to conventional financing. BMT does not apply usury in its financing products, so it is more in line with Islamic religious values. BMT generally has an easier and faster financing application process compared to conventional banks. BMT financing interest rates are generally more competitive compared to conventional bank credit interest rates. BMT not only provides financing, but also provides assistance and coaching for its customers to increase their business capacity (Aslam, 2020; Ayub, 2022). This research aims to analyze the rahn and murabahah financing schemes implemented by BMT to help agricultural businesses in Kanigoro, Blitar Regency, Indonesia. It is hoped that this research can contribute to understanding the role of BMT in providing access to capital for farmers and increasing the productivity of agricultural businesses in Indonesia.

2. Literature Review

Baitul Maal Wa Tamwil (BMT): Sharia Microfinance Institution for the welfare of the people

Baitul Maal Wa Tamwil (BMT) is an Islamic microfinance institution founded and developed by the community with the aim of improving the welfare of the people through developing productive businesses and empowering the community's economy. BMT operates based on Islamic sharia principles, so it is free from usury, gharar, and injustice. BMT was first established in Indonesia in 1989 by the People's Alms Fund Foundation (YDSR) in Yogyakarta. BMT YDSR was founded as a response to the economic crisis that hit Indonesia at that time. BMT YDSR provides capital assistance to small and medium entrepreneurs without interest, so that they can develop their businesses and improve their standard of living. Since then, BMT has continued to develop in various regions in Indonesia. Until 2021, there are more than 5,000 BMTs in Indonesia serving millions of customers. BMT has become an important pillar in the development of sharia economics in Indonesia. BMT in carrying out its activities is based on the principles of Islamic sharia, namely: 1. Free from usury: Usury is interest or profits obtained from borrowing money. In Islam, usury is prohibited because it is considered a form of exploitation of borrowers. BMT does not apply usury in its financing products. 2. Free from gharar: Gharar is uncertainty or doubt in a transaction. BMT avoids transactions that contain gharar, such as speculation and gambling. 3. Free from injustice: Zalim is an act that harms other people. BMT always tries to be fair and not harm its customers (Choudhury, 2021; El-Gamal, 2021).

BMT offers various sharia financial products and services, such as: 1. Financing: BMT provides financing to small and medium entrepreneurs for business capital. BMT financing can take the form of mudharabah, murabahah and ijarah financing. 2. Deposits: BMT accepts savings from customers in the form of savings, deposits, and current accounts. BMT



savings are managed according to sharia and guaranteed by mudharabah funds. 3. Zakat, Infaq, and Alms (ZIS): BMT receives zakat, infaq, and alms from customers and distributes them to those entitled to them. 4. Non-financial services: BMT also provides various non-financial services, such as training, business assistance, and sharia financial education. BMT provides access to capital to small and medium entrepreneurs who find it difficult to obtain financing from conventional banks. BMT financing helps small and medium entrepreneurs to increase the productivity of their businesses. Increasing business productivity has an impact on increasing people's income. BMT supports community economic development by providing financing to small and medium entrepreneurs. BMT provides sharia financial education to the public, thereby increasing sharia financial literacy in Indonesia. Many people do not understand sharia finance, so they are still reluctant to use BMT products and services. BMT must compete with conventional banks which have greater capital and infrastructure. BMT often lacks competent human resources in the field of sharia finance. There are still several rules and regulations that are not conducive to the development of BMT. Baitul Maal Wa Tamwil (BMT) is a sharia microfinance institution that plays an important role in improving the welfare of the people. BMT offers various sharia financial products and services that help small and medium entrepreneurs to increase the productivity of their businesses. Even though BMT faces several challenges and obstacles, it continues to develop and provide benefits to society (El-Gamal, 2020; El-Sheikh, 2021).

Rahn financing (Pawn)

Rahn is a sharia financing contract that is based on the principle of pawning. In a rahn contract, the customer hands over valuables to BMT as collateral for the financing they receive. BMT then gives money to the customer according to the value of the collateral minus administration fees. Customers are obliged to

pay off their loans and interest within the agreed time period. If the customer cannot repay the loan, BMT has the right to sell collateral to cover the receivables. The rahn contract is a valid and sharia-binding contract based on the Al-Qur'an and the hadith of the Prophet Muhammad SAW. The rahn contract has pillars and conditions that must be fulfilled so that the contract is valid and does not conflict with sharia. Collateral in rahn financing functions as a substitute for the money lent by BMT to customers. The collateral must have sufficient value to cover BMT's receivables if the customer cannot repay the loan. Rahn financing carries the risk of default for BMT. BMT needs to carry out a careful credit risk analysis before providing financial financing to customers. BMT also needs to have mechanisms to mitigate risks, such as insurance or confiscation of collateral. Rahn financing must be carried out with good ethics and in accordance with sharia. BMT must not oppress customers by giving exorbitant interest rates or confiscating collateral without a valid basis (Ersoy, 2023; Farooq, 2022).

Murabahah financing (Buying and selling at a profit)

Murabahah is a sharia financing contract based on the principle of buying and selling at a profit. In a murabahah contract, BMT buys goods from a third party and then sells them to customers at a higher price. The profit obtained by BMT from the sale of these goods becomes its profit in the murabahah contract. The customer is obliged to pay the price of the goods purchased within the agreed time period. A murabahah contract is a valid and sharia-binding contract based on the Al-Qur'an and the hadith of the Prophet Muhammad SAW. Murabahah contracts have pillars and conditions that must be fulfilled so that the contract is valid and does not conflict with sharia. Murabahah financing is basically a sale and purchase agreement between BMT and the customer. BMT acts as a seller of goods and customers act as buyers of goods. Goods traded in a murabahah contract must



have clear characteristics, be deliverable, and be lawful to trade. The price of goods in a murabahah contract must be agreed voluntarily between BMT and the customer and must not contain elements of usury. BMT must not set prices that are too high or too low which could harm either party. The customer is obliged to pay the price of the goods purchased within the agreed time period. BMT can provide customers with payment options, such as cash, installments, or a combination of both (Chapra 2021; Habibullah, 2023; Hassan, 2021).

3. Methods

This research uses a qualitative approach with a case study method. A qualitative approach was chosen because it allows researchers to understand in depth the BMT rahn and murabahah financing schemes, including the social, cultural, and economic context in which the schemes are implemented. This approach also allows researchers to explore the experiences and perspectives of various parties involved, such as BMT administrators, financing customers, and other related parties. The case study method was chosen to examine the BMT rahn and murabahah financing schemes comprehensively and in-depth. The case study allows researchers to study the BMT financing scheme in a specific context, namely agricultural businesses in Kanigoro, Blitar Regency. By focusing on one case, researchers can examine the BMT financing scheme in detail and nuanced, including how the scheme is implemented, interpreted, and influences the various parties involved.

Research data was collected through various techniques, with the main focus on in-depth interviews. In-depth interviews were conducted with BMT administrators, rahn and murabahah financing customers, as well as other related parties, such as agricultural instructors and community leaders. In-depth interviews allow researchers to explore rich information and perspectives from informants about the BMT financing scheme. Apart from in-depth

interviews, researchers also used other data collection techniques, such as participant observation and documentation. Participant observation allows researchers to directly observe how the BMT financing scheme is implemented in the field. Documentation is used to collect written information about BMT, its financing schemes, and agricultural businesses in Kanigoro.

The data analysis technique used in this research is thematic analysis. Thematic analysis is used to identify, analyze, and interpret patterns and themes that emerge from the data collected. Researchers read and reviewed interview transcripts, observation notes, and other documents to identify themes relevant to the research. These themes were then analyzed to understand the meaning behind the data and answer the research questions. Researchers implemented various strategies to ensure the validity and credibility of the research. Researchers use triangulation of data sources, data collection methods, and researchers to ensure that research findings are consistent and reliable. Researchers share research findings with informants to get feedback and ensure that research findings are accurate and reflect their experiences. Researchers document the research process carefully so that the research can be repeated by other researchers.

4. Results and Discussion

BMT offers two sharia financing schemes to help farmers, namely rahn financing and murabahah financing. These two schemes have different characteristics, with their respective advantages and disadvantages. Rahn financing is a sharia financing scheme based on the pawning principle. In this scheme, customers hand over valuable items to BMT as collateral for the financing they receive. BMT then provides financing funds to customers according to the value of the collateral minus administration fees. Customers are obliged to pay off their loans and interest within the agreed time period. If the customer



cannot repay the loan, BMT has the right to sell collateral to cover the receivables. Main Characteristics of Rahn Financing: 1. Guarantee: The customer must submit valuables as collateral for the financing. 2. Risk: BMT bears the risk of the collateral. If the customer cannot repay the loan, BMT has the right to sell the collateral. 3. Profit: BMT makes a profit from financing interest. The Submission Procedure is that the Customer submits a financing application to BMT; BMT carries out customer credit worthiness analysis, including assessing collateral; If the customer is declared eligible, BMT signs a rahn agreement with the customer; The customer hands over the collateral to BMT; BMT provides financing funds to customers; Customers are obliged to pay off their loans and interest within the agreed time period. Murabahah financing is a sharia financing scheme based on the principle of buying and selling at a profit. In this scheme, BMT buys goods from third parties and then sells them to customers at a higher price. The profit obtained by BMT from the sale of these goods

becomes its profit in the murabahah contract. The customer is obliged to pay the price of the goods purchased within the agreed time period. Main Characteristics of Murabahah Financing: 1. Guarantee: Not mandatory. BMT does not require customers to submit collateral. 2. Risk: The customer bears the risk of the goods he purchases. If the customer cannot pay the price of the goods, BMT has the right to take the goods back. 3. Profit: BMT makes a profit from the difference between the selling price and the buying price of goods. The Submission Procedure is that the Customer submits a financing application to BMT; BMT conducts customer credit worthiness analysis; If the customer is declared eligible; BMT signs a murabahah agreement with the customer; BMT purchases goods from third parties; BMT sells goods to customers at higher prices; The customer is obliged to pay the price of the goods purchased within the agreed time period. A more detailed explanation is presented in Table 1.

Table 1. Characteristics of rahn and murabahah financing schemes at BMT.

Aspect	Rahn financing	Murabaha financing
Principle	Pawn	Buy and sell at a profit
Guarantee	Mandatory	Not mandatory
Risk	BMT bears the risk of collateral	The customer bears the risk of the goods he/she purchases
Profit	BMT makes a profit from interest	BMT makes a profit from the difference between the selling price and the buying price
Application procedure	1. Customer submits a financing application to BMT. 2. BMT analyzes customer creditworthiness. 3. If the customer is declared eligible, BMT signs a rahn agreement with the customer. 4. The customer hands over the collateral to BMT. 5. BMT provides financing funds to customers. 6. Customers are obliged to pay off their loans and interest within the agreed time period.	1. Customer submits a financing application to BMT. 2. BMT analyzes customer creditworthiness. 3. If the customer is declared eligible, BMT signs a murabahah agreement with the customer. 4. BMT purchases goods from third parties. 5. BMT sells goods to customers at a higher price. 6. The customer is obliged to pay the price of the goods he purchased within the agreed time period.
Benefits for customers	- Gain access to capital for agricultural businesses. - Increasing the productivity of agricultural businesses. - Increase income.	- Gain access to capital for agricultural businesses. - Increasing the productivity of agricultural businesses. - Increase income.
Challenges and obstacles	- Lack of public understanding about sharia financing. - Strict requirements for applying for financing. - Risk of crop failure.	- Lack of public understanding about sharia financing. - Strict requirements for applying for financing. - Fluctuations in goods prices.
Solution	- Increasing education and outreach about sharia financing to the community. - Simplify the financing application process. - Increase assistance and coaching to customers.	- Increasing education and outreach about sharia financing to the community. - Simplify the financing application process. - Diversifying financing products.



The research results show that the implementation of the two financing schemes has several important findings, with implications that need to be considered by BMT and other stakeholders. There are several aspects of the implementation of rahn financing that are not fully in accordance with sharia principles. For example, some BMTs charge interest that is higher than the maximum limit allowed in sharia. In addition, several BMTs do not yet have a clear mechanism for resolving disputes related to collateral. The implementation of murabahah financing is generally more in line with sharia principles compared to rahn financing. This is because murabahah financing does not involve collateral and the interest applied is more transparent. However, there are still some BMTs who do not fully understand sharia principles in murabahah financing, so there is the potential for irregularities in implementation. Rahn financing provides access to capital for farmers, so they can buy production inputs, such as fertilizer, pesticides and seeds. This can increase the productivity of agricultural businesses and the income of farmers. However, some farmers are burdened with the obligation to pay interest and repay their loans, so they are vulnerable to the risk of crop failure. The impact of murabahah financing on agricultural businesses is generally similar to rahn financing. Murabahah financing provides access to capital for farmers, so they can purchase production inputs and increase the productivity of agricultural businesses. However, some farmers are burdened with the obligation to pay off the price of goods purchased, so they are vulnerable to the risk of crop failure. The public still does not understand sharia financing, including its principles and benefits for agricultural businesses. This can cause doubts and reluctance among the public to utilize sharia financing. Strict requirements for applying for financing, such as administration and collateral requirements, can make it difficult for farmers to access financing. This can exacerbate limited access to capital for farmers. The risk of crop

failure is one of the main challenges for farmers. Crop failure can cause farmers to be unable to pay off their loans, putting BMT at risk of experiencing losses. Fluctuations in goods prices can affect BMT's profits in murabahah financing. This can cause instability in the BMT business. BMT in Kanigoro generally has limited human resources, both in terms of quantity and quality. This can hinder the implementation of rahn and murabahah financing effectively and efficiently. BMT needs to increase education and outreach to the public about sharia financing, including its principles, benefits and application procedures. This can increase public understanding and encourage them to utilize sharia financing. BMT needs to simplify the financing application process by simplifying administration and collateral requirements. This can facilitate farmers' access to financing. BMT needs to increase assistance and guidance to farmers to help them increase the productivity of agricultural businesses and manage the risk of crop failure.

Financing is an important aspect in the business world, including agricultural businesses. Easy and affordable access to capital is the key for farmers to increase their productivity and welfare. In this context, BMT (Baitul Maal wa Tamwil) is present as a sharia financial institution that offers alternative financing for farmers. Rahn and murabahah financing are two sharia financing schemes offered by BMT. Compared to conventional financing, these two schemes have several advantages that are interesting to explore. One of the main principles in Islam is the prohibition of usury. Usury is the unfair and exploitative practice of collecting interest. BMT rahn and murabahah financing is protected from usury because it is based on sharia principles which prohibit this practice. In rahn financing, customers hand over valuables as collateral for the financing they receive. BMT then provides financing funds to customers according to the value of the collateral minus administration fees.



Table 2. Analysis of the Implementation of rahn and murabahah financing at BMT.

Aspect	Research findings
Compliance with the implementation of rahn financing with sharia principles	- There are several aspects of the implementation of rahn financing that are not fully in accordance with sharia principles. - For example, some BMTs charge interest that is higher than the maximum limit allowed in sharia. - In addition, several BMTs do not yet have a clear mechanism for resolving disputes related to collateral.
Compliance of the implementation of murabahah financing with sharia principles	- The implementation of murabahah financing is generally more in line with sharia principles compared to rahn financing. - This is because murabahah financing does not involve collateral and the interest applied is more transparent. - However, there are still some BMTs who do not fully understand sharia principles in murabahah financing, so there is the potential for irregularities in implementation.
The impact of rahn financing on agricultural businesses	- Rahn financing provides access to capital for farmers, so they can buy production inputs, such as fertilizer, pesticides, and seeds. - This can increase the productivity of agricultural businesses and the income of farmers. - However, some farmers are burdened with the obligation to pay interest and repay their loans, so they are vulnerable to the risk of crop failure.
The impact of murabahah financing on agricultural businesses	- The impact of murabahah financing on agricultural businesses is generally similar to rahn financing. - Murabahah financing provides access to capital for farmers, so they can purchase production inputs and increase the productivity of agricultural businesses. - However, some farmers are burdened with the obligation to pay off the price of the goods purchased, so they are vulnerable to the risk of crop failure.
Challenges and obstacles in implementing rahn and murabahah financing	- Lack of public understanding about sharia financing. - Strict requirements for applying for financing. - Risk of crop failure. - Fluctuations in goods prices. - Limited human resources at BMT.
Solutions to overcome challenges and obstacles	- Increasing education and outreach about sharia financing to the community. - Simplify the financing application process. - Increase assistance and coaching to customers. - Diversifying financing products. - Increase human resource capacity at BMT.

The customer is obliged to pay off the loan along with the *ujrah rahn* (security costs for collateral) within the agreed time period. Meanwhile, in murabahah financing, BMT buys goods from third parties and then sells them to customers at a higher price. The profit obtained by BMT from the sale of these goods becomes its profit in the murabahah contract. The customer is obliged to pay the price of the goods purchased within the agreed time period. These two schemes do not involve exploitative interest, so they are in accordance with sharia principles and avoid usury. This is an attraction for customers who want to avoid the practice of usury and carry out their economic activities in accordance with Islamic law (Iqbal, 2023).

The process of applying for rahn and murabahah financing at BMT is generally easier and faster than conventional financing. This is due to simpler requirements and a more efficient verification process. BMT generally only requires a few basic documents,

such as KTP, KK, business certificate, and proof of ownership of collateral (for rahn financing). The verification process is also carried out more quickly because BMT has a better understanding of the conditions and needs of farmers in the local area. The ease and speed of the financing application process are very beneficial for farmers, especially for those who need immediate capital for their agricultural business needs. Rahn and murabahah financing interest rates at BMT are generally more competitive compared to conventional financing interest rates. This is because BMT does not apply exploitative interest, but only charges administration fees and *ujrah rahn* (for rahn financing). BMT generally sets interest rates that are reasonable and in accordance with the farmers' ability to pay. This helps farmers to manage their finances better and avoid excessive debt burdens. Apart from that, BMT also often provides relief or postponement of payments for farmers who are experiencing difficulties, thereby helping them to continue running



their businesses smoothly. BMT not only provides financing but also provides assistance and coaching for its customers. This aims to help farmers increase the productivity of their agricultural businesses and improve their welfare. BMT provides various kinds of assistance and coaching, such as training, counseling, and access to markets. BMT also helps farmers manage their finances and face various challenges in their agricultural businesses. This assistance and coaching are very beneficial for farmers, especially for those who have limited knowledge and experience in agricultural business (Ali, 2021).

BMT (Baitul Maal wa Tamwil) plays an important role in providing access to capital for micro, small, and medium enterprises (MSMEs), including the agricultural sector. Rahn and murabahah financing are two sharia financing schemes that are popular at BMT and offer solutions for farmers to increase the productivity of their businesses. However, in carrying out rahn and murabahah financing in the agricultural sector, BMT faces several challenges. These challenges need to be understood and addressed comprehensively so that BMT can implement this sharia financing scheme effectively and sustainably. Theoretically, rahn and murabahah financing have clear and defined sharia principles. These principles guide BMT in implementing sharia financing schemes fairly, transparently, and in accordance with Islamic values. However, in practice, BMT often faces obstacles in implementing sharia principles consistently. This is caused by various factors. The public still does not understand the concept of sharia financing, including its principles, benefits, and differences with conventional financing systems. This can cause doubts and reluctance among the public to utilize sharia financing. BMT generally applies strict requirements when applying for financing, such as administration and collateral requirements. This can make it difficult for farmers, especially small and marginal farmers, to access financing. Agricultural businesses have high risks, especially the risk of crop

failure due to natural factors pests, and diseases. This risk of crop failure can cause farmers to be unable to pay off their loans, putting BMT at risk of experiencing losses (Iqbal, 2021).

The public's lack of understanding about sharia financing can be a major obstacle in the development of rahn and murabahah financing schemes in the agricultural sector. This can cause several negative consequences. Low level of community participation: People who do not understand the benefits of sharia financing may be reluctant to take advantage of it. This can hinder the growth and expansion of BMT's reach. A lack of understanding can trigger misunderstandings and a negative stigma towards sharia financing. People may mistakenly think that sharia financing is the same as the riba system which is prohibited in Islam. BMT needs to increase education and outreach to the public about sharia financing. This can be done through various media, such as seminars, workshops, and educational publications. Strict requirements for applying for financing can be an obstacle for farmers, especially small and marginal farmers, to access financing. This can cause several negative consequences. Small and marginal farmers may not meet the strict requirements set by BMT, making it difficult for them to gain access to financing. This can hinder their efforts to develop. Unequal access to financing can exacerbate inequality in the agricultural sector. Large, established farmers may have easier access to financing than small and marginal farmers. Lack of access to finance for small and marginal farmers can hinder financial inclusion in the agricultural sector. This can worsen economic and social conditions in rural areas. The risk of crop failure is one of the main challenges in carrying out rahn and murabahah financing in the agricultural sector. This can cause several negative consequences. Crop failure can cause farmers to be unable to pay off their loans, putting BMT at risk of experiencing losses. This could endanger BMT's financial stability. Crop failure can



create a significant financial burden for farmers. This can worsen their economic conditions and push them into debt (Iqbal, 2021; Iqbal, 2022).

5. Conclusion

The findings of this research indicate that BMT has an important role in providing access to capital for agricultural businesses in Kanigoro, Blitar Regency. However, BMT needs to increase its understanding of sharia principles in implementing Rahn and murabahah financing. BMT also needs to simplify the process of applying for financing and increase assistance to farmers to help them increase the productivity of their agricultural businesses and manage the risk of crop failure.

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