

Reconceptualizing Ar-Rahnu as an Integrated Islamic Social Finance Ecosystem for Sustainable Social Enterprise Development: The IPSEFM Model

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Abstract

Despite the expansion of Islamic social finance, micro-entrepreneurs and social enterprises—particularly those serving low-income and underserved communities—continue to face constraints in obtaining timely, affordable and development-oriented financing. Ar-Rahnu (Islamic pawn financing) is widely recognized as a Shariah-compliant source of short-term liquidity, yet the literature has largely treated it as a stand-alone, collateral-based transaction. This conceptual paper develops the Islamic Pawnshop Social Enterprise Financing Model (IPSEFM), which reconceptualizes Ar-Rahnu as the coordinating platform of an integrated entrepreneurial financing ecosystem. Using a critical synthesis of the literature on Ar-Rahnu, Islamic microfinance, Islamic social finance, social entrepreneurship, and entrepreneurship ecosystems, the paper integrates Maqasid al-Shariah, Islamic social finance, the entrepreneurship ecosystem, and stakeholder and institutional perspectives. IPSEFM combines asset-backed micro-credit, entrepreneurship incubation, zakat and waqf support, community-based revolving finance and digital infrastructure. The framework proposes that the developmental value of Ar-Rahnu increases when financing is linked to capability building, institutional collaboration and complementary social-finance resources. The model therefore, shifts the unit of analysis from a financing transaction to an entrepreneurial development pathway. The paper contributes by bridging previously fragmented streams of Islamic finance and entrepreneurship scholarship, offering a theoretically grounded model for financial inclusion, enterprise resilience and community empowerment. It also provides policy directions for Ar-Rahnu operators, Islamic financial institutions, zakat and waqf agencies, regulators, universities and development organizations, while establishing propositions for future empirical validation.

Keywords: Ar-Rahnu; Islamic social finance; social enterprise; financial inclusion; entrepreneurship ecosystem.

Abstrak

Meskipun berlaku perluasan kewangan sosial Islam, usahawan mikro dan perusahaan sosial, terutamanya yang berkhidmat kepada komuniti berpendapatan rendah dan kurang mendapat perkhidmatan, terus berdepan kekangan untuk mendapatkan pembiayaan yang tepat pada waktunya, mampu milik dan berorientasikan pembangunan. Ar-Rahnu (pembiayaan pajak gadai Islam) secara meluas diiktiraf sebagai sumber kecairan jangka pendek yang patuh Syariah, namun

literatur sebahagian besarnya menganggapnya sebagai transaksi berasaskan cagaran yang berdiri sendiri. Kertas kerja konseptual ini membangunkan Model Pembiayaan Perusahaan Sosial Kedai Pajak Gadaai Islam (IPSEFM), yang mengonsepan semula Ar-Rahnu sebagai platform penyelarasan bagi ekosistem pembiayaan keusahawanan yang bersepadu. Dengan menggunakan sintesis kritikal literatur mengenai Ar-Rahnu, mikrokeuangan Islam, kewangan sosial Islam, keusahawanan sosial, dan ekosistem keusahawanan, kertas kerja ini mengintegrasikan Maqasid Syariah, kewangan sosial Islam, ekosistem keusahawanan, serta perspektif pemegang taruh dan institusi. IPSEFM menggabungkan mikrokredit berasaskan aset, inkubasi keusahawanan, sokongan zakat dan wakaf, pembiayaan pusingan berasaskan komuniti, serta infrastruktur digital. Kerangka ini mencadangkan bahawa nilai pembangunan Ar-Rahnu meningkat apabila pembiayaan dihubungkan dengan pembangunan keupayaan, kerjasama institusi, dan sumber kewangan sosial yang pelengkap. Oleh itu, model ini mengalih unit analisis daripada transaksi pembiayaan kepada laluan pembangunan keusahawanan. Kertas kerja ini menyumbang dengan merapatkan aliran keilmuan kewangan Islam dan keusahawanan yang sebelum ini terpisah-pisah, sekaligus menawarkan model berasas teori bagi inklusi kewangan, ketahanan perusahaan, dan pemerdayaan komuniti. Ia juga menyediakan hala tuju dasar untuk pengendali Ar-Rahnu, institusi kewangan Islam, agensi zakat dan wakaf, pengawal selia, universiti dan organisasi pembangunan, di samping mengemukakan cadangan untuk pengesahan empirikal pada masa akan datang.

1. INTRODUCTION

Financial inclusion is a key pillar of poverty reduction, entrepreneurship and sustainable socioeconomic development. Despite this, many micro-entrepreneurs and small social enterprises remain unfundable due to poor credit histories, lack of formal records, unconventional collateral, and irregular cash flows. Although microcredit has been successful in providing the poor and needy with access to small loan amounts, the literature also identifies issues with financing costs, fixed repayment schedules, and debt dependency among targeted beneficiaries (Kasoga & Tegambwage, 2021; Yue et al., 2022). Such restrictions offer further arguments for financing arrangements that are both accessible and provide ethical protection and development support.

Islamic finance offers a normative set of principles, including justice (adl), public interest (maslahah), mutual cooperation (ta'awun), risk awareness, asset linkage, and the avoidance of riba. Islamic social finance

extends the developmental function of finance by introducing the concepts of zakat, waqf, sadaqah, qard al-hasan, and Islamic microfinance. A new approach to these instruments is to consider them as complementary tools which can facilitate productive participation, income generation and long-term community resilience (Ma & Sukmana, 2025; Tok et al., 2022; Widiastuti et al., 2022).

In this context, Ar-Rahnu has emerged as a significant source of short-term liquidity, especially in Malaysia. It lets customers pledge valuable assets, typically gold, and obtain financing in a Sharia-compliant manner. It's very easy to implement, simple to access and doesn't require interest payments, which makes it appealing to low-income households, informal workers and micro-entrepreneurs. The prevailing conceptualisation remains transactional and is usually measured by customer acceptance, service quality, Shariah compliance, operational efficiency, or the availability of ready financing (Damit,

2023; Razak & Asutay, 2022; Yahaya et al., 2024).

An important question that is insufficiently addressed in this transactional approach is whether Ar-Rahnu can serve as a platform to help create a broader ecosystem in which enterprises can be established and sustained, rather than merely solving short-term liquidity issues. Finance is not the only part of sustainable entrepreneurship. It also calls for entrepreneurial skills, mentoring, market access, networks, institutional recognition, and digital infrastructure and supportive governance (Leendertse et al., 2022; Stam & van de Ven, 2021). The resources are generally distributed among financial institutions, zakat and waqf institutions, universities, government bodies, NGOs, and private-sector partners. They lack a mechanism for integration, which prevents them from achieving a cumulative impact on their development.

This paper fills that gap by developing the Islamic Pawnshop Social Enterprise Financing Model (IPSEFM). The model positions Ar-Rahnu as a coordinating platform among asset-backed financing, entrepreneurship incubation, Islamic social finance, community-based revolving support, and digital infrastructure. The paper aims to: (1) synthesise the literature on Ar-Rahnu, Islamic social finance and social enterprise development; (2) create a multidisciplinary theoretical underpinning for the role of Ar-Rahnu in the context of an ecosystem; and (3) propose an integrated conceptual model and propositions to inform future empirical studies and policy design. So the contribution is not an entirely new pawn financing contract, but a new developmental structure that can be built on top of Ar-Rahnu.

2. CONCEPTUAL APPROACH AND SCOPE

A conceptual theory-building approach is used in the study. Conceptual research generates new explanations by drawing on existing explanations, highlighting gaps in existing knowledge, and outlining relationships among concepts that can then be tested empirically (Jaakkola, 2020; Partelow, 2023). The tests of causal relationships in the present paper, therefore, are not performed with primary data. Rather, it brings together the knowledge of Islamic finance, microfinance, social entrepreneurship, entrepreneurship ecosystems, and organisational theory, to create a plausible model for the contribution of Ar-Rahnu to sustainable enterprise development.

The synthesis is structured around the five questions: What developmental role has the literature given to Ar-Rahnu? What complementary resources are available from Islamic social finance? In addition to finance, what is the need for sustainable social enterprise development? What should the institutional actors in an entrepreneurship ecosystem be? How to bring these elements together in a theoretically defensible framework? This problem-centred synthesis is appropriate, as the proposed model encompasses a range of financial, social, entrepreneurial, and institutional areas that are typically studied separately.

3. CRITICAL LITERATURE REVIEW

3.1 Ar-Rahnu as an Islamic micro-credit mechanism

The term "Ar-Rahnu" refers to securing an asset against a financing obligation. Its permissibility is based on Islamic law, such as the pledging of security in Article 283 of the Qur'an and the pledging of armor in a credit transaction, based on Prophetic practice. Rahn, Qard Hasan, and

Ujrah are typically used together in contemporary operations, and some operations include principles of safekeeping. Unlike conventional pawn broking, where interest charges are allowed, Ar-Rahnu derives legitimate income from permissible service charges and is meant to maintain fairness and transparency (Aziz et al., 2023; Muda et al., 2024).

In Malaysia, Ar-Rahnu is now a well-established Islamic microfinance product. Previous studies document acceptance as part of Shariah compliance, ease of access, comparatively lower financing costs, and the ability to finance groups that may otherwise be unable to meet the requirements of conventional banks (Deraman et al., 2026; Razak & Asutay, 2022). These features make Ar-Rahnu especially relevant to the problem of micro-enterprises with immediate working-capital requirements.

However, there are three constraints on literature. First, the instrument's nature remains primarily a short-term liquidity solution, with its role in enterprise creation, growth, and resilience not yet fully developed. Second, attention is given to operational issues (acceptance, efficiency, service quality, and compliance) rather than to long-term socio-economic outcomes. Third, Ar-Rahnu is typically viewed as a single product rather than as an institution that can serve as a gateway for entrepreneurs to access other financial services, capacity development, and market services. These constraints call for an ecosystem-level analysis rather than a product-level analysis.

3.2 Islamic social finance as a complementary resource system

Islamic social finance is a synthesis of philanthropy and market-oriented approaches to achieve social welfare and inclusive development. Zakat can help

address vulnerability and, if governance allows, support productive economic participation; waqf can support the provision of durable assets, facilities, and community infrastructure; Qard al-Hasan can provide interest-free working capital; and Islamic microfinance can extend structured financing to underserved groups. Their value for development is both within individual instruments and in their complementarity in the different phases of the entrepreneurs' journey (Islam et al., 2023; Ma & Sukmana, 2025; Maulina et al., 2023).

The central weakness is fragmentation. Zakat, waqf, Islamic microfinance and Ar-Rahnu are usually studied in isolation from one another. Consequently, scholarship lacks a description of how a financially disadvantaged person might transition from emergency liquidity to productive financing, incubation, market participation, and/or commercial sustainability. IPSEFM's solution to this missing path is to think of Ar-Rahnu as a starting point, a beginning, not as a last resort for financing.

3.3 Social enterprise and the financing-capability gap

Social business and social entrepreneurship are forms of business activity intertwined with a clearly defined social value added. However, broader social entrepreneurship research has highlighted hybrid organisational forms that seek to achieve both economic viability and social outcomes (Ratinho & Bruneel, 2024; Sottini et al., 2025), and Yunus' (2010) call for business solutions to social problems further underscores the importance of such forms. These are especially relevant to poverty and unemployment, women's economic involvement, and youth enterprise and community development (Raman et al., 2025).

Their hybrid nature also poses financing issues (Le et al., 2024; Singh et al., 2025). Social returns might be hard to value, and business returns are unpredictable for conventional financiers (Le et al., 2024). However, capital is not the solution to the problem. The survival of a financed activity is determined by financial literacy, bookkeeping, business planning, digital marketing, mentoring, networks and access to markets (Le et al., 2024; Weerakoon & McMurray, 2025). An Islamic model of social enterprise finance, then, calls for both financial and non-financial resources. This observation forms the basis for the inherent nature of incubation and capability development in the proposed Ar-Rahnu ecosystem.

3.4 Entrepreneurship ecosystems and institutional collaboration

The theory of entrepreneurship ecosystems shifted the focus of entrepreneurship from individual entrepreneurs to the environment in which entrepreneurship occurs. Various actors from government, universities, financial institutions, investors, business organisations, regulators, mentors, and networks all play a role in the processes of enterprise creation and development (Leendertse et al., 2022; Queissner et al., 2025; Wurth et al., 2022). There are several components to this system: finance, human capital, markets, culture, policy, infrastructure and support services.

In the context of Ar-Rahnu, the question of the institution shifts from “How can an effective pawn financing transaction be delivered?” to “How can a financing institution which makes its services available coordinate the resources that are needed for enterprise sustainability?” The operators of Ar-Rahnu already deal with financially constrained clients and thus can be used as a practical tool for screening

needs, referral and follow-up. This coordinating role is the central architectural innovation in IPSEFM.

3.5 Sustainable development and Maqasid al-Shariah

The normative meaning of Islamic finance is connected to justice, the distribution of wealth, ethical economic activities, and the protection of wealth. Maqasid al-Shariah offers a broader lens on welfare because it connects financial phenomena to human welfare and to the preservation and development of fundamental interests. In entrepreneurial financing, the concept of hifz al-mal need not be limited to safeguarding pledged assets but can also encompass productive wealth creation, responsible enterprise, financial inclusion, and financial resilience (Güney, 2024; Zailani et al., 2022).

This view reinforces the developmental outcomes approach to assessing Ar-Rahnu. While accessibility and repayment are important, a Maqasid-based assessment should also focus on the following: financing that facilitates income generation; capability; dignity; the reduction of exclusion; and sustainable economic participation. IPSEFM, therefore, does not consider socioeconomic value creation as a side effect but rather as an intended effect (Damit, 2023).

3.6 Synthesis and research gap

The literature makes it clear that there is a pattern. Ar-Rahnu scholarship is relatively strong on the financing transaction; Islamic social finance scholarship explains several complementary instruments; social-enterprise research explains the importance of coordinated institutional support; and ecosystem research explains the importance of coordinated institutional support. What was

missing was a structure that connects all these streams in Ar-Rahnu into a platform that is easily accessible for coordinating them. The resulting lack of a coherent pathway in the literature is thus

architectural: there is no link connecting immediate liquidity to complementary social finance, entrepreneurial ability, institutional cooperation, and sustainable social-enterprise outcomes.

Table 1. Literature synthesis and unresolved gap

Theme	Established insight	Representative sources	Unresolved issue
Ar-Rahnu	Accessible Shariah-compliant micro-credit and liquidity	Razak & Asutay (2022); Yahaya et al. (2024)	Limited focus on long-term entrepreneurial outcomes
Islamic micro/social finance	Supports inclusion, poverty alleviation and productive participation	Tok et al. (2022); Islam et al. (2023); Maulina et al. (2023)	Instruments remain institutionally fragmented
Social enterprise	Combines commercial sustainability and social value	Ratinho & Bruneel (2024); Sottini et al. (2025); Singh et al. (2025)	Weak connection to Ar-Rahnu financing
Entrepreneurship ecosystem	Finance must be combined with institutions, networks and capabilities	Wurth et al. (2022); Queissner et al. (2025)	Limited application to Islamic pawn financing
Maqasid and development	Finance should advance welfare, justice and wealth protection/development	Zailani et al. (2022); Damit (2023); Güney (2024)	Need operational ecosystem translating principles into outcomes

4. THEORETICAL FOUNDATION

4.1 Maqasid al-Shariah

Maqasid al-Shariah supplies the normative purpose of the framework. It requires that Islamic financial activity be assessed in relation to human welfare rather than in contractual form alone. Within IPSEFM, the protection and development of wealth are operationalised through the productive use of financing, income generation, enterprise continuity, and reduced financial vulnerability. The framework consequently assumes that Shariah compliance is necessary, but that

developmental value is also central to evaluating institutional success.

4.2 Islamic social finance perspective

The Islamic social finance outlook sheds light on why there is no need to compromise between commercial and philanthropic resources. Each instrument addresses a different constraint: Ar-Rahnu provides fast, asset-backed liquidity; zakat can help qualified, vulnerable entrepreneurs; waqf can provide productive assets and infrastructure; Qard al-Hasan can help with working capital; and commercial Islamic finance can help with

later-stage expansion. IPSEFM therefore conceptualises a financing continuum rather than a single product.

4.3 Entrepreneurship ecosystem theory

IPSEFM is a non-financial architecture that entrepreneurship ecosystem theory explains. Relationships between finance, skills, markets, institutions, policy and networks are important for sustainable enterprise. It is worth including universities, government agencies, NGOs, private companies, business associations, digital platforms, and financial institutions. It also explains why, in different institutional settings, the same financing instrument can yield different outcomes.

4.4 Stakeholder and institutional theories

Stakeholder Theory suggests that organisations can generate sustainable value by engaging with multiple stakeholders instead of shareholders (Freeman, 1984; Donaldson & Preston, 1995; Awa et al., 2024; Mahajan et al., 2023). This can be used for an Ar-Rahnu ecosystem in which complementary resources are provided by entrepreneurs, financial institutions, zakat and waqf institutions, the regulators, universities and communities, and different forms of value are returned to them. Institutional Theory incorporates the importance of regulation, governance, norms and legitimacy (DiMaggio & Powell, 1983; Scott, 2014; Alam & Miah, 2024;

Eitrem et al., 2024). The implementation of Islamic finance requires cross-institutional coordination and legitimacy due to the governance expectation of both regulatory and Shariah requirements.

4.5 Integrated theoretical logic

The theories have complementary functions. The Maqasid defines the developmental purpose; Islamic social finance defines the financial resources that are complementary to the purpose of the project; entrepreneurship ecosystem theory defines the capabilities and needs of the stakeholders; the Stakeholder Theory defines the value-creation needs; and the Institutional Theory defines the governance and legitimacy needs. Together, they advance the hypothesis that Ar-Rahnu has a stand-alone liquidity product.

5. THE ISLAMIC PAWNSHOP SOCIAL ENTERPRISE FINANCING MODEL (IPSEFM)

5.1 Model architecture

The five components of IPSEFM are complementary: (1) asset-based Ar-Rahnu micro-credit; (2) social-enterprise incubation and entrepreneurial development; (3) the linkage with zakat and waqf institutions; (4) a community-based revolving financing mechanism; and (5) the digital Islamic pawnshop ecosystem. These elements make Ar-Rahnu an entry point to the entrepreneurial development process.

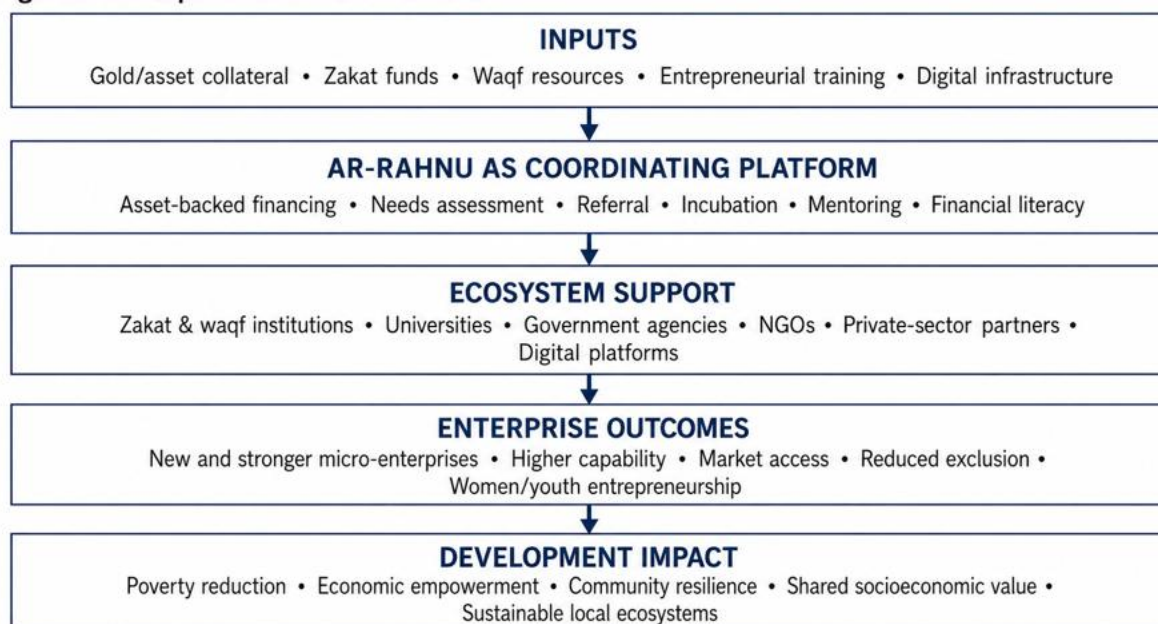


Figure 1: Conceptual architecture of IPSEFM

5.2 Component 1: Asset-based micro-credit financing

The entry financing mechanism is done by Ar-Rahnu. The customer provides valuable assets primarily gold, to access fast, Shariah-compliant liquidity. The asset-backed structure can help micro-enterprises that lack reliable formal records by minimising information and credit constraints while eliminating reliance on interest-based loans. But under IPSEFM, financing is explicitly tied to productive use. Needs assessment is important for differentiating between emergency household liquidity and working capital or business development requirements, and for appropriately referring to complementary support.

5.2.1 Pathways for Asset-Less

A critical limitation of conventional Ar-Rahnu is that access to financing presupposes ownership of a pledgeable asset, typically gold. This requirement may unintentionally exclude the extremely poor, who are among the groups most in need of productive financing but are least likely to

possess suitable collateral. IPSEFM therefore introduces an alternative entry pathway for asset-less beneficiaries through the strategic integration of Islamic social finance resources.

Under this pathway, eligible beneficiaries would first undergo a socioeconomic eligibility assessment, entrepreneurial potential screening, and a basic needs assessment. Where an individual possesses a viable income-generating or micro-enterprise opportunity but lacks acceptable collateral, participating zakat or waqf institutions may provide an institutional support mechanism, subject to applicable Shariah, legal and governance requirements.

For eligible asnaf, zakat resources may be used to provide productive assets, start-up inputs, equipment, working capital assistance, or other permissible forms of productive support. Rather than requiring the beneficiary to pledge personal wealth they do not possess, the social-finance institution effectively absorbs part of the initial asset constraint, enabling the

beneficiary to enter the entrepreneurial development pathway.

Waqf provides a complementary mechanism. Productive waqf assets may be made available for beneficiary use, including equipment, machinery, business premises, shared production facilities or other income-generating assets. Where legally and Shariah permissible, institutional arrangements may also be structured in which designated waqf resources support the financing architecture without transferring ownership of the waqf corpus to the beneficiary.

The model therefore, distinguishes two entry routes. The standard pathway applies to entrepreneurs who possess eligible assets and can access conventional Ar-Rahnu financing. The social-finance-supported pathway applies to eligible asset-less beneficiaries, for whom zakat, waqf, qard al-hasan or other approved Islamic social-finance instruments provide the initial bridge into productive economic activity.

Importantly, this pathway should not be interpreted as automatically treating zakat or waqf assets as conventional collateral. The precise legal and Shariah structure must depend on jurisdictional requirements, institutional mandates and approval by the relevant Shariah authorities. The conceptual principle is that the lack of personal collateral should not automatically

exclude an otherwise eligible and potentially viable entrepreneur from IPSEFM.

As beneficiaries accumulate productive assets, improve income stability, establish transaction records and strengthen enterprise capability, they may progressively transition from philanthropic or socially supported financing toward conventional Ar-Rahnu or other Islamic commercial financing. IPSEFM thus establishes a graduation pathway from social-finance-supported entry → productive asset creation → enterprise stabilisation → asset-backed/commercial financing → financial independence.

This mechanism extends the model from financial inclusion to financial progression. Zakat and waqf are therefore not merely supplementary resources within IPSEFM; for the extreme poor, they can constitute the institutional bridge that makes participation in the entrepreneurial ecosystem possible in the first place. Eventually, there should be two entry pathways converging into IPSEFM:

Path A: Asset-owning beneficiary → Ar-Rahnu collateral → financing

Path B: Asset-less eligible beneficiary → Zakat/Waqf/Qard al-Hasan support → productive asset/financing access → incubation. Both then converge into enterprise development. See figure 2,

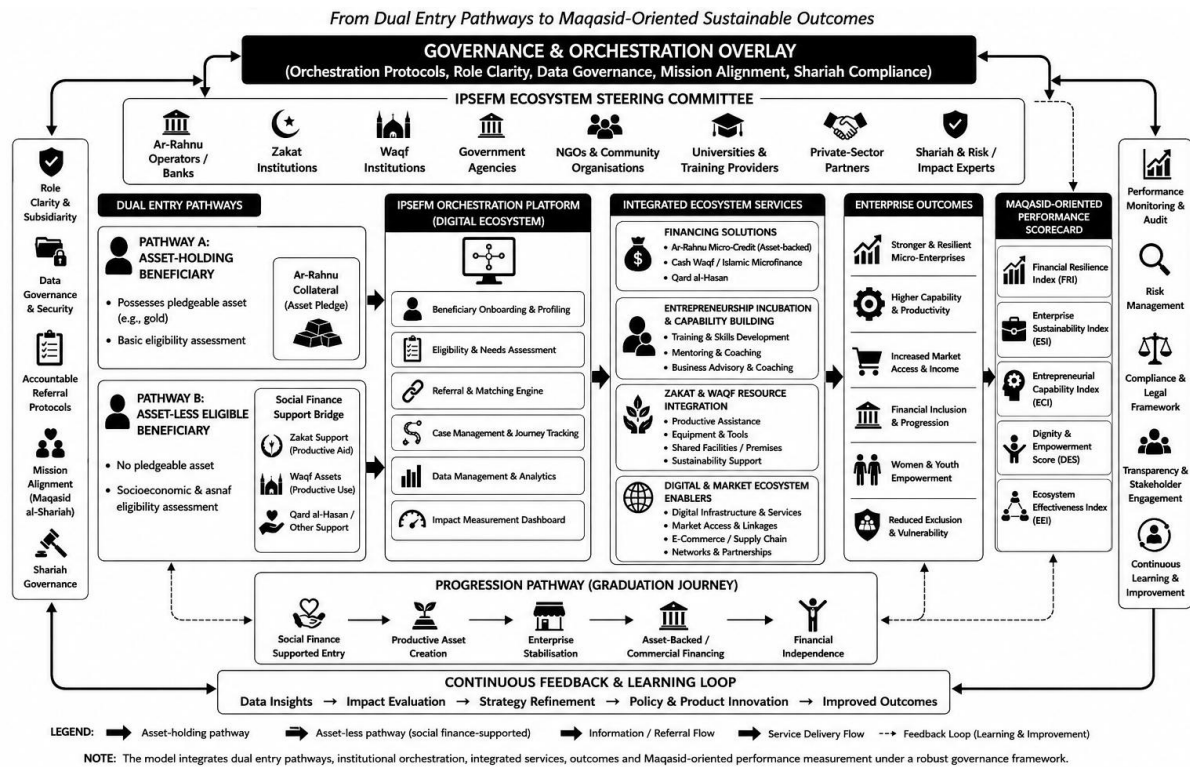


Figure 2: Revised conceptual architecture of the improved IPSEFM

5.3 Component 2: Social-enterprise incubation and capability development

The second component is on the financing-capability gap. Financial literacy, bookkeeping, business planning, digital marketing, operational support, mentoring and market access support can all be provided to beneficiaries. Ar-Rahnu operators don't have to provide all services themselves, they can be responsible for organising cooperative service relationships between universities, government agencies, NGOs, business associations and private companies. The goal is to increase the likelihood that short-term financing has an impact that supports a viable enterprise, rather than repeated reliance on liquidity.

5.4 Component 3: Integration with zakat and waqf

Zakat and waqf are complementary resources for addressing the entrepreneurial constraint, which can be met through collateralised finance. Zakat

support can be provided to eligible beneficiaries in the form of productive assistance, training, or targeted business support, subject to applicable Shariah and governance requirements. The waqf may include fixed assets with a longer lifespan such as premises, joint production facilities, equipment, training centres, and digital infrastructure. The synergy is a form of social and structural reinforcement that reduces structural barriers, whilst Ar-Rahnu provides a disciplined financing gateway.

5.5 Component 4: Community-based revolving mechanism

A revolving mechanism of the community creates a multiplier effect. If an enterprise is successful, it can make voluntary contributions to a community development pool or participate in a structured peer-support arrangement. Thereafter, resources can be used to support additional entrepreneurs, youth-led initiatives, women's businesses, or local

projects. The logic is based on the concepts of ta'awun, solidarity, and the circulation of wealth: beneficiaries can gradually become providers, which reduces exclusive reliance on external grants and increases local ownership of the project.

5.6 Component 5: Digital Islamic pawnshop ecosystem

Digital infrastructure improves reach, coordination and monitoring. Mobile interfaces, digital payments, cloud-based case management, e-commerce links and data analytics can reduce transaction costs and connect entrepreneurs to services beyond the physical pawnshop. Digitalisation also enables outcome tracking across institutions, although its use must be governed by appropriate data protection, Shariah governance and inclusion safeguards. Technology is, therefore, an enabling layer, not a substitute for institutional trust or entrepreneurial capability.

6. CONCEPTUAL PROPOSITIONS

The integrated framework yields propositions suitable for future empirical testing. These propositions are deliberately stated at the ecosystem level because the paper argues that developmental impact arises from interactions among resources rather than from the volume of financing alone.

P1. Ar-Rahnu financing that is explicitly linked to productive enterprise use will be positively associated with entrepreneurial sustainability compared with stand-alone short-term liquidity provision.

P2. Entrepreneurial capability development will strengthen the relationship between access to Ar-Rahnu financing and sustainable enterprise outcomes.

P3. Integration of Ar-Rahnu with zakat, waqf and other Islamic social finance resources will improve financial inclusion and reduce financing vulnerability among eligible underserved entrepreneurs.

P4. Institutional collaboration among Ar-Rahnu operators, government agencies, universities, social finance institutions, and private-sector partners will enhance the effectiveness of the IPSEFM ecosystem.

P5. Governance quality and institutional legitimacy will condition the relationship between ecosystem integration and developmental outcomes.

P6. Digital integration will enhance the accessibility, coordination, scalability and outcome-monitoring capacity of the IPSEFM ecosystem, subject to digital inclusion and governance safeguards.

P7. The combined operation of financing, capability development, and complementary social-finance resources will generate stronger community-level socioeconomic outcomes than any component operating in isolation.

7. THEORETICAL CONTRIBUTIONS

The paper makes four theoretical contributions. First, it reconceptualises Ar-Rahnu from a transactional financing product to an entrepreneurial ecosystem gateway. This shifts the analytical focus from approval speed, collateral and service quality toward enterprise pathways and developmental outcomes. Second, it connects Islamic social finance with entrepreneurship ecosystem theory. Rather than treating zakat, waqf, qard al-hasan and

Ar-Rahnu as isolated instruments, IPSEFM explains how they may serve different constraints and stages of enterprise development.

Third, the framework incorporates normative and organisational theory. To understand the importance of socioeconomic development, Maqasid al-Shariah is introduced, and the ways collaboration, governance, and legitimacy affect implementation are explained, with stakeholder and institutional perspectives introduced. Fourth, IPSEFM incorporates a multiplier approach, encouraging beneficiaries from receiving liquidity to becoming sustainable entrepreneurs and, in theory, even providers of community financing and support. This provides a conceptually different outcome pathway compared to multiple short-term borrowings.

8. POLICY AND MANAGERIAL IMPLICATIONS

For Ar-Rahnu operators and Islamic financial institutions, the model suggests broadening performance indicators beyond transaction volume and repayment. Relevant developmental indicators include productive use of funds, business survival, income stability, capability improvement, referrals completed and progression to more suitable financing. Operators could establish formal referral protocols and partnership agreements rather than attempting to internalise every support function.

For zakat and waqf institutions, IPSEFM provides a structured interface for engaging entrepreneurial beneficiaries. Productive support can be coordinated with financing and capability development, while preserving eligibility, governance and Shariah requirements. For governments and regulators, the model highlights the need for

enabling rules, data-sharing safeguards, digital infrastructure and mechanisms for cross-agency coordination. Pilot programmes could test the model before wider institutionalisation.

Universities, training providers and NGOs can supply entrepreneurship education, mentoring, impact measurement and applied research. Private-sector partners can contribute market access, procurement opportunities, technology and industry expertise. The central managerial implication is therefore orchestration: the value of IPSEFM depends less on one institution controlling all resources than on a credible platform coordinating specialised contributors around an entrepreneur's development journey.

8.1 Governance and Orchestration Protocols

Because IPSEFM depends on collaboration among institutions with different mandates, regulatory environments and organisational objectives, ecosystem integration requires an explicit governance architecture. Collaboration alone does not guarantee effective coordination. Without clearly defined responsibilities, the model may create duplicated services, fragmented beneficiary experiences, inappropriate data sharing, accountability gaps and mission drift.

IPSEFM therefore proposes an Orchestration Protocol governing the relationships among participating institutions. The protocol should establish five core governance principles: role clarity, subsidiarity, accountable referral, controlled data sharing and mission alignment.

Role clarity requires each participating institution to operate within its recognised competence and mandate. Ar-Rahnu operators and financial institutions

should primarily undertake financing assessment and financial-service functions; zakat institutions should determine asnaf eligibility and permissible zakat assistance; waqf institutions should govern the deployment and protection of waqf resources; universities and training providers should deliver capability development and evaluation; NGOs may undertake community outreach, mentoring and beneficiary support; while private-sector partners may facilitate market access, technology, procurement and industry linkages.

Subsidiarity means that no coordinating institution should unnecessarily absorb functions that are more appropriately performed by specialised partners. Ar-Rahnu's role as the coordinating platform therefore, does not imply institutional domination. Its function is to facilitate an integrated beneficiary pathway through screening, referral, monitoring and coordination.

Accountable referral requires common eligibility criteria, referral procedures, service-level expectations and feedback mechanisms. Each referral should have a defined originating institution, receiving institution, intended intervention, completion status and responsible party. This creates continuity across the beneficiary's entrepreneurial development journey and reduces duplication.

Controlled data sharing is particularly important in the digital IPSEFM ecosystem. Participating institutions should adopt common data governance protocols covering informed consent, data minimisation, purpose limitation, access rights, cybersecurity, retention, confidentiality, and auditability. Institutions should receive only the beneficiary information necessary to perform their designated function. Sensitive financial,

religious-eligibility and socioeconomic information should not become unrestricted ecosystem-wide data.

Mission alignment is required to prevent mission drift. Participating institutions should agree on a common IPSEFM social-purpose charter based on financial inclusion, productive economic participation, dignity, enterprise sustainability and Maqasid al-Shariah. Commercial expansion, financing volume or technological scalability should not displace the model's primary developmental purpose.

Operationally, governance may be coordinated through an IPSEFM Ecosystem Steering Committee comprising representatives of the principal participating institutions and supported by expertise in Shariah, risk, data governance, and impact measurement. The committee should establish participation standards, approve institutional protocols, monitor ecosystem performance, resolve inter-agency disputes and periodically evaluate whether activities remain consistent with the agreed social mission.

The digital platform should consequently function as an orchestration infrastructure rather than merely a technology platform. Its role is to enable authorised referrals, beneficiary journey tracking, service coordination, and aggregated impact measurement while maintaining institutional boundaries and data protection requirements.

This governance architecture operationalises the stakeholder and institutional foundations of IPSEFM by translating multi-stakeholder collaboration into defined rules of responsibility, accountability and legitimacy.

9. IMPLEMENTATION CHALLENGES AND FUTURE RESEARCH

Implementation is likely to face several constraints. Ar-Rahnu remains collateral-dependent, meaning the poorest individuals without pledgeable assets may still require alternative entry mechanisms. Coordination among financial, religious, regulatory, educational and development institutions may create governance complexity. Productive zakat and waqf applications differ across jurisdictions and must comply with relevant legal and Shariah requirements. Digitalisation can also exclude users with low digital literacy and raise data-governance concerns.

Future research should therefore validate the model in stages. Qualitative case studies can examine stakeholder feasibility and governance design; pilot programmes can test referral and incubation processes; surveys can operationalise the propositions; and longitudinal studies can assess enterprise survival, household income, financial vulnerability and community effects. Comparative studies across Ar-Rahnu operators and jurisdictions would clarify which components are universal and which require contextual adaptation. Research should also develop a Maqasid-oriented performance scorecard that combines financial sustainability with measurable social and entrepreneurial outcomes.

9.1 Operationalising the Maqasid-Oriented Performance Scorecard

To facilitate future empirical validation, IPSEFM proposes a preliminary Maqasid-oriented performance scorecard that evaluates success beyond financing volume, repayment and institutional efficiency. The scorecard treats financial performance as one dimension of

developmental success rather than its sole indicator.

Five preliminary outcome domains are proposed: financial resilience, enterprise sustainability, entrepreneurial capability, dignity and social inclusion, and ecosystem effectiveness.

Financial Resilience Index (FRI).

This dimension measures whether beneficiaries become less financially vulnerable following participation in IPSEFM. Potential indicators include changes in household or enterprise income, income volatility, emergency savings, dependence on repeated short-term borrowing, ability to meet financial obligations, and progress toward sustainable financing.

Enterprise Sustainability Index (ESI).

This measures the economic durability of the supported enterprise. Indicators may include business survival at 12, 24 and 36 months; revenue stability; profitability or operating surplus; employment creation; customer growth; market diversification; and progression from social-finance dependence toward commercially sustainable financing.

Entrepreneurial Capability Index (ECI).

This captures improvements in the beneficiary's ability to manage and develop an enterprise. Indicators may include financial literacy, bookkeeping capability, business planning, digital competency, marketing capability, access to markets, network development and completion of relevant entrepreneurship training.

Dignity and Empowerment Score (DES).

Consistent with the developmental orientation of Maqasid al-Shariah, this dimension evaluates whether financing improves the beneficiary's perceived dignity, agency and economic independence.

Potential survey items may measure perceived control over financial decisions, reduce dependence on informal assistance, confidence in managing the enterprise, ability to provide for household needs, perceived social inclusion and optimism regarding future economic security.

Ecosystem Effectiveness Index (EEI). This measures the effectiveness of institutional orchestration. Indicators may include referral completion rates, average referral time, duplication of services, partner response rates, beneficiary retention, successful transitions between financing stages, data governance compliance, and stakeholder satisfaction.

The proposed scorecard can combine objective indicators, administrative data and beneficiary-reported measures. Longitudinal assessment should preferably be conducted at entry and at predetermined intervals, for example, 6, 12, 24 and 36 months, enabling researchers to observe changes rather than relying exclusively on cross-sectional outcomes.

For empirical research, each multidimensional construct should undergo appropriate scale development and validation procedures, including content validity, reliability assessment, convergent and discriminant validity, and, where appropriate, confirmatory factor analysis. Weighting of individual dimensions should initially remain theoretically informed rather than assumed to be universally fixed, because the relative importance of different Maqasid outcomes may vary across beneficiary groups and institutional contexts.

Accordingly, the IPSEFM scorecard should be regarded as a preliminary operational framework rather than a validated measurement scale. Its contribution is to translate the normative developmental objectives of Maqasid al-Shariah into observable constructs that can subsequently be tested empirically and refined.

10. CONCLUSION

Ar-Rahnu has proven value as an accessible Shariah-compliant source of liquidity, but its developmental potential need not end at the pawn-financing transaction. This paper develops IPSEFM demonstrate how Ar-Rahnu can serve as the coordinating gateway for a broader Islamic social finance and entrepreneurship ecosystem. The model integrates asset-backed micro-credit, capability development, zakat and waqf resources, community-based revolving support and digital infrastructure within a governance structure involving multiple institutional stakeholders.

The central argument is that sustainable entrepreneurial development is more likely when accessible financing is connected to capabilities, institutions and complementary resources. IPSEFM thus moves Islamic pawn financing from a transactional logic toward a developmental logic consistent with Maqasid al-Shariah. As a conceptual model, it requires empirical validation but provides a structured foundation for research, policy experimentation, and institutional collaboration aimed at transforming short-term liquidity into sustainable enterprise and community empowerment.

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