

Role of *Ar-Rahnu* as Micro-Credit Instrument in Achieving Financial Self-Sufficiency among Women Micro-Entrepreneurs

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Abstract: Compared to conventional pawnbroking, Islamic pawnbroking (or *ar-rahnu*) is relatively a recent product in the financial market. More recently, however, *ar-rahnu*-based microcredit facility has grown in importance over the past few years due to the increased awareness on Islamic finance in Malaysia and is increasingly a popular financing option, particularly among women micro-entrepreneurs. This study examines the role of *ar-rahnu* as a micro-credit instrument among women micro-entrepreneurs and aims to understand how the use of *ar-rahnu* could help them to achieve financial self-sufficiency. In achieving these objectives, the study conducts a survey on women micro-entrepreneurs in the Siti Khadijah market in Kelantan. Findings of the study are useful for the relevant authorities to take initiatives to promote Islamic-based micro-credit instruments, especially among women micro-entrepreneurs.

Keywords: *Ar-rahnu*, microcredit, women, micro-entrepreneurs, Islamic finance

Abstrak: Berbanding dengan pajak-gadai konvensional, pajak-gadai Islam (atau *ar-rahnu*) boleh dikatakan produk yang baharu di pasaran kewangan.

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Walau bagaimanapun, kemudahan mikro kredit berasaskan *ar-rahnu* telah menjadi lebih penting sejak beberapa tahun kebelakangan ini disebabkan oleh kesedaran yang meningkat mengenai kewangan Islam di Malaysia dan menjadi pilihan pembiayaan yang semakin popular, terutamanya di kalangan usahawan mikro wanita. Kajian ini menganalisa peranan *ar-rahnu* sebagai instrumen mikro-kredit di kalangan usahawan mikro wanita dan bertujuan untuk memahami bagaimana penggunaan *ar-rahnu* boleh membantu mereka untuk mencapai kewangan sara diri. Dalam mencapai matlamat ini, kajian ini menjalankan analisa mengenai usahawan mikro wanita di Pasar Siti Khadijah di Kelantan. Hasil kajian ini dapat membantu pihak berkuasa yang berkaitan untuk mengambil inisiatif bagi menggalakkan instrumen mikro-kredit berasaskan Islam, terutamanya di kalangan usahawan mikro wanita.

Kata Kunci: *ar-rahnu*, mikro-kredit, wanita, usahawan mikro, kewangan Islam

1.0 Introduction

In the past few years, there has been a rapid growth in micro-enterprises in Malaysia. This is well-reflected by the increasing number of micro-enterprises registered from 434,939 in 2005 to 496,458 in 2011 (Department of Statistics, Malaysia, 2014). Today, micro-enterprises are playing an increasing role in the economy and has started to make positive contributions to the development of the Malaysian economy. Micro-enterprises have started to provide similar economic functions as small and medium enterprises, particularly in terms of promoting employment, technological innovation and training of entrepreneurs, developing international economic relationships, accelerating market competition and maintaining economic vitality (Zhou, 2004).

An interesting development in the micro-enterprises in Malaysia is an increase in women's involvement in the micro-enterprises (Babajide, 2012; World Bank, 2014; Department of Statistics, 2014). Ironically, despite the important role of women micro-entrepreneurs towards supporting the industrial development in Malaysia, there have been limited financial resources available for them (Department of Statistics, 2014). It is important to highlight the peculiarities in the financing needs of the women micro-entrepreneurs which are "urgent, small, frequent" in nature, often categorised as short-term loans (Ismail and Ahmad, 1997). Since most of them cannot successfully obtain financing from financial institutions or bank, this has greatly hindered the development

of women micro-entrepreneurs over the years (Department of Statistics, 2014).

Despite the various types of funding being allocated to women micro-entrepreneurs through several government agencies, the women micro-entrepreneurs are still facing difficulties to access these funds. The difficulties can be attributed to various issues of which bureaucracy of the funding agencies has been identified as one of the main hindrances for women micro-entrepreneurs to access the funds. As stated by several studies such as Saleh and Ndubisi (2006), Westover (2008), Hassan et al. (2011), Mohamed Zabri (2012), Darmansyah (2013), and Abbas, Razak and Saad (2014), financial institutions take a long time to disburse the loans, usually around three to six months with various documents requested by the bank, in addition to high cost of borrowings, high legal documentation fees and other charges as imposed by the financial institutions. All these dampen the spirit of women micro-entrepreneurs to source funding from government-related agencies.

In view of these issues, presently, the major financing channels for women micro-entrepreneurs remain private loans and internally generated fund (see Table 1.3). Additionally, there are also informal financing sources such as loan-sharks and other illegal channels of financing. Most of these financing channels do not only charge high interest rates, but also high risks and are mostly not *shari'ah*-compliant (Ismail and Ahmad, 1997). Therefore, in addition to bank loans and private loans, women micro-entrepreneurs need to actively explore new financing channels that can cater specifically to the nature of their financing needs.

Considering the lack of support from the formal banking institutions for women micro-entrepreneurs, a viable alternative, given their unique financing characteristics, could be provided by the non-bank channels. One of the Islamic products currently available in the market for the women micro-entrepreneurs which is *shari'ah*-compliant is *ar-rahnu*. It is a feasible alternative for the micro-entrepreneurs to source for financing, thus enable the entrepreneurs to achieve financial self-sufficiency in the future. *Ar-rahnu* is a more appealing source of financing for the women micro-entrepreneurs compared to bank loans due to several reasons. First, *ar-rahnu* offers a low cost source of funding to the women entrepreneurs in view of the low transportation and waiting

costs. To obtain loan from banks, customers must travel to and from the branches of the banks which are normally located in the city. With an average loan of around RM 5,000, transaction costs involving bank loans are relatively high compared to that of *ar-rahnu*. In particular, customers normally prefer to do business with *ar-rahnu* because they are nearer to the micro-entrepreneurs' business premises, in addition to their quick procedures and easy disbursement process. Second, in terms of loan processing time, banks would normally require about a month to approve a loan request, while *ar-rahnu* would normally need less than thirty minutes. Third, micro-entrepreneurs are hesitant to borrow from banks because of interest rate fluctuation, which could result in the repayment of loans to increase if market interest rate increases (Cheong and Sinnakkannu, 2006). This, however is not an issue in *ar-rahnu* since payment is fixed in the form of storage charge or safe-keeping fee which is fixed from the beginning.

Besides, there are evidences showing that *ar-rahnu* is increasingly popular at the expense of the conventional pawn broking system. Adnan (2004) has listed several weaknesses faced by conventional pawn broking, particularly on the issue of dishonesty of the conventional pawn broking providers. First, the main complaints received regarding conventional pawn broking is related to the decreasing value of pawned items because of the process in determining its purity and authenticity (Abdul Razak, 2011). The second weakness is that pawnbrokers are likely to charge a higher interest rate compared to the rate stated in the Pawnbrokers Act 1972, particularly, to illiterate customers or impoverished people and villagers from rural areas. Third, conventional pawnbrokers are likely to provide low estimation value of the pawn items during the valuation process. Fourth, unscrupulous conventional pawnbrokers would often issue illegible pawn ticket by stating a much higher interest rate or do not complete the information needed as stated in the Pawnbrokers Act 1972. These weaknesses of the conventional pawnbrokers provide a good opportunity for *ar-rahnu* to capture the customers who want more transparent and a just pawnbroking system.

This study aims to give a better understanding of *ar-rahnu* as a micro-credit instrument and regarded as one of the main short-term financing alternatives currently available in the market for women micro-entrepreneurs. It focuses on the effectiveness of *ar-rahnu* as a microcredit instrument for women micro-entrepreneurs. Besides,

this study also highlights the issue of how *ar-rahnu* can contribute towards enabling women micro-entrepreneurs to achieve financial self-sufficiency which would enable them to diversify, expand and sustain their businesses.

2.0 Literature Review

2.1 Use of *Ar-rahnu*

The use of *ar-rahnu* has been documented by several studies such as Chandler (1994), Ismail and Ahmad (1997), Rutherford (2000), Raccanello et al. (2008), Collard and Hayes (2010), Raccanello (2011), Amin (2011), Cheong and Sinnakkannu (2012), Bashir Ahmad et al. (2012), Hisham et al. (2013), Mansor et al. (2014), Abdul Hamid et al. (2014), Nik Azman and Kassim (2015), Amuda and Deraman (2015). Customers tend to use *ar-rahnu* due to its simple mechanism to get cash (Raccanello, 2011). A study done by Collard and Hayes (2010), Ahmad et al. (2012), Mansor (2014) and Amuda and Deraman (2015) found that most of the regular customers of *ar-rahnu* services are from lower income groups as these low income earners are comfortable with the services offered by *ar-rahnu* and do not feel burdened with the lower service charges imposed.

Furthermore, *ar-rahnu* is also gaining stronger position among the women micro-entrepreneurs for funding productive activities such as to expand and diversify their businesses. As documented by Ismail and Ahmad (1997), Amin (2011), Hisham et al. (2013), Nik Azman and Kassim (2015), women micro-entrepreneurs have limited access to the banking system since they are considered high risk, and thus a potential for bad debt. Therefore, *ar-rahnu* is frequently used by the women micro-entrepreneurs as a mechanism to source capital for business. Credit availability makes it possible for women micro-entrepreneurs to acquire the appropriate inputs needed for their operations. In addition, the capacity of women micro-entrepreneurs to mobilize capital for productive use greatly depends on the availability of and accessibility to credit (Hossain, 1998; Watson and Everett, 1999; Anne et al., 2013). Delay in access to credit continues to threaten women micro-entrepreneurs that need capital on a regular basis to be able to start, stay and expand their business.

2.2 Acceptance Factors of Ar-Rahnu

While there are many studies done on the acceptance factors of Islamic banking institutions, little attention has been paid by scholars in the context of *ar-rahnu*. As indicated by Muhamat (2011), this could be due to the value of *ar-rahnu* in general which is smaller compared to other forms of financing and second, pawn broking has historically served a rather niche market. Despite being rather scarce, recent studies have covered a wide range of issues pertaining to *ar-rahnu*. However, by far, the main body of study has mainly centred on the characteristics or product features of *ar-rahnu* (in comparisons to its conventional counterpart) and the operational system of *ar-rahnu*. There are limited studies done on the acceptance of the *ar-rahnu* scheme, particularly in the context of Malaysia.

In their study, Amin, Chong, Dahlan and Supinah (2007) focused on the influencing factors of *ar-rahnu* by developing an *ar-rahnu* shop acceptance model (ARSAM). With the objective of examining the factors that affect the local people of Labuan to accept *ar-rahnu*, a personally administered questionnaire approach was adopted on a total of 400 respondents. These data were analysed using the multiple regression model and the findings reveal that the *shari'ah* view, pledge asset and customer service were major factors affecting the acceptance of Islamic-based pawnshop among the respondents. On the contrary, there were insignificant relationships between pricing factors and location factors with acceptance.

The study done by Amin et al. (2007) was further extended by Abdul Hamid et al. (2014) by adding another two variables, namely social factor and advertisement in the ARSAM model. A survey was conducted on 200 respondents who are existing customers of *ar-rahnu* as well as potential customers of *ar-rahnu*. The survey involved two approaches; 100 questionnaires were distributed personally to the government offices, friends and relatives, and another 100 questionnaires were distributed through e-mail. Out of the total questionnaires distributed, a total of 107 usable (valid and completed) questionnaires were returned. The result shows that the *shari'ah* view factor dominated the choices of the respondents as influencing their preferences on the *ar-rahnu* scheme. On the other hand, "locality" factor had the lowest mean score compared with other factors. The finding was consistent with that of studies by

Amin et al. (2007), which indicated that the locality of where the *ar-rahnu* scheme was offered was least important for the respondents.

In addition, Mohd Sam, Tahir and Abdul Latif (2010) studied the factors influencing customer's acceptance of the *ar-rahnu* services by looking at customers' egoism, loss of pledge items, customer awareness and e-commerce. By using 150 questionnaires, interviews with several Agrobank staffs at various branches in Melaka, Batu Pahat, Port Dickson, Kepala Batas and Pasir Mas were conducted. Information from the annual report of the Agrobank was also considered. The study found that customers' egoism and loss of pledge items were the main reasons as to why customers had negative perceptions on the pawnshop service. Besides, most of the customers were not aware on the *ar-rahnu* service offered by Agrobank. Most of the customers were likely to use e-commerce as a method of transaction.

Amin (2011) further examined the interaction between the acceptance factors and the usage intentions for *ar-rahnu* among Muslim women in Eastern Malaysia, specifically, in Labuan and Kota Kinabalu, Sabah. A total of 250 distributed to the respondents, out of which, 217 responses were usable. By employing structural equation modelling, this study found that religious obligation, transaction cost and information on *ar-rahnu* were instrumental in determining the use of *ar-rahnu* among the respondents.

Moreover, Abdul Khir, Badri and Hussain (2013) are also examining on the *shari'ah* issue (religious obligation). Basically, this study intended to examine the key *shari'ah* issues associated with the structure that is widely accepted at present. This study undertakes a case study of two selected Islamic banks that offer the *ar-rahnu* microcredit facility to their clients. The product manual of each bank has been examined to understand the structure flow of the product, payment of the safekeeping fee and other relevant operational aspects of the product. Interviews have also been conducted to gather data related to the operation of this product that was not available in the product manuals of the two selected Islamic banks. It was proposed that the alternative structure had to comply with the *shari'ah* and meet most of the distinctive commercial features of the *ar-rahnu* microcredit facility to maintain its commercial viability in the industry.

In addition, a study done by Ahmad, Mansor and Nurul Nadiah (2012) examines the factors influencing customer acceptance towards Islamic pawn broking offered by MAIDAM, which is a state-funded *ar-rahnu* provider in Terengganu. Several identifiable variables were selected concerning storage charge, service quality, locality and management in measuring its contribution to the acceptance of customers towards *ar-rahnu*. A total of 330 sets of questionnaires were distributed to the customer at *ar-rahnu* MAIDAM in Dungun. The sample was analyzed through a convenience and quota sampling method. This study found that storage charge, service quality, and locality and management practices have significant relationship towards customer acceptances. The most dominant factor that contributes customer acceptance towards *ar-rahnu* MAIDAM Dungun was the management practices.

Baharum (2014) studied the customer's intention to use *ar-rahnu* at the post office in Kedah. This study used *shari'ah* views, attitudes, pricing and customer service as the acceptance factors. A survey comprising 200 respondents was carried out. A structured question was designed and analysed by using t-test, ANOVA, correlation and multi-regression analysis. The results revealed that *shari'ah* views, attitudes, pricing and customer service are significantly important determinants to predict a customer's intention to use *ar-rahnu* at a post office. On the other hand, the result by multiple regressions shows that the most influencing factor was customer service.

Amuda and Deraman (2015) investigate the awareness of *ar-rahnu* among Muslims in Nigeria. This study critically reviewed the religious obligation, poverty and prohibition from *riba*. These factors were the most important ones influencing using *ar-rahnu*. Religious obligation required transparency between the contracting parties and did not allow the practice of usury (*riba*), uncertainty (*gharar*) and gambling (*maysir*) against the creditor and debtor. Therefore taking a loan from *ar-rahnu* enable customers to practice their religion by securing them from taking interest loans. Second is the prohibition from *riba*. As mentioned in the Quran and Hadith, all types of usury (*riba*) are prohibited. Since the *ar-rahnu* customers are low income family, so prohibition from *riba* indirectly helps to remove burden and difficulties from Nigerian Muslims.

There is also a study on the acceptance of non-Muslims towards *ar-rahnu* in the Klang Valley, Malaysia. Muhamat et al. (2011) explored

the non-Muslims response towards their acceptance on the Islamic pawn broking services and why they patronize this system. Specifically the study intended to look into the acceptance of *ar-rahnu* by non-Muslims from three standpoints which are the *ar-rahnu* features, cost of borrowing and security. A total of 50 questionnaires were distributed in order to obtain more information for this study. Generally, this study found that the respondents in general agree that two of the variables for the study, which are product features and security, are relevant for the study. There is positive correlation shown for the variables in determining the success rate of the program and regression analysis implies only product features give significant outcome to the acceptance of *ar-rahnu*.

Issue pertaining to the importance of product features of *ar-rahnu* were supported by Hisham et al. (2013), Imani (2012), Amin et al. (2007), Cheong and Sinnakkannu (2012), Sanusi and Johari (2006), Mohamed et al. (2005) and Ismail and Ahmad (1997). These studies observed one of the *ar-rahnu* product features which is collateral. These studies explored the differences in the types of assets pledged between Islamic and conventional pawn brokers. Hisham et al. (2013), Imani (2012), Amin et al. (2007), Sanusi et al. (2006) and Ismail et al. (1997) found that *ar-rahnu* only accept gold and gold jewellery only as collateral, meanwhile, conventional pawnshops accept pledge asset beyond gold such as electronic assets, diamond or other items that are easy to be stored, as well as items, that do not depreciate in value over a certain period of time. A similar concept to *ar-rahnu*, the Islamic banking institutions that offer *ar-rahnu*-like schemes such as Bank Rakyat, Bank Islam and Agrobank accept gold only as collateral. This finding is consistent with studies conducted by Mohammed et al. (2005) and Ismail and Ahmad (1997). According to Cheong and Sinnakkannu (2012), only gold is accepted as pledge items in *ar-rahnu* since it has wide tradability, and its price is much more stable compared to other items.

In term of duration or the flexibility for the repayment period, Ismail et al. (1997) documented that in most transaction, *ar-rahnu* makes loans with maturities up to six months. However, it was commonly understood for customers to renew these loans, they had to pay extra fees or interest on the loan extension. Documented by Cheong and Sinnakkannu (2006) and Bhatt and Sinnakkannu (2008), the credit can

be used for a long term purpose, since as long as the safekeeping fees are fully paid, the duration of the credit can be extended indefinitely. As indicated by Anane et al. (2013), the shorter period of repayment does not go well with development and sustainability, since initiatives to undertake long term activities are hindered by the period of credit repayment. It is important for *ar-rahnu* to recognise this fact and make credit repayment terms flexible and understandable to the customers in order to reduce unnecessary pressure on customers with respect to meeting the timeframe for loan repayment.

In case of loan default, Maamor et al. (2006) described the collateral becomes the property of the pawnshop if the loan is overdue by a specific period of time, usually up to six months. The Islamic-based pawnshop regulations require any surplus from the sale of the gold over the amount owed to the pawnbroker, including accumulated deposit fee and any costs related to the sale, to be returned to the customers. In contrast to *ar-rahnu*, under the conventional pawn broking scheme, if the customers default in payment or not redeem the pledge items within the period given, the pawned items will then be possessed by the pawnshop owners (Ismail and Ahmad, 1997). In addition, most of the conventional pawnshops do not return the extra money after the auction surplus (Sulaiman et al., 2014).

2.3 Financial Self-Sufficiency

Financial self-sufficiency indicates whether revenue was earned to cover both direct costs, such as financing costs, provisions for loan losses and operating expenses, and indirect costs, such as adjusted cost of capital (Maamor and Ismail, 2010; Brau and Woller, 2005). The adjusted cost of capital was considered to be the cost of maintaining the value of equity relative to inflation and the cost of accessing commercial rate liabilities rather than concessional loans (Maamor, 2013). In short, financial self-sufficiency reflects an entity that meets current needs without compromising this ability for future needs (Bhuiyan, 2013). In addition, Bhuiyan (2013) also clarifies financial self-sufficiency as an individual capacity that can cope with and recover from external stress and shocks, while enhancing the capabilities for the present and future.

Furthermore, as documented by Alufohai (2006), financial self-sufficiency best correlates with reasonable rates, availability of

voluntary saves facilities, frequency of loan collection and managerial ability to move the organization towards self-sufficiency. Chin Chan and Owyong (2014) explained the ability to use capital is necessary for raising enough capital, both at start up or afterwards to keep the business running smoothly as the loan size represents the business liquidity.

In the context of this study, financial self-sufficiency refers to financing that allow women micro-enterprises cope with and recover from costs, while enhancing their business output by diversification and expansion. Besides, *ar-rahnu* provides capital for potential women micro-entrepreneurs to expand their business, enabling them to transform business from traditional to more profitable businesses (Al-shami et al., 2014). Therefore, *ar-rahnu* can be perceived as a practical and attractive method for providing women micro-enterprises accessibility to credit, reducing the difficulties in getting capital, hence achieving financial self-sufficiency in doing business (Anane et al., 2013).

3.0 Conceptual Framework

The conceptual framework is developed in order to understand key issues. Based on the literature reviewed, there are five acceptance factors frequently suggested by previous researchers, such as *shari'ah* compliancy, customer satisfaction, collateral, locality and service charges (Figure 1). There is a direct link between acceptance factors and the use of *ar-rahnu*. To further extend the study, the relationship between the use of *ar-rahnu* and financial self-sufficiency was investigated.

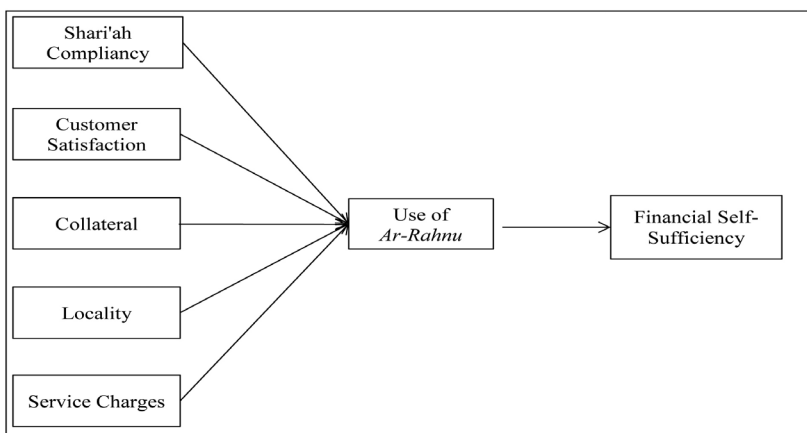


Figure 1. Conceptual Framework

4.0 Methodology

Data for this study were collected by a self-administered survey conducted on 150 women micro-entrepreneurs at Siti Khadijah market in Kelantan. There were 150 questionnaires given to women micro-entrepreneurs, 142 answered; however, 4 questionnaires were rejected. So, there were only 138 respondents. These entrepreneurs were chosen using individual unit analysis and purposive sampling technique as there was an official population frame to represent women micro-entrepreneurs. The instruments to measure the study variables are consistent with the existing studies in the relevant areas of this study.

5.0 Results and Findings

5.1 Profile of Respondents

The questionnaire was used to collect the demographic and descriptive characteristics of the respondents. Important factors that were collected include marital status, ethnicity, age, and education level. Thus, nominal scale was used to measure demographic variables for each question. Based on Table 1, most of the respondent are married which stated 84.1% compared to 13.8% single respondents. There are reported that about 2.2% of respondents were widows. Table 1 also shows that all of the respondents were Malay. Apart of this, a significant majority of respondents were from 41-50 years old, that is 32.6%, followed by 31-40 years old, that is 28.3%, 21-30 years old, that is 21.7%, 51-60 years old, that is 12.3% and the minority was from 61-70 years old with only 5.1%.

Table 1. Demographic Profile of Respondents

| Demographic Factor | | Frequency [%] |
|--------------------|---------|---------------|
| Marital Status | Married | 116 [84.1] |
| | Single | 19 [13.8] |
| | others | 3 [2.2] |
| Age | 21-30 | 30 [21.7] |
| | 31-40 | 39 [28.3] |
| | 41-50 | 45 [32.6] |
| | 51-60 | 17 [12.3] |
| | 61-70 | 7 [5.1] |

| Demographic Factor | | Frequency [%] |
|---------------------|--------------------------|---------------|
| Education Level | No formal education | 13 [9.4] |
| | Primary school | 11 [8.0] |
| | Secondary school | 98 [71.0] |
| | Certificates/ Diploma | 16 [11.6] |
| Type of Industry | Agriculture | 6 [4.3] |
| | Food | 75 [54.3] |
| | Textiles | 56 [40.6] |
| | Others | 1 [0.7] |
| Business experience | 1-10 | 101 [73.2] |
| | 11-20 | 26 [18.8] |
| | 21-30 | 8 [5.8] |
| | 31-40 | 3 [2.2] |

Note: Total respondents, N=138.

Obviously, the majority of respondents catered were in between 41-50 years old, perhaps because of their wide experience, it made it easy for them to venture into business early. Meanwhile, the results also show that the respondents were mostly secondary level educated which indicate 71.0% compared to certificates or diploma holders and primary school leavers with 11.6% and 8.0% respectively. Surprisingly, there are also respondents without formal education comprising 9.4%. In terms of the type of industry, most respondents are from the food industry which comprises 54.3%, followed by textiles, 40.6%, agriculture 4.3% and others 0.7%. Last but not least, the demographic profile also shows that 73.2% of respondents are mostly still new in the entrepreneurship which is only 1-10 years of experience in business. Therefore, there is only 18.8%, 5.8% and 2.2% between 11-20, 21-30 and 31-40 years of experience in business respectively.

5.2 Goodness of Measure

To assess the goodness of measure of the instrument used in this study, we undertook the factor analysis to assess validity, and the inter-item consistency measure of Cronbach alpha was used to assess the

reliability. A factor analysis with varimax rotation was carried out to validate whether the respondents perceived the constructs to be distinct. The results showed a seven-factor solution and the total variance explained was 74.04 percent of the total variance. The KMO measure of sampling adequacy was 0.824 indicating sufficient intercorrelations. The p-value for Bartlett's Test in this study indicates 0.000 for all variables which would be said perfectly significant as ($p < .05$). Table 2 shows the results of the factor analysis. Communalities indicate the degree to which the factors explain the variance of the variables. Low values of communalities which are less than 0.3 could indicate that the item does not fit well with the other items in its component. Based on the Table 2, all items have communality values whose mean is above 0.5. All items have 50 percent explained variable's variance.

Table 2. Factor Analysis

| | SS | SC | CS | SCs | USE | CL | LC | C |
|---|------|------|----|-----|-----|----|----|------|
| <i>Ar-rahnu</i> strengthens the expansion of my business | .877 | | | | | | | .842 |
| I often look at <i>ar-rahnu</i> as an investment for doing business | .876 | | | | | | | .828 |
| I acquire enough revenues to cover both the direct and indirect cost of using <i>ar-rahnu</i> | .860 | | | | | | | .844 |
| <i>Ar-rahnu</i> has transformed my traditional business towards a profitable business | .816 | | | | | | | .805 |
| <i>Ar-rahnu</i> assists me to diversify my business | .790 | | | | | | | .753 |
| <i>Ar-rahnu</i> assists me to pay loan interest rate to other lending institutions | .713 | | | | | | | .723 |
| <i>Ar-rahnu</i> assists me for rolling the business's capital | .685 | | | | | | | .747 |
| Operations of <i>ar-rahnu</i> is based on Islamic law and principle | | .820 | | | | | | .784 |
| <i>Ar-rahnu</i> conforms to my faith of abstaining from paying the increment in borrowing | | .809 | | | | | | .785 |
| The process at <i>ar-rahnu</i> is more transparent | | .808 | | | | | | .742 |

| | SS | SC | CS | SCs | USE | CL | LC | C |
|---|----|------|------|------|-----|----|----|------|
| <i>Ar-rahnu</i> conforms to my faith of abstaining from uncertainty | | .782 | | | | | | .696 |
| I have to perform ijab and qabul while transacting on <i>ar-rahnu</i> | | .755 | | | | | | .704 |
| <i>Ar-rahnu</i> features comply with the principles of Islam | | .720 | | | | | | .682 |
| <i>Ar-rahnu</i> always has quick responses to customers demand | | | .812 | | | | | .719 |
| <i>Ar-rahnu</i> give a fair treatment to all religions and races | | | .790 | | | | | .758 |
| <i>Ar-rahnu</i> always issues a receipt after transaction | | | .779 | | | | | .729 |
| <i>Ar-rahnu</i> officers always fulfil the promise of its services in a timely manner | | | .703 | | | | | .784 |
| <i>Ar-rahnu</i> ensure the security and confidentiality of transaction | | | .616 | | | | | .656 |
| <i>Ar-rahnu</i> officers are trying to minimise the errors of work | | | .571 | | | | | .646 |
| <i>Ar-rahnu</i> practices Ibra or discount for earlier redemption | | | .531 | | | | | .592 |
| The higher the loan amount the higher the service charges | | | | .906 | | | | .825 |
| <i>Ar-rahnu</i> has sets fair service charges for the lower income earner | | | | .866 | | | | .815 |
| The service charges imposed is similar to the interest rate charges by other money lending institutions | | | | .782 | | | | .700 |
| The service charges after the expiration period is higher | | | | .753 | | | | .720 |
| <i>Ar-rahnu</i> has set a competitive service charge for customers | | | | .714 | | | | .536 |

| | SS | SC | CS | SCs | USE | CL | LC | C |
|--|--------|--------|-------|-------|-------|-------|-------|-------|
| I use <i>ar-rahnu</i> due to its simple mechanism to get cash | | | | | .904 | | | .880 |
| I use <i>ar-rahnu</i> to improve my capital in doing business | | | | | .762 | | | .781 |
| I pay day-to-day living expenses by using the <i>ar-rahnu</i> loan | | | | | .595 | | | .646 |
| The type of gold will determine the amount of loan disbursed by <i>ar-rahnu</i> | | | | | | .804 | | .770 |
| The collateral that is not redeemed will be auctioned by the registered auctioneer | | | | | | .719 | | .635 |
| I find <i>ar-rahnu</i> near to my workplace | | | | | | | .809 | .782 |
| <i>Ar-rahnu</i> is located near to my house | | | | | | | .695 | .784 |
| Eigen Value | | | | | | | | |
| % of Variance (74.04) | 33.934 | 11.295 | 9.735 | 6.900 | 5.188 | 3.884 | 3.108 | |
| Keiser Meyer Olkin Measure | | | | | | | | 0.824 |
| Bartlett's Test | | | | | | | | 0.000 |

Note: C is communality

5.3 Reliability Analysis

The reliability of a measure is established by testing for both consistency and stability. Cronbach's alpha is computed in terms of the average inter-correlations among the items measuring the concept. Cronbach's alpha reliability coefficient indicates how well the items in a set are positively correlated to one another. The closer Cronbach's alpha is to 1, the higher the internal consistency reliability. Consistency indicates how well the items measuring a concept hang together as set (Sekaran and Bougie, 2010). Table 3 provides the mean, standard deviation and reliability coefficients for the study variables. The reliability values were all above the 0.7 value suggested by Nunnally (1978) as such we can conclude that the variables were reliable measures. The mean values ranged from 20.594 for use of *ar-rahnu* to 39.065 for customer satisfaction with standard deviation values of 4.771-8.528.

Table 3. Reliability Analysis

| Variable | No. of item | Cronbach α | Standard Deviation |
|-----------------------|-------------|-------------------|--------------------|
| Self-sufficiency | 7 | 0.944 | 8.528 |
| Shari'ah Compliancy | 6 | 0.918 | 5.278 |
| Customer Satisfaction | 7 | 0.908 | 6.212 |
| Service Charges | 6 | 0.869 | 8.241 |
| Use of Ar-rahnu | 5 | 0.815 | 6.955 |
| Collateral | 5 | 0.766 | 4.771 |
| Locality | 5 | 0.782 | 6.231 |

6.0 Discussions

This study attempts to determine the critical acceptance factors influencing the use of *ar-rahnu* among women micro-enterprises. Five factors affecting the acceptance of using *ar-rahnu* are identified: first is *shari'ah* compliancy, where *shari'ah* compliancy has a very strong relationship with the use of *ar-rahnu*. The *shari'ah* compliancy was the key criteria that all women-micro enterprises emphasis when they choose the *ar-rahnu* services instead of other acceptance factors such as customer satisfaction, locality, service charges and collateral. This indicates that *ar-rahnu* providers must comply with the *shari'ah* elements in view of the importance of this factor to the customers.

Customer satisfaction is another factor influencing women micro-enterprises to use *ar-rahnu*. Customer satisfaction can be defined as the overall satisfaction based on the total purchase and consumption experience with good service or service over time. This study found that customer satisfaction through quick and convenient services is an important acceptance factor that convinces customers to deal with *ar-rahnu* instead of other money lending institutions. Maintaining the customers' record, keeping the data confidentially, treating customers fairly regardless of their religion, ethnicity or races, and issuance of receipt after the transaction minimise the error of work were also significant towards the customers' satisfaction. Another interesting point to be highlighted is on the practice of *ibra'* or discount for earlier redemption. *Ar-rahnu* providers only provide discount for customers who register under the social welfare department, while for normal

customers, no discount is given for early redemption. This is because *ibra'* is at the full discretion of the *ar-rahnu* providers.

In terms of service charges, the issue on *riba* should be highlighted so that it can avoid misconception. In order to be well accepted, *ar-rahnu* should make the community understand about service charges they impose on the customers, especially on how these service charges are being calculated to cover all the costs, including insurance and security. This is because most of the community would have approached *ar-rahnu* for their own personal purposes. For instance, they would come to *ar-rahnu* only while facing a financial crisis. These customers would only be concerned with their financial needs, and how they could be getting the money immediately without even knowing anything about *ar-rahnu's* related services charges.

In terms of collateral, *ar-rahnu* has decided to accept gold and jewellery made from gold only. As this study focuses on women, and gold is usually associated with them, gold has always been a saviour for them at the critical stage of their doing business (Amin, 2011). So, a larger amount of gold being pawned signifies potentially a larger amount of cash disbursed by *ar-rahnu*. Besides, in terms of locality, the closer *ar-rahnu* is to its potential customers, the higher the tendency that these customers will use *ar-rahnu*. Women micro-entrepreneurs are most likely to prefer the pawnshops near to their house as they can save their money on transportation and waiting cost. Women micro-entrepreneurs prefer to deal with businesses that are closest to them, offer simple procedures and a speedy process so that it will not burden them with any additional costs.

7.0 Conclusion

The finding of this study confirms that the acceptance factors for using *ar-rahnu* (*shari'ah* compliancy, customer's satisfaction, collateral, locality and service charges) has influence over financial self-sufficiency. Therefore, *ar-rahnu* can be the effective tools for women micro-enterprises to be self-sufficient financially. According to the finding, it indicates women micro-enterprises are able to diversify and expand their business by using *ar-rahnu*. *Ar-rahnu* assists women micro-entrepreneurs to transform business from traditional to more profitable businesses. In a similar vein, this study also have limitations. Firstly, the present study was conducted in Kelantan, in which the findings can only

be generalised to the local people of Kelantan. The second limitation is, this study only focuses on women micro-entrepreneurs regardless of the men micro-entrepreneurs. Therefore, to overcome this limitation, future studies may include other states in Malaysia and men micro-entrepreneurs in the sample size.

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