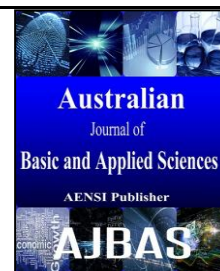




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Key Factors Influencing Women Micro-Entrepreneurs to Use Ar-Rahnu: Evidence from Siti Khadijah's Market, Kelantan

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ABSTRACT

Ar-Rahnu is becoming an increasingly micro-credit instrument in Malaysia. It is accepted as a viable and competitive mode to obtain cash instantly. Despite this, studies on Ar-Rahnu, particularly on the acceptance factors among women micro-entrepreneurs has been very limited. This study aims to investigate the level of acceptance for Ar-Rahnu among women micro-entrepreneurs, in Siti Khadijah's market, Kelantan. This study conducted in-depth interviews with the women micro-entrepreneurs from different area of business who used Ar-Rahnu as a source of capital. Overall, there are four sub themes influencing the acceptance of Ar-Rahnu, namely; locality, difficulties in getting loan, service charges and collateral. This study finds that, service charge is the main factor influencing women micro-entrepreneurs to choose Ar-Rahnu as their source of micro-credit.

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INTRODUCTION

By the early 1990's, it was clear that the Islamic financial system was not only theoretically viable, but also has desirable characteristics that rendered it at par, if not superior to conventional system. In line with the rapid growth of the Islamic banks, the Islamic non-bank financial institutions are also growing in numbers and importance, such as the Islamic pawn-broking or Ar-Rahnu. In Malaysia, the Ar-Rahnu scheme was initiated based on the decision made by the ministers on 30th January 1985. The state of Terengganu was the first to introduce the scheme through the Terengganu Islamic Pawn Muassasah (MGIT) on the January 23, 1992 (Hisham, Ummi Salwa & Yusof, 2013).

The good response by customers of the Ar-Rahnu offered by the MGIT has attracted other state governments such as Kelantan to implement the Ar-Rahnu scheme in Kelantan through the Kelantan Capitalization Berhad. Both of these Islamic pawn centres were among the earliest exponents to the Islamic pawn scheme in Malaysia. As the demand for Ar-rahnu continues to grow over time, institutions such as Yayasan Pembangunan Islam Malaysia (YaPEIM), Bank Islam Malaysia Berhad (BIMB), Bank Rakyat, Agro Bank, RHB Bank and most

recently Pos Malaysia Berhad also offered this service all throughout the country.

Usually, Ar-Rahnu institutions gathered good response from the micro-entrepreneurs to obtain liquidity services. As banks mostly hesitant to give loans to micro-entrepreneurs due to collateral issue, micro-enterprises tend to choose Ar-Rahnu as a source of capital for business (Rugayah 1986; Che Mohd Yusri, 1995; Abdul Ghaffar 1997; Gonzales, 2014). According to Ismail and Ahmad (1997) Ar-Rahnu can be one of the potential financing channels for micro-enterprises. Furthermore, the Department of Statistics (2014) also highlights Ar-Rahnu as one of the sources of financing by micro-enterprises. Based on these studies, Ar-Rahnu is clearly recognized as a source of capital for micro-enterprises and small companies that are just starting, as well as a source of capital injection for companies that have already been set up (Ismail & Ahmad, 1997).

Despite the growing importance of Ar-Rahnu as the source of micro-credit, its acceptance among men entrepreneurs is rather insignificant. Women micro-entrepreneurs, on the other hand, consider Ar-Rahnu as one of the important tools in order to get access for cash instantly. According to Aziz (2006), Chan & Owyong, (2007), Muhamat (2011), Amin (2011), Mokhtar & Zambahari (2012) and Murisa &

Chikweche (2013), women that are active in micro-businesses often resort to pawn brokers as a means to get short term capital to run their business. Often, jewelries are pledged in the early morning for cash to be used in their business activities during the early part of the day. Subsequently, the jewelries would be redeemed back at the later part of the day after receiving profits from the day's business. According to Muhamat (2011), such use of pawn broking facilities has been effective in helping the women micro-entrepreneurs and invigorating the economy without putting much burden on the Ar-Rahnu services.

Muhamat (2011) also highlighted that, most men feel humiliated and embarrassed if they were to resort to pawning their spouses' jewelries to obtain cash. Due to this, men would rather borrow from relatives whenever they are in need of cash. Since, women are the most favorable group in using the Ar-Rahnu scheme, this study focuses only on women micro-entrepreneurs. To add, majority of the micro-entrepreneurs at the Siti Khadijah's market in Kelantan are women and this could be an excellent platform to identify major acceptance factors among women micro-entrepreneurs to choose Ar-Rahnu.

Literature review:

The number of micro-enterprises in the past few years has expanded substantially as shown by the number of micro-enterprises registered in Malaysia to 496,458 in 2014 from 434,939 in 2010. In view of the increasing number, micro-enterprises are increasingly contributing to the Malaysian society and economy. Micro-enterprises exert the same function as small and medium enterprises, which are mainly expressed by promoting employment, technological innovation, training of entrepreneurs, developing international economic relationships, accelerating market competition and maintaining economic vitality (Zhou, 2004).

In the context of the women micro-entrepreneurship, the involvement of women in business can be traced back during the time of the Prophet (PBUH) where wife of the Prophet, Siti Khadijah was a renowned successful business woman during the time (Azmi *et al.*, 2014). Furthermore, in the Holy Quran (verses An-Nisa; 24 and An-Nalh; 97) also supported women to be involved in business as long as it does not exceed the Islamic principles. Generally, women entrepreneurs can be defined as those who start, own, operate, manage and take risk in their business activities (Thuaibah *et. al.*, 2007). Women entrepreneurship has become one of the prime topics of policy makers in the developing countries since 1980s (Hossain *et al.*, 2009).

Women entrepreneurs play an important role for economic growth (Alam *et al.*, 2011). As indicated by Kargwell (2012), studies from abroad also prove the encouraging involvement of women in business. For

instance, in the USA, women represent 38 percent of business owners, whereby in Louisiana, it is witnessed that more businesses are owned by women where they stayed longer in business and contributed more to the economic growth in the USA (Mahajar & Mohd. Yunus, 2012). Even though the contribution of women entrepreneurs is not as great as men entrepreneurs, the value contributed by women entrepreneurs is significant for accelerating the achievement of wider socio-economic objectives (Hossain, Nasef, Zaman & Nuseibah, 2009).

Micro-enterprise is the most favorable business among women entrepreneurs (Department of Statistics, 2014). In the last few decades, women micro-entrepreneurs have increased tremendously (Alam *et al.*, 2011). As indicated by Department of Statistics Malaysia, 2014, 111,554 from a total of 126,910 women entrepreneurs were involved in micro-enterprises. Women micro-enterprises involve in few sectors such as manufacturing sector at 89.6 percent, service sector at, 88.4 percent and agriculture sector at, 70.3 percent.

Most of the women micro-entrepreneurs prefer to get credit from Ar-Rahnu are due to several reasons, including transportation and waiting costs. To obtain a loan from bank, a customer must travel to and from the branches of financial institutions which are normally located in the city. With an average loan of around RM 5, 000 (for MEs), transportation and waiting costs per ringgit of credit are significant, and customers normally prefer to do business with the nearest Ar-Rahnu provider because of its quick procedures and low transaction costs. In addition, the loans processing time by bank is about one month as compared to Ar-Rahnu, which is less than thirty minutes. Also, since the cost of borrowing from Ar-Rahnu is fixed, the borrower need not have to worry about fluctuations in interest rates (Cheong & Sinnakkannu, 2006).

Method:

This study uses qualitative approach to gain more information regarding the acceptance factors of Ar-Rahnu among women micro-entrepreneurs at Siti Khadijah's market. The qualitative approach is highly suitable in the context of this study as it may be more effective in uncovering honest and accurate data. In-depth interview is conducted to reveal the underlying motives of the interviewee's attitudes, behavior and perceptions (Silverman, 2001). The specific relationship developed between interviewee and interviewer also enables in-depth data collection (Silverman, 2001).

In order to address the research question, this study used a purposive sample to conduct 5 in-depth semi-structured interviews with women micro-entrepreneurs at the Siti Khadijah's market. The respondents collected within the small number in order to justify the real situation on the acceptance of Ar-Rahnu among women micro-entrepreneurs.

The interview was tape-recorded and was later transcribed into text so that it is clearly recognized. The data collected were utilized to other interviewee for verification and confirmation. Instead of having interviews and documentary data source, the observation method was also applied. The observation used such as systematic observation and interpretation of people's behavior. This method can

be used to know the intensity of the difficulties or problems faced by the customers while dealing with Ar-Rahnu. Each interview session took about 30-55 minutes. It was conducted between November 2014 and December 2014 in Kota Bharu, Kelantan. The interviewing process took two weeks to complete. The details of the profile of the respondents are provided in Table 1.

Table 1: Respondents' Profile

Age	No.
36-45	2
46-55	1
56-65	2
Income per month	
Less than 2000	1
2000-2999	3
3000-3999	1
Type of Business	
Wet Market (level 1)	2
Food court (level 2)	2
Dress, clothes, accessories (level 3)	1
Experience in using Ar-Rahnu	
1-5	1
6-10	2
11-15	2

Note: N = 5

Finding and data analysis:

The results generated from the interview are categorized into four key sub-themes from the major theme of the acceptance factors for Ar-Rahnu among women micro-entrepreneurs at Siti Khadijah's

market. A major theme is known as acceptance factors for Ar-Rahnu, followed by four sub-themes, namely difficulty in getting loan, service charges, collateral and locality. Figure 1 shows the diagram of the major theme and sub-themes.

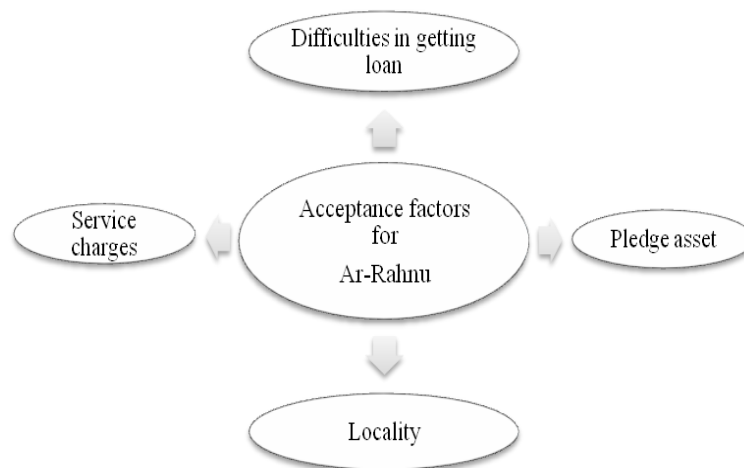


Fig. 1: Acceptance Factors for Ar-Rahnu.

Most respondents agreed that Ar-Rahnu provides the alternative for bank loans. The women micro-entrepreneurs highlight the constant struggle in obtaining funding. Most of them do not have enough capital for business expansion, especially in terms of output and profit (Anne *et al.*, 2013). In this regard, the Department of Statistics, Malaysia (2014) acknowledged that although, the number of non-performing loan and lending interest rate keep on decreasing, the number of loan approval by banks for women micro-entrepreneurs is not increasing as well.

This might be due to a variety of factors such as non-existent track record, weak credit rating and the difficulties in providing evidence to substantiate their income (Rugayah 1986; Che Mohd Yusri, 1995; Abdul Ghafar 1997; Gonzales, 2014).

Based on interview, the main obstacle to obtain financing from banking and financial institutions are also due to long loan processing time and not viable business plan. As mentioned by one of the respondents:

"I need cash. Actually, I tried to get loan from the banks, yet none of my applications approved by the banks. I do not have a choice, unless pawn my jewelry at Ar-Rahnu. To add, Ar-Rahnu's loan is better than bank's loan in term of processing time and procedures. It is easy, quick and simple. You only have to pawn your gold and take cash with you instantly"

Therefore, as an alternative for banks and other financial institutions, Ar-Rahnu can provide cash for women in micro-enterprises to expand and diversify their economic activities, increase their incomes and improve their social wellbeing (Manzur, Meisami, & Roayae, 2013).

The second sub-theme is service charges. Ar-Rahnu provides loan without interest but the borrower must pay for service charges (Shamsiah, 2000). According to Ar-Rahnu providers, these charges are made to cover all the costs including insurance and security (Mohammad, 2010). However, Razak (2008) noted that these costs might be burden the customers and indirectly has tendency to default in payment.

In a comparative study done by Bhatt and Sinnakkannu (2008), it was found that the rates charged by Ar-Rahnu shops were found to be cheaper than the interest rate that was charged by conventional pawn shops up to 14 percent per annum. A typical pawn shop would normally charge a flat rate of 2 percent per month on money borrowed - giving a rate of 24 percent per annum. Whereas the safe keeping charges of Ar-Rahnu shops, depending on the size of the loan, totals to about 10 – 15 percent of the total loan amount. This finding also confirms earlier findings of Sanusi & Johari (2006), Mohammed, Daud & Sanusi (2005) and Ismail & Ahmad (1997) on the lower cost of Ar-Rahnu. Due to the lower cost of borrowing under Ar-Rahnu, it is extremely suitable for use by those of lower income. However, each Ar-Rahnu providers offered different service charges and this definitely confusing customer. When asked one of the respondents regarding service charges, respondent indicated,

"There is a number of Ar-Rahnu providers in Kelantan such as by Bank Islam, Bank Rakyat, Agrobank, PKB, Yapeim and the latest is by Pos Malaysia Berhad, however, the service charges imposed by these Ar-Rahnu is different to each other. So, the advantage is, I can compare service charges, I only pawned my jewelry to Ar-Rahnu that offered the lowest service charges. At this time, I use Ar-Rahnu operate under Pemdalan Kelantan Berhad"

Based on interview, most of respondents still arguing on a different charges imposed by different Ar-Rahnu institutions. Usually, the lowest service charges offered is always being a preferred Ar-Rahnu by customers. Besides, respondent also added,

" I will not only stick with PKB, If there is another Ar-rahnu offered lowest service charges, then, I definitely use that service".

The third sub-theme is on pledge asset or collateral. Pledge item or collateral is a valuable asset that a borrower (Ar-Rahin) transfers to the possession of a lender (Al-Marhun bih) for a loan purposes. Currently, only gold and jeweler made from gold are accepted at Ar-Rahnu (Amin, 2007; and Sulaiman, 2014). Supported by previous studies, Sanusi & Johari (2006), Mohammed, Daud & Sanusi (2005) and Ismail & Ahmad (1997) for example has looked into issues of items pledged where under Ar-Rahnu only gold or jewelry made of gold is accepted as pledge items. One of the respondent stated that, only gold is accepted at Ar-Rahnu.

"As far as I am concerned, collateral accepted by Ar-Rahnu is jewelry made by gold only. Diamond is not accepted because of limited equipment to trace either it is origin or genuine. In order to avoid fraud and loss, Ar-Rahnu decides to refuse diamonds as collateral"

Few respondents proposed to diversified mortgage items. Respondents said that it is necessity to diversify items that can be pledged at Ar-Rahnu, as not all people having gold as an asset.

"The collateral items should be broadening to vehicle, livestock, land and bronze"

However, the discussion of the practice of it is restricted since items other than gold does not maintain in value or in other words have depreciated value. Therefore, in case of default, the items can not be sold back in the market as suggested by Mydin Meera (2009). Meera (2009) has suggested that the needs of the conversion of the unredeemed gold items into gold dinars and pushed back into the economy.

Another sub-theme is location. Locality is one of the preference criteria often quoted in the literature (see, for example, Johari, 2007; Ismail and Ahmad, 1997; Amin, 2007; Hamid *et al.*, 2014). According to few respondents, Ar-Rahnu would have to diversify and increase the branches to enable easy customer accessibility without having to even consider the conventional pawnshop as the alternative. Since the barrier to entry into the pawn business is also small, it is argued that ar-rahnu operators would likely face stiff competition from the conventional pawnshops.

"Ar-Rahnu providers, therefore, has to ensure proximity to their potential customers by scattering their branches so as to be visible to the consumers. The closer Ar-Rahnu is to its potential customers, the higher the tendency that these customers to deal with Ar-Rahnu"

Potential customers are most likely to prefer the pawnshops near to their house as they can save their money on transportation and waiting cost. Similarly, Ismail and Ahmad (1997) highlighted that customers prefer to deal with businesses that are closest to them, offer simple procedures and speedy process so that it will not burden them with any additional costs. Low transaction cost is always being a reference to calculative customers as they do not want to be

burden with an additional cost (hidden cost). In view of this, according to Ismail and Ahmad (1997), the pawnshop should be launched mostly in the urban and suburban area as these areas promise a high demand for assisting people in need. Amin *et al.* (2007) proposed that, a scattered location must be made known to potential customers by highlighting easy accessibility by the customers.

Discussion and conclusion:

Basically, there are several sub-themes that influence the acceptance for Ar-Rahnu among women micro-entrepreneurs at Siti Khadijah's market, namely; location, difficulty in getting loan, service charges and collateral. Based on interview sessions, it was surprising; service charge is a focal point to deal with Ar-Rahnu. The lowest service charge is better. So, this study proposes, all Ar-Rahnu providers to standardize their service charges for the sake of customers demand. All in all, an improvement of Ar-Rahnu business will help women micro-entrepreneurs to escape from their financial crisis. Although they are doing micro businesses with small profit, but their contribution to economic growth will make it very much valuable.

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