

# **THE EFFECT OF RAHN ON WOMEN’S ECONOMIC EMPOWERMENT: A CASE STUDY IN KOTA BHARU, KELANTAN**

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## **Abstract**

A large number of study on the impact of rahn product has been conducted and the result shown that rahn is a significant tool in empowering economic and social aspects of its subscribers. However, there are very limited study that analyzed, examined on the effect of rahn on women particularly in enhancing their economic and social status. Thus, this study aim is to explore and analyze the economic consequences of rahn among women within the district of Kota Bharu, Kelantan. In doing so, this study will examine the factors in determining women’s participation on rahn and also analyze specifically the impact of rahn on the women economic empowerment. A total of 300 self-administered questionnaires were distributed personally and a number of 225 questionnaires were returned which considered as usable for the purposes of this study. The responses also were analyzed using descriptive analysis via SPSS version 22, thereby yielding a response rate of 75 percent. Overall, the findings of survey demonstrated that access to rahn has contributed immensely to the women economic empowerment. It is important to examine this aspect of women empowerment taking into consideration that their contribution is fully significant which cannot be undeniable. This is can be demonstrated through rahn services as an effectiveness instruments in developing women entrepreneurial skills and thus it empowered them in economically and socially.

**Keyword:** Islamic finance, rahn, women’s economic empowerment.

2017 GBSE Journal

## Introduction

Women's economic empowerment is a critical achievement in social development. The focus on financial sustainability lays emphasis on the need for information sharing, integration and the participation of people as key building blocks to help countries achieve human development (Kumar, 2009). Numerous strategies could be adopted in the empowerment process. This is more likely achieved with the support of resources, effort, and commitment from all parties involved, especially from the poor people themselves. Empowering women in developing countries is crucial to reducing global poverty since women are categorised as the world's most poor population (Intel, 2012; UNRISD, 2010). A strategy to empower the poorest women has yet to be prioritised by Islamic microfinance programs, thus prompting this study to explore, in-depth, the effect of Islamic microfinance on women's economic empowerment.

Microfinance plays a role in providing small loans to enable people to engage in microcredit enterprises such as opening a small retail operation and access to education, skill training and marketing to ensure long-term success. For example, in Malaysia, organisations like *Amanah Ikhtiar Malaysia* (AIM), *Bank Simpanan Nasional* (BSN), Bank Rakyat or even *Bank Pertanian Malaysia* (Agro Bank) offer loan schemes to individual entrepreneurs and family based on small scale industries. However, these schemes are conventionally structured, and only a few benefit from them. As an alternative, Islamic microfinance has introduced rahn scheme as a more appropriate microfinance and financial instrument, especially to the lower income groups. The provision of microcredit under rahn fills a vital short-term credit gap in financing based on real commodities. It not only serves as a source of capital but also an instrument to encourage savings and investment. This facility is also an effective mechanism to eradicate poverty and improve education, health and living standards. Bank Rakyat, Bank Pertanian and *Yayasan Pembangunan Ekonomi Islam Malaysia* (YAPEIM) are the largest participating banks offering rahn schemes to lower income groups. As a Muslim, this is an opportunity to accept rahn as their financing mode and will enable people to reject monetary transactions that involve *riba* and *gharar* in the real market.

## Literature Review

### 1. Rahn Concept and Practices

Rahn is one of the easier and faster instruments for short-term financing to low-income groups. It was designated as a new concept of Islamic pawnbroking in Malaysia to circumvent the practices of *riba*. It is an Islamic collateral based financing system, which introduced gold as collateral in exchange for cash. Kharofa (2000: pp. 1-7) defined rahn or mortgage or collateral in Islamic jurisprudence as “*possessions offered as security for a debt so that the debt will be taken from it in case the debtor failed to pay back the due money*”. Rahn has been used among Muslims since the Prophet Muhammad's (PBUH) time and is accepted in Islam. This is verified through the most reliable resources in Islam which are the Quran and Sunnah. Bhatt, P., & Sinnakkannu, J. (2008) explained Islamic pawnbroking is based on four concepts consist of *qard hassan* (benevolent loan), *wadiah yad amanah* (trustworthiness), *ujrah* (safekeeping) and *wadiah yad dhamanah* (safekeeping guarantee). However, Khir, A., Badri, M. B., & Hussain, L. (2012) accepted all of these concepts except *wadiah yad dhamanah* and recognised the concept of *rahn*.

Previous studies have proven that the majority of customers, either Muslim or non-Muslim, gave positive feedback regarding the rahn scheme. The Shariah requirements, pledge assets, and customer service have been discussed by many academicians, and it is significantly related to the customers' acceptance of the rahn scheme (Amin, H., Chong, R., Dahlan, H., & Supinah, R. (2007). Mohd Farhan Ahmad and Mohd Adib Ismail (2011) found that Shariah principles were the primary motivation for customers to engage with the rahn scheme. The greater the bank adheres to the Shariah, the greater possibility of an individual using rahn financing.

Dealing with a customer means officers will deal with customer services. Excellent customer services is a principal factor that cannot be denied by any institution. According to Jamier (2002: pp.73-82), "*Customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation*". Mohammed et al. (2005) also stressed the importance of services. The better the services delivered to the customer, the greater the profit that would be earned. Therefore, as a new Islamic microcredit product in the market, rahn must focus on customer services. This is supported by Amin et al. (2007) who found that customer services are significantly attached to acceptance. Nur Beyana Che Yahaya (2002) studied the customer satisfaction towards rahn at *Koperasi Pegawai-Pegawai Kerajaan Negeri Kedah (KPKNK)*. She tested four variables, namely location, the frequency of usage, customer services, and service from workers. The result revealed that all the variables are relatively significant to the customer's satisfaction towards the rahn scheme offered by KPKNK.

## **2. Women Empowerment and Microfinance**

Cheston and Khan (2002) define empowerment as change, choice, and power. It involves a process of changing individual or group behaviour of those without power and ability to make a decision that might affect their lives. In other words, it is a process where women have the right to take control and ownership of their lives through expansion of choice. In the context of women, empowerment is the process of improving female welfare and well-being through increased literacy and schooling, health and nutrition, social and political participation, mobility and self-esteem as well as economic (Pradhan, 2003, Ali and Hatta, 2012 as cited by Gogadi, B. S, 2011) (Narayan et al., 2000). Meanwhile, Microcredit Summit (1997), (cited in Abdul Rahman, 2007), microfinance is defined as the provision of small loans to the poorest people for individual projects that could generate income for taking care of themselves or their family members. While Islamic microfinance can be designated as the micro financial services based on and governed by Islamic principles which exclude the elements of interest (*riba*), speculation (*gharar*), uncertainty (*maysir*) while also introducing profit and loss sharing as a public good (Allen & Overy (2008).

Prior studies on microfinance and women empowerment showed that there is a correlation between both terms to empower women. Sarumathi and Mohan (2011) (as cited by Hossaena Hailemariam, 2013) revealed that through microfinance, women could empower themselves in making choices and contributing to greater economic and social development. Women with access to savings and credit for economic activity will increase their income and assets thereby enhancing their social and economic status. Microfinance is the main component in economic contribution because it allows women greater autonomy and control over their economic well-being. It is supported by Dessy and Ewoudou (2016) where increased economic might change in gender roles as well as increased status within households and communities. Cheston and Kuhn (2002) found

that microfinance gives the opportunity to women to improve their lives and the lives of their children. Women tend to use the household income for better nutrition, health and education of their children. In terms of business, Kazi (2007) described that microfinance not only improves women's welfare, it also contributes both directly and indirectly to their empowerment. Microfinance through credit and business training empowers women to start a business, increase working capital and help them to expand and improve their business.

In the case of Malaysia, the government has established several organisations to finance micro, small and medium-sized enterprises via offering a wide range of Islamic financial products. Firstly, the establishment of *Amanah Ikhtiar Malaysia* (AIM) and Islamic pawnbroking (Rahn) are among the highest achievements by Malaysia for microenterprises and the poor. This is supported by a case study by Ismail (2001) on 60 *Amanah Ikhtiar Malaysia* (AIM) members where the borrowers involved in small business activities generated higher business revenue rather than those involved in agricultural activities. According to the AIM program, the project helped them by starting up capital and to venture into small-scale enterprises while providing necessary skills training to ensure that they can overcome challenges, business operation and remain profitable. For example, the women in the AIM's project are taught how to make a variety of products and sell home-made local food products such *gula melaka*, chilli sauce, *keropok* and several of traditional *kuih muih*. As a result, this program has had a positive impact not only on the microenterprise but also on employment opportunity.

### 3. Rahn Schemes in Kelantan

*Ar-Rahn Permodalan Kelantan Berhad* (PKB) is a subsidiary *Perbadanan Kemajuan Iktisad Negeri Kelantan* (PKINK) established in the year 1992, under the State Enactment No 10 and began its operations on 12 March 1992. The main objective of the establishment of rahn is to provide Muslims with an alternative to usury (*riba*) practices and fulfil the Shariah requirements in each transaction. It is located in the central city of Kota Bharu which is a strategic location to meet the demand from the society. The purpose of rahn under PKB is to help society during the shortage of funds by facilitating a collateral debt based on Islamic law. Fairness, transparency and straightforwardness are the main elements of this microcredit financing. Besides, this study also focus on banking institutions such Agro Bank, Bank Rakyat and Bank Islam which provide financing to the customer based on rahn. It is a similar concept with the rahn PKB, but the difference is in the product features where each institution offers different features to attract potential customers to subscribe to their products.

There are several differences between rahn in PKB and banking institutions that offer rahn services. Firstly, the loan amount and margin rate given to the customers depends on the customer's background. The majority of customers at PKB are low-income earners, and this Islamic pawnshop only provides a low margin value of 50%-60% with a maximum of RM 5,000. In the banking sector, loans are up to 70% and a maximum of RM 10,000. Secondly, a higher monthly storage fee for rahn services at PKB is charged compared to these three banks which imposed lower monthly fees. The safekeeping fees depend on the institutions because there is a complex process that needs to be considered according to their regulations.

Both institutions mostly applied the *qard* contract in the rahn product. The difference is in the safekeeping fees where PKB used *ujrah*. For the Agro Bank and Bank Rakyat, both used the concept of *ujrah*, *wadiah yad dhamanah* and *qard* in imposing safekeeping fees while BIMB added

*rahn* in their operation. The applicable contracts are needed for both parties to ensure transparency in the *rahn* process. In terms of similarities, the institutions mostly offered six months financing, and the method of payment is either based on instalment, full or gradually. To promote safe risk-taking, gold jewellery or gold is essential, and these institutions have the right to utilise or sell that item in the event of default. This reflects the fairness and non-exploitation of the *rahn* system.

## Methodology

This paper explores the effect of *rahn* services on women's economic empowerment. The study applied a qualitative research design based on secondary data that will be conducted in Kota Bharu as the *rahn* system has been a significant practice for some time now. Besides, the study has chosen women from businesswomen, women customers in banking institutions who offered *rahn* schemes and Islamic pawnshops as respondents due to being the majority owners and wearers of gold accessories. To achieve these objectives, the main statistical technique which descriptive analysis were employed via SPSS version 22 which is suitable and sufficient tool to analyse the data. A total of 300 questionnaires were distributed personally to the women respondents within the district of Kota Bharu, Kelantan. However, only 225 questionnaires were successfully collected and usable for analysis, yielding a response rate of 75%.

There are 19 questions that use Likert scale (1-5) which refers to Shariah view, economic impact, social impact and customer satisfaction. Section A comprises ten questions to obtain personal information from respondents. Meanwhile, Section B consists of three parts. Part 1 deals with respondents' knowledge and understanding of *rahn*. The questions of Part 2 and 3 concern the effect of *rahn* on women's empowerment economically and socially. Section C deals with the respondents' satisfaction with the Islamic banks regarding the *rahn* scheme. All these measures were adopted from the past research and adapted for the purposes of this study.

Furthermore, the result Cronch's Alpha coefficient for all respondent groups in this study was 0.95 after considering 19 items that used the scale. The value of 0.95 is above 0.7, signifying that the scale has a good level of internal consistency. Therefore, it would be acceptable to conclude that the scale used in this study was reliable.

## Finding and Discussion

Table 1 depicted a summary of the respondents' information in this study. From the sample, 64.9% of the women respondents were *rahn* customers while 35.1% were not. The majority of customers involved in *rahn* scheme were at 27.6% in the range of 2-3 years, followed by 16.4%, 11.6% and 8.9% at the range of 4-5 years, less than 1 year and above 5 years, respectively. Meanwhile, the highest with 36.9% of the respondents were aged 26-40 years. 34.7% were 41-55 years old, followed by 18-25 years (20.4%). The age of 56 years and above can be considered insignificant with only 8%. In terms of the level of education, 43.1% of the respondents had secondary school qualification. Out of the total 225 respondents willing to disclose their educational background, 35.1% had at least a certificate/diploma, and 16% had a bachelor degree. 3.1% of the respondents did not have formal education, 2.2% had elementary school, and 0.4% had a postgraduate degree.

The profession and monthly income items can be clarified simultaneously as they have a significant relationship with each other. The majority of the respondents (69.3%) earn in the range of less than RM 2,500 followed by those earning RM 2,501 to RM 5,000 with 24.4%. Meanwhile, those earning RM 5,001 and above were less than 10%. With regard to profession, 47.6% were self-employed, followed by the private sector with 32.9%, government sector (10.2%) and others (9.3%). Based on the survey, others (9.3%) were housewives and pensioners. In short, the result represents the majority of the women respondents were Malay Muslims having secondary school educational, were self-employed, and earned less than RM 2,500. This may explain that women were understandable rahn is the crucial stage scheme for purposes of financial or economic assistance needed as well as quite comfortable and satisfied with the existing Islamic pawnbroking offered by the institutions.

Table 1: Demographic Information

Profile of Respondent	Frequency	Percentage (%)
<b>I am the customer of Rahn</b>		
Yes	146	64.9
No	79	35.1
<b>I have been a customer of the Rahn for</b>		
Less than 1 year	26	11.6
2 – 3 years	62	27.6
4 – 5 years	37	16.4
Above 5 years	21	9.3
<b>I have taken Rahn</b>		
Only once	32	14.2
2 – 3 times	64	28.4
4 – 5 times	29	12.9
Above 5 times	21	9.3
<b>Purpose of taking Rahn</b>		
Daily Expenses	80	20
Emergency Need	105	26.3
Payment of Debt	60	15
Start the Business	45	11.3
Expand the Business	38	9.5
Investment	49	12.3
No Answer	23	5.8
<b>Age</b>		
18 – 25 years	46	20.4
26 – 40 years	83	36.9
41 – 55 years	78	34.7
56 years and above	18	8
<b>Race</b>		
Malay	194	86.2
Chinese	22	9.8
Indian	9	4
Others	-	-
<b>Religion</b>		
Muslim	194	86.2
Buddhist	19	8.4
Hindu	9	4
Christian	3	1.3
Others	-	-

<b>Education</b>		
Non-formal education	7	3.1
Elementary school	5	2.2
Secondary school	97	43.1
Certificate/Diploma	79	35.1
Bachelor	36	16
Master and above	1	4
<b>Profession</b>		
Government Sector	23	10.2
Private Sector	74	32.9
Self-employed	107	47.6
Others	21	9.3
<b>Monthly Income</b>		
Less than RM 2,500	156	69.3
RM 2,501 - RM 5,000	55	24.4
RM 5,001- RM 10,000	10	4.4
Above RM 10,001	4	1.8

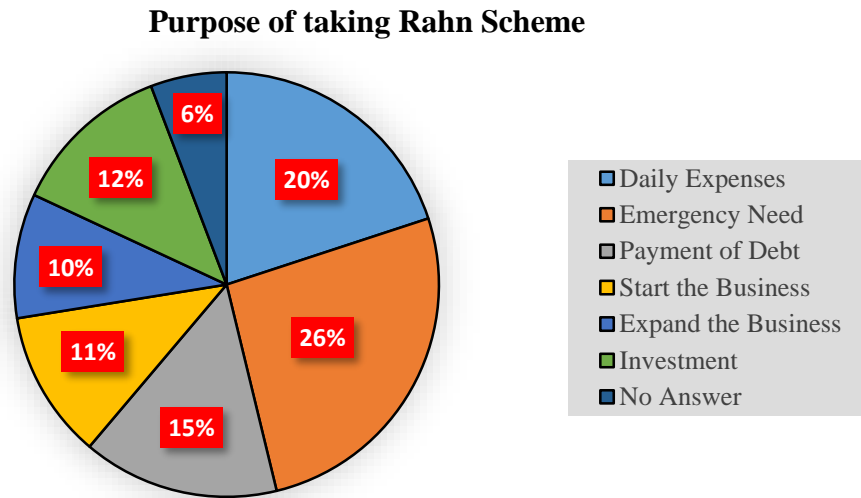
This study has developed the theoretical framework which examines the effect of rahn on economic empowerment among women in Kota Bharu, Kelantan. The findings of the study showed that subscribing to rahn has contributed immensely to the economic empowerment of women through a simple mechanism in getting cash quickly. This is proven by the value of the mean of 4.34,  $SD = 0.829$  (See Table 2). Besides, the result indicates that women need immediate money. The purposes might be for their daily expenses, emergency need, payment of debt, starting up or expansion the business or investment. The pie chart 2 illustrated that the emergency needs was the highest percentage that contributed in this portion followed by 20% for daily expenses. The factors of payment of debt, starting the business, and investment were the second largest dominated among women which constitute more than 10%. Enhanced economic empowerment of women may directly motivate them to involve in other economic contributions such as starting up and expanding business, savings as well as investments. This is proven with a score above 40% for these factors. It can be concluded that women who are subscribing rahn scheme more on daily needs rather than starting up or expansion of business which is less significant among them. It might be nature of rahn where small amount of money will be facilitated as a loans and easier source of credit to obtain quick financing.

Table 2: Descriptive Statistic for the Effect of Rahn on Women’s Economic Empowerment

<b>Section B</b>					
<b>Part 2: The Effect of Rahn on Women Economic Empowerment</b>					
Variables	N	Min	Max	Mean	Std. Dev.
Rahn assists me for starting up the business initiatives.	225	1	5	4.02	.896
Rahn assists me in the expansion of business.	225	1	5	3.99	.848
Rahn enables me to increase economic activities through a larger amount of money.	225	1	5	3.91	.879

Rahn enables me to use a portion of income earned from savings and investments.	225	1	5	4.02	.886
Rahn is a simple mechanism to get cash quickly.	225	1	5	4.36	.829

Pie Chart 2: Purposes of Rahn Scheme



### Conclusion

The role of women in achieving shared prosperity has gained recognition and acknowledgement in economic development in Malaysia. Their ability, skill and empowerment in economic and social activities make them as important as men’s role in developing the country into the next level towards becoming a high value- added and high-income nation by the year 2050. To achieve this, it is recommended that the government should introduce various programs, plans or schemes to attract more women’s participation in income generation economic activities thus they could be independent for their well-being. Moreover, the Islamic pawnshops should not only concentrate on giving credit to their customers but it is suggested that they focus on saving mobilization. Savings are an asset for investment in future production and economy cannot grow without savings unless there is an alternative source of investment. The availability and accessibility of rahn is one of the ways to promote shared prosperity for better financial inclusiveness for all segments of the society so that poverty could be alleviated for a better future.



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