



AR-RAHNU ACCEPTANCE AND ITS
DETERMINANTS: CASE STUDY OF
PERMODALAN KELANTAN BERHAD

BY

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ABSTRACT

This study sought to identify the vital factors that influence the acceptance of Islamic pawn broking services (Ar Rahnū) in Malaysia, which is perceived to be a pioneer among pawn brokers in the country. This study examines two main factors that influence customer acceptance towards Islamic pawn broking offered by Permodalan Kelantan Berhad in the state of Kelantan. The two variables that were identified to influence customer acceptance of Islamic pawn broking services provided by PKB were the Shariah View and Marketing. Using questionnaires as a data collection method, in addition to interviews with top management, a set of 180 questionnaires were personally distributed among Ar Rahnū PKB customers in the city of Kota Bharu. Out of 180, 168 questionnaires were returned and deemed usable, therefore yielding a response rate of approximately 93 per cent. Data analysis methods of frequency and descriptive analysis showed that both Marketing and Shari'ah View displayed the highest mean scores, indicating that both criteria fulfilled customers' motivations in choosing Islamic pawn broking as medium to pawn their jewellery and to generate capital. Findings are complimentary with the hypotheses formulated based on previous studies and are useful to strengthen the pawn broking system in Malaysia. The identified variables have to be improved so that it may increase the number of customers in accepting Ar-Rahnū and in turn attract potential customers to adopt services that operate based on Islamic elements.

البحث ملخص

تهدف هذه الدراسة لتحديد العوامل التي ساهمت في قبول الرهن الإسلامي . والرهن يعرف بالرائد بين سمسرة الرهن في ماليزيا . على وجه التحديد , تبحث هذه الدراسة اثنين من العوامل الرئيسييه في قبول العملاء نحو وساطه بيدق الاسلاميه الا تي تقدمها (بيرمودلان كيلنتان بيرهاد) في ولايه كلنتان. وقد تم اختيار اثنين من المتغيرات التعريفية المتعلقة برأي الشريعة والتسويق اللتين قد ساهمتا في قبول العملاء نحو وساطة بيدق الإسلاميه التي تقدمها (بي كي بي) . استخدام الاستبيان كأداة بحثية في جمع البيانات ومقابلة مع الإدارة العليا، و 180 مجموعة من الاستبيانات التي وزعت شخصيا لعميل الرهن (بي كي بي) في كوتا بارو. 180 زبون الذين اعطي لهم الاستبيان قد اعدوا الاستبيان كصالح للاستخدام , اي مايعادل 93 بالمئة كانت الاستجابة للاستبيان . أظهرت أساليب تحليل البيانات التردد والتحليل الوصفي أن كلا من التسويق ومنظور الشريعة الإسلامية يكون على أعلى الدرجات يعني تشير إلى أن كلا من معايير الوفاء التركيز في اختيار العملاء الوساطة بيدق الإسلامية متوسطتا بذلك إلى رهن المخوهرات وتوليد رؤوس أموالها . النتائج متماثلة مع الفرضيات وضعت بناء على الدراسات السابقة وباعتبارها مفيدة كاحد الأدوات لتعزيز نظام وساطة الرهن في ماليزيا . المتغيرات التي تم تحديدها لا بد انها حسنت , بحيث انه قد يزيد من عدد العملاء لقبول مفهوم الرهن وقادره ايضا على جذب عملاء اخرين محتملين للاشراكهم في هذا النوع من الخدمه على اساس عناصر اسلاميه .

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science in Islamic Banking and Finance.

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This research paper was submitted to the IIUM Institute of Islamic Banking and Finance and is accepted as a partial fulfilment of the requirements for the degree of Master of Science in Islamic Banking and Finance.

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DECLARATION PAGE

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Wan Ummi Afaf Afiqah bt Wan Asri

Signature.....

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STUDY OF PERMODALAN KELANTAN BERHAD**

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*To my beloved mother and husband,
Ramlah Ismail and Che Fauzi Che Abdul Rahman
for their endless love and support.
May ALLAH's blessing and mercy shower upon them.*

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LIST OF ABBREVIATIONS

AIM	Amanah Ikhtiar Malaysia
ASLS	Association Special Loan Scheme
BNM	Bank Negara Malaysia
GDP	Gross Domestic Product
GES	Global Entrepreneurship Summit
LFHPT	Loan Fund for Hawkers and Petty Traders
LZS	Lembaga Zakat Selangor
NEP	New Economic Policy
PKB	Permodalan Kelantan Berhad
SMEs	Small Medium Enterprises
TEKUN	Yayasan Tekun Malaysia
YaPEIM	Yayasan Pembangunan Ekonomi Islam Malaysia
s.w.t	Subhanahu Wa Ta'ala (Praise be to Allah and the Most High)

CHAPTER ONE

INTRODUCTION

1.1 OVERVIEW

The contents of this chapter will discuss the economic overview of Malaysia, the background of the company and some issues related to the study. In this chapter, *Ar-Rahnu* will be the central core of this research.

1.2 BACKGROUND OF STUDY

In the era of the globalization and technological advancement, there are many challenges that people face. Malaysia is a multi-ethnic society, which represents the three major groups, Malay, Chinese and Indian, all of whom play a part in the economic development of the country. Since obtaining independence from the British in 1957, Malaysia has undergone through many obstacles in order to improve and develop. This was especially evident through the nation's economic growth in sectors such as mining and agriculture. From its history, it can be said that Malaysia are one of the countries that have successfully reduced the issue of poverty among its population. This is shown by the statistic in the Table 1.1 below.

Table 1.1: Poverty Rate in Malaysia

Year	1997	1998	2002	2007	2009	2012
Percentage	6.8	8	5.1	3.6	3.8	1.7

Source: Income and Household Poverty of Malaysia 2013

Based on the table above, it can be noted that the rate of poverty in the country has steadily reduced throughout the years 1997-2012, and economic downturns were able to be handled. This statement was supported by Minister of Prime Minister's Department, Tan Sri Nor Mohamed Yakcop (The Star, 2013): "The country's overall poverty rate dropped to 1.7% in 2012, compared to 3.8% in 2009". Malaysian government and private sectors have taken a few steps to overcome the problems. These initiatives aim to alleviate poverty. Through the identification of Small and Medium Enterprises (SMEs) as a vital indicator for accelerating economic growth and reducing poverty, the government has consequently committed towards further developing SMEs, which was emphasized during the National SME Development Council, chaired by the Prime Minister of Malaysia on August 2004.

In developed countries, SMEs are part and partial of the economy. In 2011, the Malaysian economy experienced real GDP growth of 5.1% (SME Annual Report, 2012). SMEs form the backbone of the Malaysian economy and currently, Malaysian SMEs account for 97.3% from all enterprises contribute 32.5% on GDP and are estimated to record a 2.4% growth in the total employment (SME Annual Report, 2012). Due to the growing numbers in terms of size and nature of operations, SMEs continue to play a vital role in promoting an endogenous growth by strengthening the industry, through the stimulation of economic growth, ensuring that the rate of growth can be monitored in order to ensure economic expansion.

This is due to the notion that Small and Medium enterprises are considered to be the backbone of economic growth in terms of escalating industrial development within the society. Furthermore, research findings indicate that SMEs contribute towards employment creation, GDP, poverty alleviation, establishing an equal distribution of income, export performance, domestic savings, and the overall entrepreneurial development of an economy (SME Corporation Malaysia, 2011). According to the SME Annual Report 2012/13, job opportunities have increased due to positive market conditions in Malaysia. Employment growth rose at 3.6% rate, in comparison to 2011 (3.2%) through the creation of 438,800 jobs opportunities in the agriculture and service industry. Malaysia considers SMEs as the key driving force in accelerating economic growth, and this is reflected in the establishment of strong and dynamic SMEs as a national agenda of this country.

The Prime Minister stated on February 12th 2013 during the 10th National Small and Medium Enterprise Development Council, “The new set of data compiled by the Department of Statistics showed that GDP growth of SMEs outpaced that of the overall GDP growth since 2004. The data which is based on 2000 prices shows a clear break in the trend from the period 2000-03, whereby SME growth was almost similar to the overall economy. SMEs registered an average growth of 7.8% in the period 2005 till 2008 while in 2000 until 2004 it was reported as much 4.9%). While the SME contribution to GDP remained relatively unchanged at 29% during the period 2000-04, SME contribution to GDP rose from 29.4% in 2005 to 31.4% in 2008”.

Bank Negara Malaysia categorizes businesses with paid-up capital less than RM250,000 or fixed assets less than RM500, 000 as small businesses. In a press conference on August 15th 2013, the Finance Ministry secretary-general Tan Sri Mohd Irwan Serigar Abdullah said:

“The Government is targeting for small and medium enterprises (SMEs) to contribute 40% to the country’s gross domestic product (GDP) by 2015 via more dynamic entrepreneurs. Current contribution from SMEs stands at 33%”. He stated that SMEs would need to contribute more to economic growth for the country in order to achieve its target to become a high-income nation.

He said the above statement following a briefing session for the 4th Global Entrepreneurship Summit (GES), which will be held on Oct 11-12 in Kuala Lumpur to help small and medium enterprises (SMEs) achieve the 40% target.

“Without creative and innovative entrepreneurs, Malaysia will never realise developed and high-income nation status. So, we are compelled to organise programmes of this sort,” he elaborated.

Table 1.2: Contribution of SMEs to overall GDP

Year	2005	2006	2007	2008	2009	2010	2011	2012
Share of SME GDP to overall GDP (%)	29.4	29.6	30.7	31.2	31.7	32	32.5	32.7

Source: Contribution of SMEs to Overall GDP by Key Economic Activity (%), SME Annual Report 2012/2013

From the numbers above, it can be concluded that the contribution of SMEs towards the nation’s economic growth has been steadily growing annually. In 2005, SMEs contributed 29.4%, which is followed by 29.6% in 2006. 2007 saw an increase of 1.01%, which is a significant leap in comparison to previous years. In 2011, SMEs’ contribution to the GDP amounted to 32.5%, and is targeted to contribute 41% to the GDP by 2020, with on-going efforts by SME Corp to transform SMEs to

produce high-quality, high-valued products via the SME Master plan launched last year.

The statistics above emphasize the important role SMEs play in generating economy to the country, and consequently, assisting people from low socioeconomic backgrounds with opportunities and access to capital; furthermore it has contributed towards the implementation and management of income generating business enterprises. Poverty is a major problem faced by most developing countries in the world. Malaysia likewise has developed its own initiatives in poverty alleviation, which is supported by non-profit organizations to ensure that programmes run smoothly. The study of poverty alleviation from the Islamic perspective is still a relatively new phenomenon; approaches towards it can either be direct, or indirect.

In Islam, helping the disadvantaged, or individuals whom are unable to fulfil basic needs such as food and shelter by themselves are emphasized in the Qur'an, through either monetary assistance or by providing non-monetary aid that can ease burdens. This is evidenced in Qur'anic verse below:

“ So give the relative his right, as well as the needy and the traveler. That is best for those who desire the countenance of Allah, and it is they who will be the successful. “

(Qur'an, *al-Rum*: 38)

The act of helping individuals from low socioeconomic backgrounds is given great emphasis in Islam. Consequent by that, one of the many functions of Islamic finance is therefore to act as financial intermediaries through the channelling of funds from the investor to those who are in need. In this line, microfinance has established itself as a growing industry in providing financing with zero interest rates to low and

middle income earners, as well as individuals who are interested in starting up a business which is legal from an Islamic perspective.

According to Vishal,S. (2008), microfinance serves as an umbrella term that describes the provision of banking services of poverty-focused financial institutions (MFIs) for the underprivileged, whom do not qualify for services provided by mainstream financial service providers. Following this notion, Saad (2011) claims that there are several reasons why financial institutions are not interested with microfinance. The main factor is the high risk of lending out without a guarantee that the borrower, whom is of a low income group, and do not possess the ability to repay the borrowed amount. Involvement in microfinance will therefore only create an unhealthy financial environment, as profit is the main motivation that drives their lending operations, which cannot be guaranteed through carrying the burdens of non-performing loans, which would subsequently be deemed as an unproductive investment.

On the other hand, an association can be formed by the poor in the target community to offer microfinance services such as micro-savings, micro insurance and micro loan among themselves. Rebecca, (2007) has defined microfinance as loans provided to the underprivileged particularly to help them to purchase capital so that they can participate in business or self-employment activities which can generate income and can satisfy basic needs such as food and shelter, and they can participate in pawn broking activity to offer them with the opportunity to enter any venture that they desire.

Ar-Rahnu is a part of the aforementioned microfinance system. Through applications in the system, loans can therefore be processed and approved. A large number of people from low income groups reside in rural areas, and most of them are

familiar with the pawning system, as it is a widely used channel to obtain funds. This system is considered straightforward and simple as it does not require any complex documentation or lengthy procedures in order to approve loans.

The benefits of Islamic pawnshops are that the Muslim community can avoid from becoming involved with the practice of usury. Microfinance can solve the short-term problems, and increased socioeconomic status as well as providing benefits to the society.

1.3 PROBLEM STATEMENT

SMEs play a crucial role in the economic development of developed and developing countries. Due to the large contribution of the sector to the economy, competitiveness and development of SMEs must be sustained over time. However, business development requires more than resources such as capital. To cope with these situations, SMEs entrepreneurs must have enough financial access to finance their business development. However, access to finance becomes a significant constraint to small entrepreneurs in particular. Therefore, microfinance program was introduced to combat this issue.

Islam provides guidelines on how to conduct various activities and transactions, and a Muslim is required to understand and obey the rules imposed. This extends to the realm of business transactions, such as in socio-economic and financial transactions, all of which should be followed. The establishment of the Ar-Rahnu scheme acts as an informal institution that provides financial solutions for people based on Islamic principles. It has received positive responses from small and medium entrepreneurs, as well as people who face financial constraints.

This emphasizes the fact that Islamic pawn broking has grown due to economic factors as well as the need to diverge from conventional transactions which contains elements that are prohibited in Islam. The researcher therefore aims to identify the roles of microfinance in assisting the community to lessen financial constraints, as well as identifying the factors that influence the acceptance of Ar Rahnū in Kelantan.

1.4 SCOPE OF STUDY

Pure quantitative method has been taken as approach for this research. The research was primarily conducted in Kota Bharu, which is considered be as a developed district in the state of Kelantan, primarily with regards to the Ar Rahnū system. As this research used quantitative approach, questionnaires were used in collecting cross-sectional data among the respondents. Through self- administrative questionnaires, the data collected was tested and analyzed using descriptive analysis for the purpose of explaining the relationship between variables.

Permodalan Kelantan Berhad has been chosen as this institution one of the established Islamic pawn broking institution in Malaysia. The establishment for almost two decades has brought one new phenomenon into pawn broking activity in Malaysia. This activity that has been offered by PKB has attracted many races to pawn their jewelries in this institution. Marketing strategy has been implemented in order to disseminate information regarding the establishment of Ar Rahnū PKB. Shariah principles that has been applied in this transaction is one of the factors to attract people to involve in this activity.

1.5 RESEARCH OBJECTIVES

Therefore, this research will be conducted to achieve certain objectives as below:

1.5.1 General objective

The main concern of this research is to determine the factors that influence the customer's acceptance on the Ar Rahnu scheme provided by PKB. From the general objectives, the study will propose some variables on customer acceptance of Ar Rahnu PKB.

1.5.2 Specific objectives

- 1) To investigate the level of effectiveness of marketing strategies in promoting Islamic pawn broking (Ar Rahnu) in the East Coast Region of Peninsular Malaysia
- 2) To seek an Islamic theoretical and practical basis for dealing with the religious factor in Islamic pawn broking.
- 3) To provide recommendations to future researcher in order to enhance their knowledge in Ar-Rahnu.

1.6 RESEARCH QUESTIONS

Through the course of this research, I intend to provide answers to the following research questions: -

- 1) What are factors that influence customer to accept Ar Rahnu offered by PKB?
- 2) How can marketing be held in order to attract customer to accept Ar Rahnu PKB?

3) What role does religion play in attracting customers to use Ar Rahnu PKB services?

1.7 RESEARCH FRAMEWORK

The framework of this study was designed towards exploring the microfinance programs implemented by PKB in alleviating poverty. Since the emergence of microfinance institutions and its roles decisively explained, PKB as one of the microfinance institutions has started its exploration in helping the underprivileged who are in financial constraints. In view to overcome the above shortcomings, And to reduce poverty levels, Islamic microfinance institutions has been designed in an integrated manner by incorporating the institution, namely Ar-Rahnu. Ar Rahnu is financing based on selected independent variables.

According to Amin et al (2007), factors that influence the demand for Islamic pawn broking were Syariah view, pricing system, pledged asset, customer service and locality of Islamic pawnshop. Other than that, other factors that influence people to choose Ar Rahnu PKB as pawn broking were the fee imposed for storage and the service quality, both of which influenced the acceptance of the public towards the services offered by PKB. However for the purpose of gaining deeper understanding of this study, this investigation focuses more on the implementation of the programs conducted by PKB in microfinance program in alleviating poverty and helping those who are in financial need.