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Unleashing the *Ar-Rahnu* as a Micro-Financing Instrument for Micro-Entrepreneurs in Malaysia

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Abstract

The purpose of this paper is to compare the Islamic micro-financing and *Ar-Rahnu*. Using the content analysis approach, the paper examines the reports of micro-financing provided by Bank Negara Malaysia and comparing the rate with *Ar-Rahnu*. To validate the content analysis facts and to reveal the actual behavior and perception of micro-entrepreneurs towards *Ar-Rahnu*, this study also conducted in-depth interview. The results show significant advantages of *Ar-Rahnu* as a better option as compared to the Islamic micro-financing as *Ar-Rahnu* has the lowest pricing charges, offer higher margin and lesser procedures required. In fact, *Ar-Rahnu* also have skilled employees reflected to their customer satisfaction and updated with the current technology of innovation (fintech). This paper's contribution to the literature is by including a comparison between the products within the Islamic financial system setting. Besides, in term of methodology, this study used multiple approaching techniques of qualitative method which are content analysis and in-depth interview.

Keywords: Islamic Micro-Financing, *Ar-Rahnu*, Innovation.

Introduction

Sustainable economic growth (SDG 8) will require societies to create the conditions that allow people to have quality jobs that stimulate the economy while not harming the environment. There needs to be increased access to financial services to manage incomes, accumulate assets and make productive investments. Increased commitments to trade, banking and agriculture infrastructure will also help increase productivity and reduce unemployment levels in the world's most impoverished regions. In order to achieve SDG 8, there is in need to explore potential financial area. In Malaysia, Islamic finance products and services are growing exponentially. There are several types of financing in Islamic finance such as debt, equity and derivatives. These types of financing are mainly applied across different financial institutional framework, which consists of Islamic banking, Takaful and Retakaful, Islamic Capital Market and Islamic Interbank Money Market (HDC, 2019).

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The fundamental principles of Islamic finance include the prohibitions of *Riba* (interest), the prohibition of *Gharar* (uncertainty) and the prohibition of *Maysir* (gambling). In term of financing in Islam, there are several methods that can be used such as *Mudarabah*, *Musyarakah*, *Murabahah*, *Istisna*, *Ijarah*, and *Qard Hassan*. These applications of Islamic financial products have been accepted by Malaysians and has attracted investors to invest in Malaysia. As mentioned by the Governor of Malaysian Central Bank, Malaysia needs to be known as the market leader for Islamic financial products. There are many Islamic financial products offered currently, however, for the consumers who are concern about *shari'ah*-compliance, there are several alternatives out there (Table 1.0)

Table 1.0

Sources of Financing for Micro-Entrepreneurs

Banking Institutions (BIs)	Development Financial Institutions (DFIs)	Microfinancing
Ambank (M) Berhad (AmMikro Plus)	Bank Simpanan Nasional (BSN TemaNiaga, BSN TemanMesra, BSN TemaNiaga-i)	TEKUN Nasional (Tekun Financing)
Malayan Banking Berhad (Maybank Micro)	Agro Bank (Modal Usahawan 1 Malaysia-i)	Amanah Ikhtiar Malaysia, AIM (ikhtiar financing scheme such as i-Mesra, i-Srikandi and i-Wibawa)
Bank Muamalat Berhad. (Skim Mikro)	Bank Rakyat (Skim Pembiayaan Mikro)	
Public Bank Berhad (PBMicro)	Small and Medium Enterprises Bank, SME Bank (Enrichment and Enhancement Programme)	

Source: (SME Annual Report, 2017/2018, SME Corporation Malaysia, 2019)

One of the easiest ones to access is Islamic micro-financing. The focus of Islamic micro-finance is to increase the financing share in micro-scale businesses through Islamic micro-financing instrument (González, 2014). Islamic Micro-financing are small business loans ranging from RM1,000 to RM50,000 for micro-enterprises. Islamic Micro-financing is meant for business financing only, such as for working capital and for capital expenditure. Microfinancing has been offered by 10 financial institutions in Malaysia.

There are three development financial institutions offered micro-financing, namely, Agrobank, Bank Rakyat and Bank Simpanan Nasional. A total of 7 banking institutions namely, Alliance Bank, AmBank, CIMB Bank, Public Bank, Maybank and United Overseas Bank and Bank Muamalat. It is argued that one of the main issues faced by micro-entrepreneurs are access to cash or cheap capital. Since lack of fund and insufficient capital are often cited as a stumbling block for MEs development, particularly in their early stages of growth (Carpenter, 2001; Meijerink & Roza, 2007; SME Development Council, 2019). The very nature of these type of business is cash-intensive basis. Therefore, there is a real need for these micro-entrepreneurs to access quick cash.

Notwithstanding, another alternative that can be accessed by these micro-entrepreneurs is *Ar-Rahnu* or Islamic pawn broking. It is also gaining popularity especially among micro entrepreneurs as a source of quick cash. This might be due to several factors such as, 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 a bank loan, 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*.

Customers normally prefer to do business with *Ar-Rahnu* because they are nearer to the micro-entrepreneur's 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 fluctuations, which could result in an increase in the repayment of loans if market interest rate increases (Cheong & Sinnakkannu, 2012). This however is not an issue in *Ar-Rahnu* since repayment is fixed in the form of storage charge or safe-keeping fees which is fixed from the beginning.

On paper, *Ar-Rahnu* seems to be a better alternative to that of Islamic Micro-financing. As mentioned by Azman and Kassim (2018), *Ar-Rahnu* assists micro-entrepreneurs to diversify and enhance their businesses. In fact, it can be ensuring by offering the *shari'ah* compliancy product, the lowest service charges, near to potential customers, lenient on collateral and treat customer regardless their races or religious. However, one of the main impediments is the need for a collateral. Apart from that, *Ar-Rahnu* seemed to be dominated by the non-banking Islamic financial institution (NBFI) such as YaPEIM and Islamic micro-financing on the other hand, is almost exclusively dominated by the Islamic commercial banking institutions in Malaysia.

Therefore, the objective of this study is to make a comparison in term of service charges or financing rate of Islamic micro-financing and *Ar-Rahnu*. Besides, this study also focusing on unleashing the potential of *Ar-Rahnu* as compared to other financing channels. The present study adds to the existing literature in several ways. The study compares intra industry's products as suppose to the norm – of comparing between ICB and CB. To the best of our knowledge, this is the first time. Apart from that, this intra-industry performance comparison may have obvious management implications and assists to develop strategies for Islamic financial product improvement.

Literature Review

Islamic Micro-financing

Microfinance can be defined as “small-scale financial services – primarily credit and savings – provided to people who farm or fish and who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban” (Robinson, 2001). In Malaysia, microfinance was introduced during the last three decades. Micro-financing was offered by both bank and

non-bank institutions. Among the banking institutions offered micro-finance products are Public Bank, AMBank, Islamic Bank, CIMB Bank, Alliance Bank, United Overseas Bank, Bank Simpanan Nasional (BSN), Agro Bank and Bank Rakyat (Bank Negara Malaysia, 2019). The non-bank institutions offered micro-financing includes NGOs, governments agencies and credit unions. One of the favorable micro-financing among customers is Islamic micro-financing.

In Islamic micro financing (IMF) it includes moral, spiritual and material aspect (Al-Harran, 2000). Therefore, Islamic micro-financing (IMF) should have multi-dimensional approach based on Islamic principle and the benefit of ummah. One of the focal points for IMF is to give a serious consideration to the development of the community (Islamic Norms). Indirectly, the development of IMF should match to the objective of *shari'ah*. Islam teaches the relationship between human to human and human to God, which encourages more complex design of partnership in doing business. This also encourages people to help others for minimum material needs, access education and others. The Islamic micro-financing should provide the provision of social support system in the form of *zakah* and *sadaqah*. It would help the people in need (participant of micro-financing), such as face with business failure and debt trap (*Al-Gharimin*) to settle their financial problem.

Islamic micro-financing is not a new financing mode. It has been set up to overcome the shortcoming of the regular financial system. The impact of micro-financing on poverty reduction is quite encouraging in many developing countries. According to Grameen Bank, about 21% of the borrowers from Grameen Bank managed to lift their family from poverty (Khander, 1998). In fact, according to Sugianto (1998), the Bank Rakyat Indonesia (BRI) also assisted hundreds of thousands of households from absolute poverty.

Ar-Rahnu

Ar-Rahnu scheme was initiated based on the decision made by the ministers on 30th January 1985. Terengganu was the first state to introduce this scheme through the Muassasah Gadaian Islam Terengganu (MGIT) on January 23rd, 1992. The MGIT is a fully financed agency by the Terengganu State Government established under the Islamic Religious Office and Terengganu Malay Custom. This establishment and operations are written under the allotment of Sections 12 and 14 Enactment of the Administration of the Terengganu Islamic Religion Affairs (no.2) 1986 (Sabri, Salwa & Yusof, 2013).

The good response by the customers of the MGIT has attracted the state government of Kelantan to establish *Ar-Rahnu* in Kelantan through the Pemodalanan Kelantan Berhad (PKB) in March 1992. Both Islamic pawn centers are among the earliest exponents to the Islamic pawn scheme in Malaysia. When the scheme started to be well accepted by the community, Yayasan Pembangunan Ekonomi Islam Malaysia (Yapeim) started to offer the scheme at end 1992 by co-operating with Bank Islam Malaysia Berhad (BIMB), Bank Rakyat and AgroBank in Malaysia.

Ar-Rahnu institutions received good response from the public particularly to obtain liquidity services. As the banks mostly refuse to give financial loans especially to micro-entrepreneurs due to collateral issue and no stable income, micro-entrepreneurs tend to choose *Ar-Rahnu* as a source of capital for business (Rugayah, 1986; Yusri, 1995; González, 2014). According to Ismail and Ahmad (1997), *Ar-Rahnu* can be one of the potential financing

channels for MEs. It shows that *Ar-Rahnu* is clearly recognised as a source of capital for the MEs. In addition, *Ar-Rahnu* also being a source of capital for companies that are just starting as well as a source of capital injection for companies that have already been set up. Furthermore, as stated by the Department of Statistic (2019), it also highlights *Ar-Rahnu* as one of the sources of financing for MEs.

Apart from that, *Ar-Rahnu* also works as a tool for investment. *Ar-Rahnu* encourages people to save and trade at the same time (Hisham et al., 2013). This is seen as a form of investment as jewellery, especially those made from gold, always have a strong stable market value (Mydin Meera, 2009). As stated by Awang Kechil et al. (2005) and Othman et al. (2013), having gold as the underlying transaction will assist a person who needs the money to start a business or inject more capital to their business. In short, micro-entrepreneurs can pledge the gold and take cash immediately.

Although *Ar-Rahnu* is one of the viable services of financing for micro-entrepreneurs, there are issues in terms of its acceptance among customers. For example, the usage of *Ar-Rahnu* among male entrepreneurs is insignificant in value, whereas female micro-entrepreneurs view *Ar-Rahnu* as one of the important tools in order to get access for cash instantly. According to Aziz (2006), Chan and Owyong (2007),

Muhamat et al. (2011), Amin (2011), Mokthar and Zambahari (2012) and Murisa and Chikweche (2013), women who are active in micro businesses often resort to pawn brokers as a means to get short term capital to enhance their business. They often pledge their jewellery early in the morning for cash to be used in their business activities during the early part of the day and redeem back at the later part of the day after receiving profit from the day's business.

According to Muhamat et al. (2011), such use of pawn broking facilities has been successful in helping women micro-entrepreneurs and invigorating the economy without putting much burden on the pawn broking services. In addition, Nik Azman, Kassim and Adeyemi (2016) suggested *Ar-Rahnu* can be the effective tools for women micro-entrepreneurs to be self-sufficient financially. According to the finding, it indicates women micro-entrepreneurs 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.

Islamic Personal Financing

A personal loan is a line of credit provided by banks and lending companies in Malaysia to help a borrower ease into investments, consolidate debt, pay for car repairs, home renovation and more. As one of the fast loans that banks and other financial institutions offer, personal loans give borrowers a quick way to get cash. Banks revise their personal loan rates from time to time. Personal Loan rates usually range from **3.5%–24% per annum**. The loan or finance package you are eligible for depends largely on your occupation. Some banks charge a fixed processing fee and other banks charge up to **4%** of the approved loan amount. According to Malaysian law, there will be a stamp duty of **0.5%** imposed on your approved loan or finance amount. Some banks will offer to pay this fee for you. In addition, you can also incur late payment fees (often a **fixed 1% p.a.** on the balance that is overdue) or early repayment fees.

Contradicting views for Islamic personal financing which available in Islam. In Islam Islamic personal financing generally applied on two *shari'ah* principles such as "*bay al-inah*" and "*qardhul-hassan*". According to Khiret et al. (2008), Islamic banks in Malaysia practicing the concept of *qardhul hassan* as this concept is defined as benevolent fund or beneficial financing given for a fixed period and without considering the profit. Further investigated on *qardhul hassan* is done by Ali et al. (2019), *qardhul hassan* concept gives several advantages. First, the financing method-based goodwill basis while the customer is only bound to repay the actual principal amount (avoiding *riba*). Second, *Qardhul Hassan* financing is deeply consistent with shariah principles. Therefore, many Islamic scholars such as Dusuku (2005), Haniffa and Hudaib (2007) and Amin et al., (2011), proposed to separate the indirect costs (such as office rental costs, employment expenditures and other associated with *qardhul hassan* financing) from financing costs. However, in practice, Islamic banks have added additional charges in this type of facility which further violates the true spirit of Islamic Financing. Therefore, Islamic Banks should be more flexible with their customers as compared to the conventional as Islamic banks supposedly give intensive care and proper treatment as it was according to Shariah principles.

Research Method

This study used a multiple method of analysis. First, this study focuses on content analysis method. Content analysis is a research method that uses a set of procedures to make valid inference from text. The rules of this inferential process vary with the theoretical and substantive interest of the investigator. Content analysis can be used for many purposes. One of the purposes is to make a comparison of the text communication content. Therefore, referring to the objective of this study, to make a comparison in term of service charges or financing rate of Islamic micro-financing providers and *Ar-Rahnu*, this study gathers all the financing rates from the banking institutions, Islamic micro-financing and *Ar-Rahnu*. Having all those materials and figures, this study properly calculates and find out the best financing rate for people to access financing especially those in micro-entrepreneurs and people in need.

Second, in-depth interview technique. In-depth interview is conducted on one to one basis, it is designed to describe individual experiences and beliefs. This is purely a conversational method and invites opportunities to get details in depth from the respondent. The advantage of this method is to provide a great chance for researcher to gather precise information and data about what people believed and what their motivations are. The interviews and discussion were conducted to unleashing the potential of *Ar-Rahnu* as compared to other micro-financing channels. The interviewing process takes between one to two hours each. The tape recorded used for each of the interview sessions. The result for the interviews was transcribed into text so that it will clearly recognize. The data collected are utilized to other interviewee for verification and confirmation.

Results and Discussion

Islamic micro financing is a way to provide an easy, faster and convenient financing facility to its customers. Microfinance requires no collateral, minimal documentation and simple procedures. The time taken to approve and disburse funds is also short. Based on Table 2, the results of this study are based on the comparison of financial institutions rate of financing. This study compiled all those rates of financing and divided financing modes by five types.

The first type is rate of financing for micro-financing offered by banking institutions, second, rate of Islamic personal financing, third, rate of financing from micro-credit institutions, fourth, service charges of *Ar-Rahnu* by banking institutions and last is service charges of *Ar-Rahnu* by non-banking institutions. In order to avoid any confusion on financing rate, this study already fix the number of periods to only one year and the required amount to RM 10,000.

As shown in Table 2.0, micro-credit financing offered by banking institutions shows a very high amount of monthly payment, range from RM 841.48 (Public Bank) - RM 974.87 (Ambank). In the same vein for Islamic personal financing. It also needs a high amount of monthly payment range from RM 875 (Bank Rakyat) - RM 933 (Hong Leong) for monthly payment. This might be due to the financing rates are set by the respective participating financial institutions based on assessment of the borrower's risk profile. Surprisingly, micro-credit institutions such as MARA, AIM and Tekun also resulting in a high monthly payment.

According to Table 2.0, *Ar-Rahnu* by banking institutions (Agrobank) offers the lowest service charge which is RM 62.00 per month for RM 10,000. As documented by Abdul Razak (2011), the lowest service charges are meant to attract and gain customers' acceptance. In fact, the main objective of the *Ar-Rahnu* providers is to help the lower income community to borrow money quickly and easily without the burden of interest rate charges as in others financial institutions. The lowest *Ar-Rahnu* storage charges offered is always preferable to customers (Abdul Khir et al., 2013). Although *Ar-Rahnu* providers are competing against each other, yet, customers' affordability to pay for service charges is still the main consideration. This is in line with the financial inclusion objective of *Ar-Rahnu* providers, which is to achieve the social objective set while at the same time provides a safe form of lending by the providers. From the survey of pricing practices of *Ar-Rahnu* providers in Malaysia, it can be shown that there is not much difference in the pricing practices of the *Ar-Rahnu* providers. This strategy might be used in order to ensure the continuity of using *Ar-Rahnu* by customers, especially those in

Table 2.0

Type of Financing / Providers	Micro-Financing from Banking Institutions		Islamic Personal Financing		Micro-Credit Institutions		Ar-Rahnu by Banking Institutions		Ar-Rahnu by Non-Banking Institutions	
	Rate (%)	Monthly payment (RM)	Rate (%)	Monthly payment (RM)	Rate (%)	Monthly payment (RM)	Rate (cent/100)	Monthly payment (RM)	Rate (cent/100)	Monthly payment (RM)
Agrobank	7.92	869.51					0.62	62.00		
Bank Rakyat	8.25	871.04	5.09	875			0.85	85.00		
Bank Simpanan Nasional	6.38	862.41								
Alliance Bank	9.28	875.51	5.33	877						
Ambank Islamic	30.00	974.87	8.00	900						
CIMB Bank	18.00	916.80					0.65	65.00		
Bank Muamalat	3.75	850.36								
Maybank	10.0	879.16								
Public Bank	1.80	841.48								
United Oversea Bank	9.99	879.11								
Bank Islam			6.00	883			0.85	85.00		
RHB							0.70	70.00		
Affin							0.65	65.00		
Hong Leong			12.0	933						
Aeon-l Cash			7.92	899						
Ar-Rajhi			6.99	891						
Kuwait Finance House			6.88	890						
MARA					5.00	856.07				
AIM					10.0	879.16				
TEKUN					4.00	851.50				
MGIT									0.75	75.00
PKB									0.75	75.00
YaPEIM									0.75	75.00
Pos Malaysia									0.75	75.00

Comparison of Financing Rate from Selected Institutions (based on 1-year financing and RM 10,000 amount)

Source: Author's own compilation

After acquisition the fact from content analysis regarding the preferable service charges offered by selected financial institutions, there is an urgent need to comply it with the customers perspective. Therefore, this study conducts an interview with seven micro-entrepreneurs (ME) that used *Ar-Rahnu* as their medium of financing. According to the interview session, there are three sub-themes from the major theme of *Ar-Rahnu* as micro-financing alternative. A major theme called the potential of *Ar-Rahnu*, followed by three sub-themes which are; operation, innovation and organization. Figure 1.0 shows the diagram of the major theme and sub-themes of the adoption of *Ar-Rahnu* as the micro-financing alternatives.

Figure 1.0
Unleashing the Potential of Ar-Rahnu



The first sub-theme is Operation. During the interview with respondents, they mentioned about price and quality of *Ar-Rahnu*. This study simplified these items as operation of *Ar-Rahnu*. The issue of pricing under *Ar-Rahnu* Price represent the service charges of *Ar-Rahnu*. As mentioned by ME 3 *“there are few Ar-Rahnu offered free service charges for loan that lower than RM 1,000 and I satisfied with the lowest service charges offered at Ar-Rahnu”*. ME 7 mentioned *“I did apply personal financing at banking institutions, but, when take a look on the charges and monthly payment is high, spontaneously I cancel my intention to borrow money from them”*. Most of them agreed on the lowest service charges was offered by *Ar-Rahnu* as compared to other micro-financing institutions. As documented by Abdul Razak (2011), the lowest service charges are meant to attract and gain customers’ acceptance. At the same time, it suits with the objective of *Ar-Rahnu* which is to help the lower income community (B40 and below) to borrow money quickly and easily without the burden of interest rate charges as in others financial institutions. The lowest *Ar-Rahnu* storage charges offered is always preferable to customers (Abdul Khir et al., 2013).

At the same time, they also mentioned on the quality of *Ar-Rahnu* which represent as *shari'ah* compliance. According to ME 6 *"I did pledge my jewellery at other pawn broking as well, but they are not Shari'ah compliance, and most of them deal the transaction for the sake of profit"*. ME 5 added *"while dealing with Ar-Rahnu, there is an akad printed on a paper and I need to read it out loud so that the transaction is consider valid"*. ME1 mentioned *"I confidence with the Islamic principles applied by Ar-Rahnu, and I considered Ar-Rahnu as a safer place to have financing as each of the item (jewellery) being labelled with a specific code, they(staffs) also mentioned to me that all pledged items are covered by insurance just in case anything happens to my collateral"*. Based on the storyline, Islamic principles will make Islamic based pawnshops clearly different from others and would be more appealing to customers who are very concerned with compliancy to the *shari'ah* requirements (Ismail & Sanusi, 2005; Amin et al., 2007; Mohamad et al., 2008).

The second sub-theme is organization of *Ar-Rahnu* that addressing few important points related to staffs which are customers satisfaction and skilled employees. According to ME 2, *"the staff at Ar-Rahnu's counter can manage my need very well, she/he can facilitate me excellently while I am having transaction. The main thing that I still remember, they asked me either to take all the lending amount or only specific to certain amount"*. ME 1 added *"They really respect my right, there is at one time I was incapable to pay for the financing, the Ar-Rahnu allows me to do extension for another three months, unfortunately, within the time frame I cannot take my collateral back and surprisingly Ar-Rahnu do not denied my right when they informs me about the time, date and location of the auction. In fact, the money surplus after the financing has been settled, excess fund was returned to me"*. this study found that customer satisfaction through quick and convenient services is an important factor that convinces customers to deal with *Ar-Rahnu* instead of other money lending institutions. Maintaining customers' records, do not denied the customers' right, keeping data confidentially, treating customers regardless of their religion, ethnicity or race were also significant towards customers' satisfaction. Customer's satisfaction is about the overall satisfaction based on experience with a good service or service over time (Syukor & Sabri, 2013).

Regarding the skilled staffs, ME 4 mentioned *"I can see the ability of their staffs. I can see on how they evaluate my jewellery as a minute they have my jewellery. First, they traced my gold just to ensure the type of gold either 916 or 999, then they will evaluate the value of the jewellery based on the current gold's price, they will calculate and immediately let me know how much financing I can have for that particular jewellery"*. As mentioned by micro-entrepreneurs, staffs at *Ar-Rahnu* are competent and skilled in managing their need. Good in communication skills will enhance bonding with customers. as supported by Lee, Hsiao and Yang (2010), skilled workers deliver values to customers and be relevant to prosper.

The third sub-theme is on the innovation part. Customers mentioned about the accessibility of *Ar-Rahnu*. ME 7 said *"what I like most about Ar-Rahnu is regarding the convenience ways of payment. I can make instalment at any branches near to me"*. ME1 added *"there are few Ar-Rahnu especially Ar-Rahnu operated under banking institutions, I can just make payment using mobile transfer. Mobile transfer is the interactive transactions, through which*

customers can execute financial and non-financial transactions. In fact, Rinder and Fiserv (2016) indicates that mobile transfer has the potential to increase revenue to those who adopted it. This is because, both customers and businesses benefited from cheaper various delivery channel.

Conclusions

Most of the literature within the Islamic finance milieu is comparative studies between products or institutions of conventional and Islamic or nature (for example, bank margin between ICB and CB, corporate social responsibility disclosures and competition analysis). However, there is a little comparison between the products within the Islamic financial system setting itself. This research attempts to fill that gap. Instead of gaining input from content analysis, this study also validates the content by conducting an interview with few micro-entrepreneurs. Based on the interview session, there are few subthemes mentioned that can be categorized as operation (pricing, quality), organization (customer satisfaction, skilled staffs) and innovation (mobile transfer). This study found that pricing (lowest services charges) is the prominent factors on why micro-entrepreneurs dealing with *Ar-Rahnu*. All in all, through calculation on monthly payment in Table 2.0 and evidence from interview sessions, it shows that *Ar-Rahnu* is the best alternative for financing bottom and lower community. So, the development and sustainable of *Ar-Rahnu* is important in order to achieve greater financial inclusion and ensuring that customers have access to the best Islamic micro-financing products.

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