

The Adoption of *Ar-Rahnu* and Financial Wellbeing of Micro-Entrepreneurs in Malaysia

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Abstract

There is an urgent call for a potential justification on how and to what extent customers (micro-entrepreneurs) of *Ar-Rahnu* institutions in Malaysia are successfully driven their living standards from B10 (hardcore poverty) to B40 (low income). This study classified *Ar-Rahnu*'s adoption factors into three categories, namely, *Shari'ah* governance, uniqueness of *Ar-Rahnu*, and efficiency. 150 questionnaires were distributed to micro-entrepreneurs that used *Ar-Rahnu* and analysed using SmartPLS 3.0. Based on the results, it shows that *Shari'ah* governance has a low correlation and insignificant relationship towards *Ar-Rahnu* adoption. Stated differently, it means that customers find *Shari'ah*-compliance requirements not as important and it does not get in their way of getting instant cash from *Ar-Rahnu*. The other two constructs, namely as uniqueness and efficiency, have positive relationships with *Ar-Rahnu* adoption. It shows a significant and positive relationship with the *Ar-Rahnu* financing output. Unlike previous studies within the body of knowledge that mainly focuses on the adoption factors of *Ar-Rahnu*, this study went a step further by addressing the after-effect or impact of *Ar-Rahnu* adoption towards customers' wellbeing, especially in terms of financial wellbeing and have found positive results.

Keywords: *Ar-Rahnu*, Financial Wellbeing, Micro-entrepreneurs

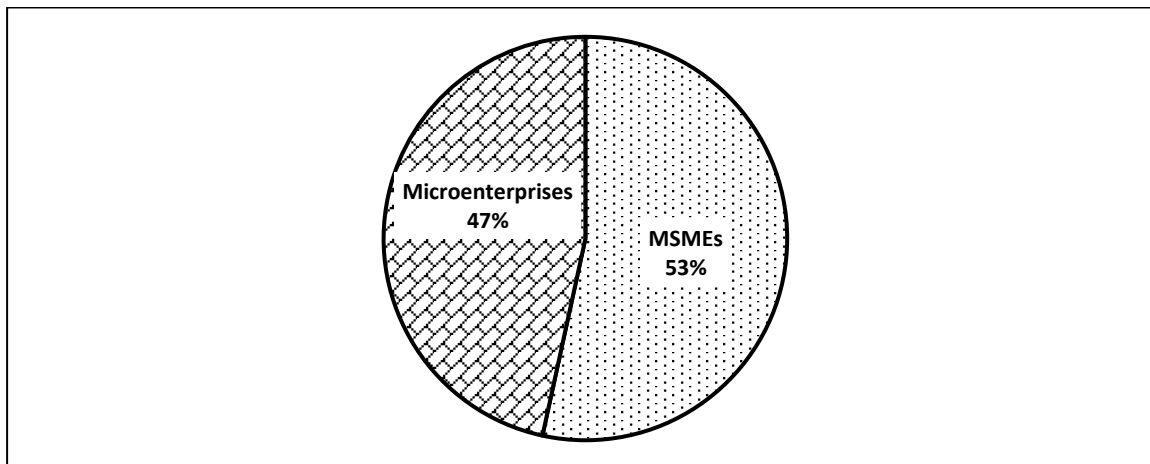
Introduction

The world has seen increased growth in Micro Small Medium Enterprises (MSMEs) since the financial crisis in 2008 (World Bank, 2020) as MSMEs have been active in developing innovative products, create conducive networking services collaboration and upscaling their businesses. Indirectly, by empowering MSMEs, this paper will inevitably work our way towards achieving the United Nation's Sustainable Development Goals (SDGs): SDG #1 (no poverty), SDG #2 (zero hunger), SDG #3 (good health and well-being), SDG #5 (gender equality), SDG #8 (promote inclusive and sustainable economic growth, employment and

decent work), and SDG #9 (improve sustainable industrialisation and fostering innovation). As a result of empowering MSMEs, the number of MSMEs is increasing (53%), and surprisingly, about 47% out of the total were involved in micro-enterprises (Figure 1).

Figure 1.0

Number of MSMEs in Developing Countries (%)



Source: World Bank (2020)

Besides the increasing number of MSMEs, there is a significant challenge that needs to be faced by MSMEs, especially micro-entrepreneurs, which is the shortage of capital or limited access to finance. The financing gap is depicted in Table 1. Due to this gap, the number of entrepreneurs who are applying for micro-financing is on the rise as reported by Bank Negara Malaysia in its 2019 Annual Report. Besides, the Malaysian government has decided to set RM3,000 as the poverty line basis for the urban poor (Zainal Azim et al., 2016) and hitherto, when the number of bottom-line community increases, theoretically, it will directly increase the demand for micro-financing.

Table 1.0

MSMEs Finance Gap in Malaysia (Volume, Million)

No. of MSMEs (Demand)	Current Supply	MSMEs Finance Gap
91,390,116,799	69,935,901,865	21,454,214,934

Source: International Finance Corporation (2019)

Micro-financial institutions in Malaysia provides cash or capital to the borrowers. Usually, the process of micro-financing only takes about one hour. After one hour, the borrowers can have their money and proceed with their daily business. Microcredit can be offered, often without collateral, to an individual or through group lending. In Malaysia, there are few micro-financing institutions such as Majlis Amanah Rakyat (MARA, established in 1966), Amanah Ikhtiar Malaysia (AIM, est. 1987), Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM, est. 1993) and Yayasan Tekun Nasional (TEKUN, est. 1993).¹ The objective of the micro-

¹ Majlis Amanah Rakyat (MARA), Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) and Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) can be literally translated to People's Trust Council, The Economic Fund for National Entrepreneurs Group and The Malaysian Islamic Economic Development Foundation respectively.

financing loans is to assist the poorest in the low-income family, particularly micro-entrepreneurs.

Another trend of micro-financing in Malaysia is *Ar-Rahnu*. These micro-credit schemes are trending owing to several reasons. First, it suits the specific financing requirements of the people in need (Ismail & Ahmad, 1997; Amin, 2011). Specific financing requirements mean utilisation of funds in a myriad of ways such as financing for wedding ceremonies, home and vehicle purchases, education, and investment. Second, *Ar-Rahnu* is hugely popular due to its quick service and approval, lower service charges, and simple procedures (Muhamat et al., 2011). Besides, difficulties in getting funds from the formal and commercial financial institutions have been among the main reason for customers to opt for *Ar-Rahnu*. These difficulties can mainly be attributed to the excessive bureaucracy of the funding agencies and formal financial institutions that tend to take a longer time to disburse the loans (e.g., three to six months) with various documentations. Besides, they impose a rather high cost of borrowing and high legal documentation fees (see Saleh and Ndubisi, 2006; Westover, 2008; Hassan et al., 2011, Zabri, 2012, Darmansyah, 2013, Abbas, Abdul Razak and Saad, 2014).

Nevertheless, *Ar-Rahnu* is also not without issues and has always been debated by scholars ever since its inception. Among the issues are on *Shari'ah* governance of *Ar-Rahnu* (Mulazid, 2012; Rasmin and Markom, 2014; Shah and Yaakob, 2016; Shater et al. 2017), the similarities between *Ar-Rahnu* charges and conventional pawnshops (Naim, 2004; Abdul Razak, 2011; Yaakob, 2014), the inclusion of *Ar-Rahnu* as micro-finance products (Mohamed, 1986; Ismail and Ahmad, 1997; Samsudin, 2002; Abdul Khir et al., 2012; Abdullah, 2012; Hisham et al., 2013; Bahari et al., 2015; Azman et al., 2017) and the efficiency of *Ar-Rahnu* (Samsudin, 2012). As these issues are still being deliberated among scholars, it is highly relevant for this study to review the *Ar-Rahnu's* acceptance factors despite its popularity. The acceptance factors of *Ar-Rahnu* have also been examined by scholars such as Amin et al. (2011), Sam et al. (2012), and Azman et al. (2017). Previous studies suggested that customers are still loyal to *Ar-Rahnu* and continue to patronise *Ar-Rahnu* services. Several customers believe that *Ar-Rahnu* is the only option to enhance their living (economically). Therefore, there exists an imperative that besides examining *Ar-Rahnu's* acceptance factors, we also need to examine the aftereffect of using *Ar-Rahnu*, especially in the aspect of the financial wellbeing of customers. It is because, previous studies have overlooked the output or impact of *Ar-Rahnu* adoption towards customers' wellbeing, especially in terms of financing wellbeing. Hence, there is an urgent call for a potential justification on how and to what extent customers of *Ar-Rahnu* institutions in Malaysia are successfully driven their living standards from B10 (hardcore poor) to B40 (low income).

The organization of this study is as follows. The next section will review past studies on *Ar-Rahnu* adoption variables and *Ar-Rahnu* financing's impact on customers' wellbeing. In the proceeding section, this study explains the methodology used and in the fourth section, this study analyses the factors that theoretically and empirically justify the importance of determining the financial wellbeing of *Ar-Rahnu* adoption. Subsequently, a discussion on the results and conclusion section concludes the study.

Literature Review

Ar-Rahnu and Financing Well-being

The ultimate objective of *Ar-Rahnu* institutions is to enhance its customers' financial wellbeing. According to Chapra (2008), *Ar-Rahnu* could be one of the financial instruments that can ensure individual, society, and economic justice by practising the equitable distribution of income and eradicate poverty. This benefits an individual's well-being by assisting customers with their consumption (bill payments, housing-related expenses, emergency-related expenses, and expenses for ceremonies). Apart from this, Meera (2010) highlights that *Ar-Rahnu* also could enhance the individual well-being as it increases awareness on wealth management purposes such as saving, starting a new business, expanding the existing business, and buying a house for investment.

Generally, financing wellbeing is defined as having financial security and financial freedom of choice, at present and in the future. In the context of this study, financial wellbeing can be defined as the *Ar-Rahnu* financing that will affect micro-entrepreneurs in either upscaling or downscaling their businesses, having enough money to cover basic expenses, and have extra money at month-ends.

As indicated by Abdul Razak (2011), about 70 percent of the *Ar-Rahnu* customers are agreeable with the positive role of financing in improving their economic situation. In term of economic wellbeing, Azman et al. (2017), found that *Ar-Rahnu* benefits women micro-entrepreneurs by helping to expand (increase the branch of business) and diversify (increase the line of product offering of) their businesses. Even though there are other options to obtain cash, yet *Ar-Rahnu* is preferred by women micro-entrepreneurs as it provides instant cash, operated using simpler procedures, and is easily accessible.

Shari'ah Governance of Ar-Rahnu

Shari'ah (Islamic jurisprudence) is a sacred law of Islam as it is derived from the *Quran* and *Sunnah*.² On the other hand, *Shari'ah* governance (SG) is a set of institutional and organizational arrangements through which Islamic Financial Institutions (IFI) ensure that there is effective and independent oversight of *Shari'ah* compliance over the issuance of relevant *Shari'ah* pronouncements, dissemination of information and an internal *Shari'ah* compliance review (IFSB, 2018). Based on the given definition, an IFI needs to have a *Shari'ah* board to review and ensure all financing transactions or procedures (such as products, instruments, operations, practices, management) to comply with *Shari'ah* (Mansour, 2019; Umar et al., 2018; Azmi et al., 2017; Farook et al., 2011). This *Shari'ah* compliance practices will directly boost the confidence of the shareholders and the public.

Ar-Rahnu is a *Shari'ah*-compliant concept. *Ar-Rahnu* uses the concepts of *Wadiah Yad Dhamamah*, *Qardhul Hassan*, and *Ujrah* in its transaction, indirectly eliminating the elements of *Riba* and *Gharar* (see; Ismail & Sanusi, 2005; Amin et al., 2007; Sharif et al., 2013). This means that failure to comply with the *Shari'ah* principles will fail to achieve the objectives of *Ar-Rahnu*. In this regard, there is a need to ensure the correct application and implementation

² *Quran* is Islamic holy book and *Sunnah* is the saying, practice, and traditions of Prophet Muhammad (peace be upon him). In addition, two more important sources as *ijma'* (i.e. consensus among Muslim jurists) and *qiyas* (i.e. the deduction of legal prescriptions from the *Quran* or *Sunnah* by analogical reasoning) are also occasionally applied.

of the Islamic concepts of *Wadiah Yad Dhamamah*³, *Qardhul Hassan*⁴, and *Ujrah*⁵. These Islamic principles will make Islamic-based pawnshops distinguishable from the conventional ones and would be more appealing to customers who are very concerned with *Shari'ah*-compliance requirements (Ismail & Sanusi, 2005; Amin et al., 2007). These Islamic contracts benefited customers of *Ar-Rahnu* in terms of valuing customers' assets adhered to *Shari'ah* without manipulative tactics (abusive lending). According to the Islamic contracts also, the welfare of the customers is taking care of by *Ar-Rahnu*. For example, *Ar-Rahnu* offering loan without interest, low storage fees, and informing customers before lender sell the collateral and excess yield will be given back to customers.

The Uniqueness of Ar-Rahnu

This study highlights a few features of conventional pawnshops, which differs from *Ar-Rahnu*. The primary motivation of the conventional pawnshops is profit rather than the welfare of the customers (Ismail & Ahmad, 1997; Carter & Skiba, 2013; Mohd Hussin et al., 2016). The key requirement for large profits is the rapid turnover of capital or, in other words, fast redemptions (Whelan, 1979). In contrast, while *Ar-Rahnu* is also profit-oriented, they are also working towards welfare-improvement by assisting those in need. The differences of conventional pawnshops and *Ar-Rahnu* have been highlighted by several scholars such as Muhamad et al. (2019), Azim et al. (2016), Zuraini, and Salleh (2014), Naim (2004), Bhatt (2008) and Abdullah (2008). These scholars elucidate on the mechanical differences between conventional pawnshops and *Ar-Rahnu*. In a similar vein of the conventional pawnshops, the mechanism of *Ar-Rahnu* also has three stages. There is a lending process, redeeming process, and auctioning process.

During the lending process at conventional pawnshops, the customer must have a valid identification card, which affirms that a customer's age must be 18 years and above. The pawnbroker will not assess the customer's credit risk, such as credit scoring, but focuses on evaluating the collateral's value. The collateral is important during the lending process to determine the amount of loan that can be disbursed. Usually, conventional pawn broking accepts collateral in the form of jewellery and valuable electronic devices. As documented by Carter and Skiba (2013), about 49 percent of pawnshop loans are collateralised with jewellery, with most of the items in the jewellery category consisting of rings, including both men's and women's class and wedding rings. The next most popular category of pledges is televisions and electronics, including satellite dishes, stereos, and CD players. Customers also commonly pawn tools, household items such as small appliances, sporting equipment, guns, musical instruments, and camera equipment (Shabbir, 2019).

After the pawnbroker accepts the collateral, the fixed interest rate of two percent per month will be imposed on the customer as stated in the Pawnbrokers Act 1972, Section 17(1) (Suhana et al., 2016). The pawnbroker will then issue a pawn ticket as a proof of transaction.

³ *Wadiah Yad Dhamamah* means savings or deposits with guarantee.

⁴ *Qardhul Hassan* is a benevolent loan. The repayment is for the same amount, but customers may pay more than what he/she borrowed so long as it is not predetermined or stated in the contract.

⁵ *Ujrah* means fee. The financial charge for using services, or *Manfaah* (wages, allowance, and commission).

The pawn ticket records the customer's particulars such as the customer's name and address, a description of the collateral, the amount lent, the maturity date, and the amount that must be paid to redeem the assets. Usually, the six-month maturity period is given to customers to redeem the collateral. An extension is generally granted, but the customer must pay the previous interest rate first before continuing with the extension period.

Unlike conventional pawnbroking, the customers approach the *Ar-Rahnu* to place their jewellery under the principle of the *Ar-Rahnu* contract. *Ar-Rahnu* gives an interest-free loan to the customers based on the *Qard* contract. The maximum loan amount offered to the customers is about 70 percent of the gold value. The pledged gold is known as '*Marhum*', which is kept by the *Ar-Rahnu* operator under the principle of *Wadiyah Yad Dhamamah*. At this stage, the customers need to pay for service charges based on the *Ujrah* principle. Customers paid the service charges during the settlement of the financing. Typically, the service charges imposed by *Ar-Rahnu* are lower than the 2 percent imposed by conventional pawnshops. During the storage period, the *Ar-Rahnu* is liable to guarantee the pledged asset in case of damage.

The second stage is the redeeming process. During the redeeming process, the pawnbroker will deliver the pledged items to any person who presents the pawn ticket. If the customer is not able to redeem their pledge items in the specific period given, the pledged items will become the property of the pawnbroker if the pawned value does not exceed RM 200. The pawnbroker can dispose of the pledged items via auction if the value of the pledged items exceeds RM 200 (Pawn Broking Act, 1972). In *Ar-Rahnu*, during the redeeming process, the customer is required to bring the pawn receipts and pay for the loan plus with the safekeeping fees. If a customer is unable to pay for the loan, the *Ar-Rahnu* operator allows the customer to apply for an extension for another three months (Bhatt & Sinnakkannu, 2008). However, if a customer fails to pay within the extension period, the *Ar-Rahnu* operator has the authority to auction the pledged asset to pay off the loan.

The auctioning process is the final stage. In conventional pawnshops, the auction process will be handled by a licensed auctioneer (Abdul Razak, 2011). Unfortunately, in most cases, the licensed auctioneer usually collaborates with the pawn dealer on the auction-pawned items by valuing the pawned items at meagre prices resulting in a loss for the pawner, earning nothing after the auctioned process (Sulaiman et al., 2014). This can be avoided if the conventional pawnbroker uses proper documentation and is genuine or truthful to the borrower. At the same time, the borrower must also know his/her rights before engaging in such transactions so that they are not facing fraud and coercion. On the other hand, the auction method in *Ar-Rahnu*, as stated in the Pawnbrokers Act 1972 (Section 18):

'Auction can only be done by a licensed auctioneer. The pawnbroker must inform the pawner by post regarding the date, time and place of auction. An announcement that an auction will be held must be publicized. The pawnbroker and borrower can buy the article that is being auctioned. Auctioned articles become the property of the buyer.'

Before the auctioning process, the *Ar-Rahnu* operator will send a letter to inform the customer about the auctioning process, i.e. the time, date, and location of the auction. In the case of surplus after the loan has been settled, the excess fund will be returned to the

customer. In contrast, in the case of insufficient cash after the auction, the customer needs to pay the balance.

Efficiency of Ar-Rahnu

The efficiency of *Ar-Rahnu* institutions is an essential element to be addressed due to the drastic increase in the number of *Ar-Rahnu* outlets in Malaysia. Since *Ar-Rahnu* is an alternative to conventional pawn broking, there is a need to measure its effectiveness so that its existence in the financial market can be sustained (Ismail & Maamor, 2014). Therefore, this study intends to investigate the efficiency of *Ar-Rahnu* institutions and to link it with the ability to provide funds to the society in need. As discussed by previous studies, few factors can affect the efficiency of *Ar-Rahnu*, namely as *Ar-Rahnu* outlets' competitors (Yafeh & Yosha, 2001), size of *Ar-Rahnu* outlets (Casu and Molyneux, 1998; Souza *et al.*, 2003; Stavarek, 2003; Chang and Chiu, 2006) and financial self-sufficiency (Alufohai, 2006; Chan *et al.*, 2007; Bhuiyan, 2013; Nik Azman *et al.*, 2017).

As mentioned by Yafeh and Yosha (2001), the competition of *Ar-Rahnu* outlets is one of the factors that affect its efficiency. According to Ismail *et al.* (2001), the competition will arise when new players see the profitability and sustainability of the *Ar-Rahnu* market. This could result in a positive and healthy impact as it encourages *Ar-Rahnu* operators to foster good relations and work harder to gather, retain as well as expanding its customers' base. The competition factor is also being supported by Berger *et al.* (2001) and Elsas (2005).

Firm size (i.e. the size of *Ar-Rahnu* outlets) is an essential factor for *Ar-Rahnu* efficiency towards *Ar-Rahnu* adoption. Previous studies such as Souza *et al.* (2003), Stavarek (2003), and Chang and Chiu (2006) found that the positive impact of the outlet size towards efficiency. Stated differently, the larger the outlet size, the larger the number of customers the outlet has. This indirectly will benefit the *Ar-Rahnu* institutions in terms of economies of scale as the larger *Ar-Rahnu* institutions can offer cheaper services to the customers.

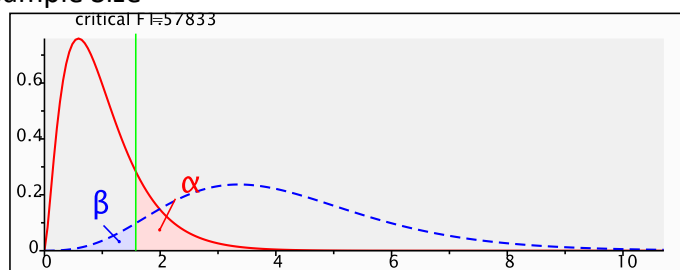
Financial self-sufficiency is also one of the indicators for *Ar-Rahnu* efficiency. Financial self-sufficiency indicates whether their revenue is sufficient to cover both direct costs (financing costs, provisions for loan losses and operating expenses) and indirect costs (adjusted cost of capital) (Maamor & Ismail, 2010; Brau & Woller, 2004). In short, financial self-sufficiency reflects an entity that can meet its current needs without compromising the ability to cover for their future needs (Bhuiyan, 2013). Besides, Bhuiyan (2013) also clarifies financial self-sufficiency as an individual's ability to cope recover from external stress and shocks, while enhancing the capabilities for the present and future. Financial self-sufficiency can be measured by the number of customers per operating costs. In other words, the efficiency of *Ar-Rahnu* can be measured via loan disbursement at a very minimum cost.

Methodology

This research uses quantitative methods in acquiring data and information through a survey from October to December 2019. The population for this study is *Ar-Rahnu* customers who are directly involved with *Ar-Rahnu* institutions. To obtain insights from *Ar-Rahnu* users, especially those from B40 (low income) and M40 (middle income), the location for this research is in Penang and Kedah, two states located in the northern region of Peninsular Malaysia. In conducting the survey, the sampling method is based on purposive sampling as

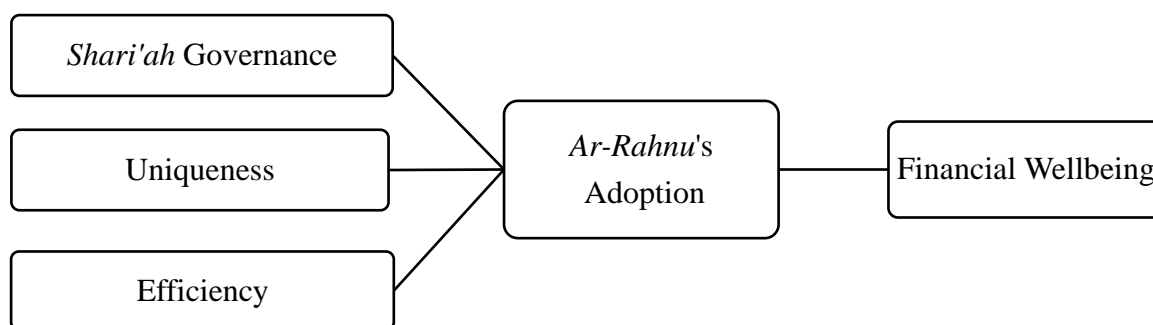
the simple random sampling would not be able to achieve the study objective. In order to determine the sample size of this study, a power analysis was used to calculate the sample size. Therefore, this study used power analysis (G*Power) to determine the sample size at the required 95% confidence level (Figure 2).

Figure 2.0
G*Power Sample Size



According to G*Power of sample size, the sample is considered enough as the minimum sample size required is only 100 respondents. In fact, as the rule of thumb used by Hair et al. (2010), 100 is considered as sufficient size for a small sample. The primary data then be analysed by using IBM SPSS for preliminary analysis and Structural Equation Modelling (SEM) by using Smart PLS to test the hypothesised relationships. As documented by Ullman (2006), SEM also allows a set of relations between one or more independent variables (IVs), either continuous or discrete, and one or more dependent variables (DVs), either continuous or discrete, to be examined.

Figure 3.0
Ar-Rahnu's Adoption and Financial Wellbeing



Analysis and Results

The questionnaires were distributed to 150 respondents. However, only 125 questionnaires were useable. Based on Table 2.0, slightly more than three quarters (68%) of the respondents are female. Most respondents are married (64%), and four respondents (4%) are single mothers. Malay is the highest ethnicity among the respondents (90%). In terms of age, a significant proportion of respondents are in the age range of 26-35 years old (51%), followed by 36-45 years old (34%), 46-55 years old (13%), and 56-65 years old (2%). Stated differently, the utilisation of *Ar-Rahnu* is relevant and wide-ranging across all age groups. Besides, in

terms of education level, users of *Ar-Rahnu* are predominantly having at least a secondary level of education (98%). Surprisingly, while collecting the data, several *Ar-Rahnu* users even have postgraduate degrees (Master and PhD) (12%). Nevertheless, not surprisingly, almost half of the respondents (45%) are of the RM 1001 and RM 2000 income bracket and thus, putting them as an urban poor according to the Department of Statistics, Malaysia (Table 1).

Table 2.0
Sample Characteristics

Demographic Respondent	Frequency [%]	
Gender	Male	32 [32.0]
	Female	68 [68.0]
Marital Status	Married	64 [64.0]
	Single	32 [32.0]
	Single Mother	4 [4.0]
Ethnicity	Malay	90 [90.0]
	Chinese	7 [7.0]
	Indian	3 [3.0]
Age	26-35	51 [51.0]
	36-45	34 [34.0]
	46-55	13 [13.0]
	56-65	2 [2.0]
Education	No Formal Education	3 [3.0]
	Primary School	4 [4.0]
	Secondary School	48 [48.0]
	Diploma	24 [24.0]
	Bachelor's degree	9 [9.0]
Salary	Postgraduate Degree	12 [12.0]
	1001-2000	45 [45.0]
	2001-3000	32 [32.0]
	3001-4000	14 [14.0]
	4001-5000	5 [5.0]
	5001-6000	4 [4.0]

Note. N=100. Figure in [] denotes % of total.

This study then further reviewed the measurement model. As indicated in Table 3.0, according to Hair et al. (2010), convergent validity is the degree to which indicators of a specific construct converge or share a high proportion of variance in common. This study assesses the convergent validity by following indicators suggested by Hair et al. (2017). Hair et al. (2017) proposed to have more than 0.5 for average extracted variance (AVE), cut off value for factor loading is 0.5 and all composite reliability (CR) is greater than 0.7. The loadings for all items are 0.5 and above, and the item loadings of less than 0.5 were subsequently dropped. However, it does not exceed the 20% threshold as recommended by Hair et al. (2010). All in all, AVE more than 0.5, and CR is greater than 0.7 after the process of items deletion. At this stage, it is concluded that the construct meets both reliability and convergent validities.

Table 3.0
Measurement Model

Construct	Item	Loading	CR	AVE
Shari'ah Governance	SG1	0.759	0.894	0.547
	SG2	0.750		
	SG3	0.763		
	SG4	0.773		
	SG5	0.748		
	SG6	0.721		
	SG7	0.654		
Uniqueness	UN2	0.696	0.884	0.522
	UN4	0.750		
	UN5	0.686		
	UN6	0.810		
	UN7	0.715		
	UN8	0.661		
	UN9	0.730		
Efficiency	EF2	0.569	0.907	0.553
	EF3	0.815		
	EF4	0.661		
	EF5	0.785		
	EF6	0.843		
	EF7	0.817		
	EF8	0.773		
	EF9	0.636		
	Ar-Rahnu's Adoption	AA1		
AA10		0.765		
AA11		0.742		
AA12		0.683		
AA2		0.731		
AA3		0.792		
AA4		0.728		
AA5		0.717		
AA6		0.702		
AA7		0.779		
AA8		0.764		
AA9		0.742		
Financial Wellbeing	AFO1	0.822	0.932	0.661
	AFO2	0.775		
	AFO3	0.824		
	AFO4	0.808		
	AFO5	0.835		
	AFO6	0.847		
	AFO7	0.778		
	AFO8	0.778		

Note. UN1, UN3, EF1, EF10, AFO10, AFO7, and AFO9 were deleted due to low loading.

Subsequently, the study assessed the model's discriminant validity. Ideally, items should load more strongly on their constructs than on other constructs in the model. Apart from that, the average variance (AVE) shared between each construct, and its measures should be greater than the variance shared between the construct, and its measures should be greater than the variance shared between the construct and other constructs (Fornell & Larcker, 1981). Table 4.0 exhibits the study's discriminant validity.

Table 4.0
Discriminant Validity

	1	2	3	4	5
1. Ar-Rahnu Adoption	0.733				
2. Uniqueness	0.492	0.723			
3. Efficiency	0.589	0.387	0.743		
4. Financial Wellbeing	0.742	0.383	0.393	0.813	
5. Shari'ah Governance	0.333	0.554	0.530	0.134	0.739

After examining the validity and reliability of the model, it is important to assess the direct hypotheses suggested in the study. This study developed four (4) hypotheses between the construct. In order to test the significance level, *t*-statistics for all paths are generated using SmartPLS 3.0 bootstrapping function. Based on Table 5.0, three relationships are found to have *t*-value > 2.33, and thus, making these relationships significant at 0.01 level of significance. One relationship is found not significant (H1). Among all, the predictor of Efficiency ($\beta=0.525$, $p<0.01$) shows the strongest relationship towards *Ar-Rahnu* adoption. The R^2 value of 0.425 is above the 0.26 value, as suggested by Cohen (1988), which indicates a substantial model. Nevertheless, *Shari'ah* governance ($\beta=-0.152$, $p>0.10$) shows an insignificant relationship towards *Ar-Rahnu* adoption. Therefore, only H2 and H3 are supported while the study failed to reject H1. Besides, this study further assessed the relationship between *Ar-Rahnu* adoption and financing wellbeing ($\beta=0.742$, $p<0.01$). It represents a significant relationship, demonstrated by the R^2 value of 0.546 or 54.6%, which is higher than the recommended value of 0.26 (Table 5). Thus, H4 is supported.

Table 5.0
Structural Model

	Std. Beta	Std. Error	t-value	p-value	Decision	BCI LL	BCI UL	f ²
H1 <i>Shari'ah</i> Governance → <i>Ar-Rahnu</i> Adoption	-0.152	0.123	1.24	0.108	Rejected	-0.37	0.00	0.024
H2 Uniqueness → <i>Ar-Rahnu</i> Adoption	0.373	0.088	4.258	0.000	Supported	0.229	0.518	0.170
H3 Efficiency → <i>Ar-Rahnu</i> Adoption	0.525	0.096	5.446	0.000	Supported	0.328	0.653	0.350
H4 <i>Ar-Rahnu</i> Adoption → Financial Wellbeing	0.742	0.063	11.849	0.000	Supported	0.626	0.831	1.226

The study then proceeded to assess the effect size (f^2). As mentioned by Sullivan and Fein (2012), the p -value only tells readers on the existence of the effect size, but it does not reveal the size of the effect. Therefore, it is important to report both the substantive significance (effect size) and statistical significance (p -value). To measure the effect size, Cohen (1988) suggested the following guideline to measure effect size: 0.02 (small effect), 0.15 (medium effect), and 0.35 (large effect). Based on Table 5.0, both efficiency (0.350) and *Ar-Rahnu's* adoption (1.226) factors have a large effect size, whereas uniqueness has a medium effect (0.170) and *Shari'ah* governance has a small effect (0.024) in producing R^2 . Stated differently, the omission of these two constructs will give a substantive impact on the model. It also highlights the importance of these two constructs, and therefore, future study should include these two constructs in measuring financial wellbeing.

Discussion

Ar-Rahnu is getting greater recognition especially among the Malay-Muslim community due to its ability to assist those in need, especially from the bottom line of the community, such as the low-income group who faces insufficient cash, has emergency needs and is excluded from the mainstream financial institutions (Razak, 2011; Ismail & Ahmad, 1997). There are many *Ar-Rahnu* providers in Malaysia operated by different institutions, either operationalised by banking or non-banking financial institutions. Even though there are other options to obtain cash, yet *Ar-Rahnu* is the most preferred by customers as it provides instant cash, has simple procedures, and is easily accessible. Although the relationship between acceptance and adoption of *Ar-Rahnu* has been investigated in previous studies by Amin et al. (2007); Mohamad et al. (2014); Salleh (2014), and Yahaya et al. (2019), evidence on the link between the adoption of *Ar-Rahnu* and financing output is still scarce. There is a limited number of previous studies investigating the financing outcomes which involve individuals, society, and the overall economy, with the exception of Salleh (2014), Nik Azman et al. (2018), and Yahaya et al. (2019). Besides, it is important to note that married respondents greatly used *Ar-Rahnu* than single or widows. This might be due to married respondents requiring more expenses, not only for business purposes, but also to cater to family expenses, child-rearing demands, and high costs of living (Johnson and Johnson, 1998; Schrader, 2000 and Abdul Razak, 2011).

The finding of this study has both theoretical and managerial implications. Theoretically, the overwhelming majority of the studies believed *Ar-Rahnu* is an enabling tool for the poor and bottom-line community. Several studies, such as Abdul Razak (2011) highlighted *Ar-Rahnu* users consist of the poor level of education. On the contrary, Sharif et al. (2013) mentioned that customers with strong educational background would possess better economic and financial circumstances, and hence, has little to no need for instant cash through *Ar-Rahnu* as they could easily access other types of formal financial assistance to meet their needs. Notwithstanding, this study departs slightly from previous studies as almost half of the respondents are having a strong educational background (diploma, undergraduate, and postgraduate degrees). Stated differently, *Ar-Rahnu* is no longer exclusively serving the niche market of poor and uneducated people that it was once touted to be. More worryingly, it may also mean that *Ar-Rahnu* may no longer be focusing on the poor, who usually has a higher default risk profile. Apart from that, it is equally interesting to note that about one-third of the respondents are men. It can also be inferred that the acceptance and awareness of *Ar-Rahnu* utilization have reached male population and indirectly disputes the argument

by Nik Azman et al. (2017) that men would not consider *Ar-Rahnu* financing as they may feel disgraced associating themselves with an institution that was more popularly associated with women in Malaysia.

There is a need to ensure the correct operationalisation of the Islamic concepts of *Wadiyah Yad Dhamamah*, *Qardhul Hassan*, and *Ujrah* at *Ar-Rahnu*'s institutions (Ismail & Sanusi, 2005; Amin et al. 2011; Yahaya et al. 2019). These Islamic principles will make Islamic-based pawnshops distinguishable from the conventional ones and would be more appealing to customers who are very concerned with *Shari'ah*-compliance requirements. Surprisingly, however, instead of strict adherence to the *Shari'ah* principles, the finding shows that *Shari'ah* governance has a negative relationship with *Ar-Rahnu*'s adoption. This is in stark contrast to the previous literature (i.e., Omer 1992; Metwally, 1996; Amin 2011; Abdul Hamid et al., 2014; Loon Koe et al., 2012; Nik Azman et al., 2016) which mentioned the positive relationship between religious obligation and the use of *Ar-Rahnu*. At this point, one can only speculate. And the authors reckon that there might be two extreme, possible explanations to this finding. First, the customers are so familiar with the *Ar-Rahnu* operations that they no longer view *Shari'ah* Governance as important as it was once used to matter to them. In short, it has become second nature to them that even the complicated Arabic contractual terms and operationalisations, which are pervasively used in non-Arabic speaking countries such as Malaysia are no longer an issue. Second, the customers are somewhat worried about *Shari'ah* Governance (or lack thereof) by *Ar-Rahnu* providers. For example, there have been well-documented cases of mismanagement and misappropriation of funds by one of the largest *Ar-Rahnu* providers in Malaysia.

Consistent with earlier expectations, the other two constructs of this study, the uniqueness of *Ar-Rahnu* and the efficiency of *Ar-Rahnu* show a significant positive relationship towards the adoption of *Ar-Rahnu*. In terms of the uniqueness of *Ar-Rahnu*, customers might be aware of the different processes and procedures applied by *Ar-Rahnu*. A potential explanation for efficiency could be that these respondents have enjoyed a good experience and are comfortable in using *Ar-Rahnu*. A good experience may relate to the quick response to customer demands, always ensuring the security and confidentiality of each transaction and giving fair treatment to all irrespective of the customer's race, religion or creed despite it being rooted deeply in *Shari'ah*. Besides, *Ar-Rahnu* officers always fulfil the promise of its services promptly and also try to minimise work errors as well as issuing receipt(s) after each transaction. These value-added services and personal bonds build personal attachment as well as fostering a relationship with *Ar-Rahnu*'s providers. The results of this study are in agreement with previous research such as Mansor et al. (2014), who supported the link between efficiency and use of *Ar-Rahnu*. Besides, Muhamad et al. (2019) highlighted the importance of respecting customer's trust by maintaining a reliable and trustworthy service. Respecting customers' trust and understanding how the customer views service quality is essential in ensuring an effective relationship with customers (Mohamad et al., 2014; Mansor et al., 2014; Bedi, 2010; Abdullah, 2010; Oliver, 1994).

Conclusion

Ar-Rahnu is well-known for its easy access by the marginalised segment of society. Consequently, it is no wonder that it has been a mainstay and provide a positive impact on its users. The literature has been highlighting the positive effects of *Ar-Rahnu* upon its users

(Amin, 2011; Azman et al., 2016; Hussin et al., 2016; Yahaya et al., 2018; & Muhamad et al., 2019). Notwithstanding, there has been little attempt in investigating the 'how' or 'to what extent' questions. This study, therefore, included this wellbeing factor in objectively measuring whether *Ar-Rahnu* achieves what it originally sets out to achieve—improving the wellbeing of its users. The users find that *Ar-Rahnu* has a positive impact on their socio-economic lives. Be it in their children's education (C1), debt settlement (C4), reducing unemployment (C7), and social problems that usually comes with it (C8), and more importantly, help to their businesses' breadth and intensify their depth (C9 and C10). These positive findings then can be added into the contextual contribution to the body of knowledge—especially in empirically investigating the positive effect of *Ar-Rahnu* have on the lives of its users. Besides, this kind of positive findings can also be highlighted by *Ar-Rahnu* operators in its marketing effort, emphasising the positive socio-economic impact of *Ar-Rahnu* and instead of merely focusing on the competitive rates as compared to the conventional pawnshops or its *Shari'ah*-compliance aspect.

Notwithstanding, this study only investigates a direct relationship without involving mediating or moderating variables (indirect effects), therefore for future research; this study proposes to explore the moderating or mediating effect of self-inclusion (voluntary and involuntary basis). Voluntary users of *Ar-Rahnu* can be defined as customers who voluntarily partake in *Ar-Rahnu* as a medium of financing. This might be due to insufficient income, discrimination, rotating capital, and simpler procedures. On the other hand, the involuntary users are known as customers who are against using *Ar-Rahnu* in the first place but have no other viable option except *Ar-Rahnu*. This might be due to reasons such as being blacklisted or declared as bankrupts or excluded from the formal financial service providers. This involuntary group should be given comprehensive attention as it might be categorised as a group that has a greater inclination to default in servicing their payments.

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