

Islamic Microcredit And Bumiputera Poverty Alleviation: A Case Study Of Ar-Rahnu Bank Rakyat

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Abstract: This study examines the role of Islamic microcredit initiatives, specifically the Ar-Rahnu scheme under Bank Rakyat, in alleviating poverty among B40 Bumiputera Muslims in Malaysia. Employing a qualitative case study approach with semi-structured interviews, data were collected from Islamic financial institution officers to explore factors influencing acceptance, awareness levels, and the impact of Ar-Rahnu on income improvement. Accordingly, the findings reveal three key determinants of acceptance: service accessibility, a transparent Shariah-compliant system, and simplified financing procedures. In particular, public awareness of Islamic microcredit has increased significantly, particularly following the COVID-19 pandemic, thanks to educational and promotional efforts. The study further highlights that Ar-Rahnu enhances business capital and income among the B40 and strengthens Islamic financial literacy and fosters economic empowerment aligned with the principles of Maqasid al-Shariah. Thus, it is recommended that Islamic financial institutions expand digital promotion, community-based education, and the integration of Islamic fintech to improve access and reinforce socio-economic well-being in line with the Sustainable Development Goals (SDG 1 – No Poverty) and Malaysia’s Ekonomi Madani framework.

Keywords: Islamic microcredit, Ar-Rahnu, Bumiputera poverty alleviation, Bank Rakyat, Islamic social finance, Maqasid al-Shariah, financial inclusion

I. INTRODUCTION

Poverty is a persistent global issue despite various social policies and interventions implemented by governments around the world. According to the United Nations Sustainable Development Goals Report¹, more than 600 million people worldwide are estimated to be still living in extreme poverty by 2030, making the goal of No Poverty (SDG 1) challenging to achieve. This situation indicates that poverty extends beyond an economic problem; rather, it also stems from structural issues such as inequality of opportunity, lack of access to financial resources, and weaknesses in human capital capacity^{2,3}.

In Malaysia, poverty remains a significant social and economic issue, particularly among the Muslim Bumiputera

ethnic group, who belong to the B40 group. Although the overall poverty rate has demonstrated a decline since the 1970s as a result of the implementation of national development policies, the income gap between Bumiputera and other ethnicities, such as Chinese and Indians, still exists, reflecting the ongoing imbalance in the economic structure. Reports by the Department of Statistics Malaysia⁴ and the Ministry of Economy⁵ also revealed that the absolute poverty rate among Bumiputera remains the highest compared to other ethnic groups. This signals the need for a new, more inclusive, and Islamic-based approach to sustainably addressing poverty.

Among the main approaches the government has introduced to reduce poverty is the implementation of microcredit. This method has proven effective in empowering the economy of the low-income group, as it provides

individuals without collateral or formal financial documents with the opportunity to obtain financing to start or expand a business. In particular, the Malaysian government has allocated RM95 million to empower women entrepreneurs through TEKUN Nasional, Majlis Amanah Rakyat (MARA) and AgroBank, as well as RM50 million to the Islamic Economic Development Foundation of Malaysia (YaPEIM) to support the Ar-Rahnu BizNita programme⁶. This initiative clearly demonstrates the government's commitment to expanding access to Islamic microfinance as a poverty-alleviation mechanism.

According to Bank Negara Malaysia⁷, microcredit is a financing scheme that provides loans of up to RM100,000 to micro and small entrepreneurs without requiring asset collateral. The scheme aims to help low-income earners without strong financial documents or records access financing from registered banking institutions. In the Shariah-compliant context, Islamic microcredit is conducted through contracts such as qard al-hasan and al-rahnu, which are free from the elements of usury, *gharar*, and *maisir*, making it a more ethical and fair option for the Muslim community⁸.

This Islamic microfinance approach has given a ray of hope to the low-income groups, especially the B40 Bumiputera, to acquire business capital and improve their standard of living. However, the implementation of Islamic microcredit still faces several challenges, such as low levels of financial literacy, negative perceptions of Islamic products, as well as differences in the level of accessibility between urban and rural communities^{9,10}. Furthermore, most financial institutions still tend to give priority to borrowers with stable financial status and good credit history, thus making it challenging for low-income earners to obtain financing^{11,12}.

In this regard, this study examines Islamic microcredit initiatives through the Ar-Rahnu scheme offered by Bank Rakyat, one of the Shariah-compliant financial instruments with great potential to reduce the poverty rate of B40 Muslim Bumiputera in Malaysia. Specifically, this study focuses on three main aspects, namely: (i) the driving factors for the acceptance of Islamic microcredit among the B40 Bumiputera, (ii) the level of openness of society to the use of Islamic microcredit, and (iii) the impact of this initiative on the increase in income and socio-economic status of the target group. The findings from this study are anticipated to contribute useful insights for policymakers, practitioners, and Islamic financial institutions in improving microfinance strategies that are inclusive, sustainable, and aligned with the principles of Islamic social justice.

II. LITERATURE REVIEW

A study by Hayati and Khasanah³² discovered that Small and Medium Enterprises (SMEs) face difficulties obtaining capital and experience accessibility issues with financial institutions, especially in rural areas. This study examined the role of Mitra Dhuafa Cooperation, a cooperative institution that offers microfinance in Indonesia, in empowering micro-enterprises in rural areas. Using a quantitative method, a questionnaire was administered to 100 entrepreneurs and microfinance users. Following this, the data was analysed

using Statistical Package for Social Sciences (SPSS) software based on the Multidimensional Poverty Index (MPI), which assesses aspects of health, education and quality of life. Accordingly, the findings revealed a positive relationship between increasing the capacity of micro-entrepreneurs and reducing poverty rates, thus proving the effectiveness of microfinance in strengthening the socio-economic well-being of rural communities.

Tegegne et al.¹⁴ examined the issue of multidimensional poverty in the East Gojjam Zone, Ethiopia. This study investigated how microfinance services affect multidimensional poverty among rural households in Ethiopia. Using a quasi-experimental design, data were collected from 290 respondents, 145 receiving microfinance services and 145 without access, to evaluate the programme's impact. Both descriptive and inferential statistics were applied, and a Propensity Score Matching model revealed that microfinance participation significantly reduces multidimensional poverty. Specifically, access to microfinance improved households' living standards, health, and education outcomes. In addition, the findings suggested that government support for microfinance institutions and greater awareness among farmers are crucial to maximising poverty reduction and rural development benefits.

A study by Warsame³³ discussed the Islamic microfinance scheme among financial institutions. This study investigated the significance of Islamic microfinance schemes within financial institutions and assessed respondents' knowledge and attitudes toward Shariah-based financial products in the United Kingdom (UK). Using a mixed-method approach with 255 quantitative and 15 qualitative respondents, the findings revealed no significant differences in knowledge or access to Shariah-compliant finance across demographic factors such as length of stay, ethnicity, or employment status. Thus, the study emphasised the need for greater financial support and institutional empowerment from the government and related agencies to enhance awareness, accessibility, and development of Islamic microfinancing in the UK.

Next, Salaudeen et al.³⁴ explored the level of acceptance of Islamic microcredit among communities in Nigeria that continue to face high poverty rates and slow declines. A qualitative study, based on semi-structured interviews with five Al-Hayat Microfinance officers, reported several major obstacles to the implementation of Islamic microcredit, including licensing issues, low levels of awareness, misunderstandings of Shariah concepts, and technological constraints, such as fintech. These barriers make the Muslim community in Nigeria more likely to use conventional funding platforms than Islamic ones, even though they are aware of the advantages of a Shariah-based financial system.

A study by Rashid and Samat³⁵ examined the role of microcredit in eradicating poverty among small traders in Penang. This study employed a qualitative approach through interviews with 20 microcredit users. The findings indicated that most merchants are more likely to opt for formal microcredit than informal systems, as formal systems offer lower interest rates, are more secure, and do not oppress consumers. Essentially, the results of this study proved that microcredit can increase income and strengthen the economies

of small traders when channelled through ethical, transparent and Shariah-compliant institutions.

A study by Yahaya et al.¹⁷ focused on the level of acceptance of Ar-Rahnu products among Muslim entrepreneurs in Kelantan based on gender differences. This study examined the challenges women entrepreneurs face in obtaining financial capital from banks due to their small size and lack of confidence. Based on a survey of 350 Muslim micro-entrepreneurs, the findings revealed a significant gender difference in acceptance of Ar-Rahnu. That is, women entrepreneurs were more likely to use Ar-Rahnu services than men, due to the prevalence of gold among women and the convenience of the fast, secure, and Shariah-compliant Islamic pawning system.

Overall, past studies have demonstrated that Islamic microfinance plays a vital role in empowering the low-income economy and reducing poverty rates. However, the effectiveness of this initiative is still influenced by several factors, such as the level of Islamic financial literacy, public perception of Islamic financial institutions, accessibility in rural areas, and government policy support. Therefore, further research on the experiences and views of implementers of institutions such as Ar-Rahnu Bank Rakyat is needed to better understand the real impact of Islamic microcredit on poverty reduction among B40 Muslim Bumiputera in Malaysia.

III. RESEARCH METHODOLOGY

Methodology is a method used in research to systematically obtain findings through quantitative, qualitative or mixed approaches. According to Ang¹⁸, methodology is the most effective approach and is suitable for answering the questions and problems of the study. Notably, this study uses a qualitative approach in the form of a case study to obtain in-depth information related to the issues studied. According to Merriam and Tisdell¹⁹, this method allows researchers to explore in detail a phenomenon, event, activity or process involving a particular individual or organisation. In this context, Bank Rakyat's Ar-Rahnu was selected as the study's subject to assess the acceptance of Islamic microcredit and its impact on reducing the poverty rate among B40 Muslim Bumiputera.

✓ STUDY DESIGN

Study design is a research plan that determines how a study is conducted to answer research questions and objectives¹⁸. Building on this, a qualitative approach was selected to enable researchers to understand in depth the level of use and impact of the implementation of Islamic microcredit through Ar-Rahnu on poverty reduction among B40 Muslim Bumiputera in Malaysia. According to Jasmi²⁰, a qualitative approach is usually implemented through interviews, observation and content analysis. Accordingly, researchers use semi-structured interviews, as this method is flexible and allows two-way interaction between researchers and informants. This approach allows researchers to gain broader, in-depth, and contextual insights into the issues being studied¹⁹.

✓ DATA COLLECTION METHODS

The data collection was conducted through a semi-structured interview with an informant from Bank Kerjasama Rakyat Berhad, a financial institution that offers Islamic microcredit schemes under Ar-Rahnu products. The interview was conducted online via Microsoft Teams to facilitate communication. In line with this, purposive sampling was employed to select informants with extensive expertise and experience in the management and implementation of the Ar-Rahnu scheme, as they were considered capable of providing the most accurate and relevant information^{21,19}.

In addition to interviews, the study also utilised secondary sources such as journal articles, books, annual reports, and relevant academic websites to support and strengthen the analysis. The use of these multiple sources helps researchers better understand the study's context and relate the field findings to existing theoretical frameworks.

✓ DATA ANALYSIS

The data obtained through interviews were analysed using a thematic analysis approach of Braun and Clarke²². This method involves identifying, coding, and grouping data into key themes related to the study objectives. Interview transcripts are read repeatedly to identify significant patterns and meanings. Following this, the main themes were broken down into several subthemes based on the empirical findings from the interviews.

Secondary sources such as journals and scholarly writings are used to support and reinforce the interpretation of the findings. Notably, triangulating interview data with scientific sources ensures the accuracy and reliability of the analysis. Moreover, the results of this analysis are used to elucidate the relationships among the theory, the study's findings, and the context of implementing Islamic microcredit through Ar-Rahnu to help reduce poverty in Malaysia.

IV. RESULTS OF THE STUDY AND DISCUSSION

Based on the interviews conducted, the findings of this study have been divided into three main themes that are in line with the research objectives, namely: (i) factors that are the drivers of the acceptance of Islamic microcredit among B40 Muslim Bumiputera, (ii) the level of openness to the use of Islamic microcredit, and (iii) the impact of Islamic microcredit initiatives on income increase. Overall, the results of the study suggest that Bank Rakyat's Ar-Rahnu scheme plays a vital role in providing access to Shariah-compliant, transparent and easily accessible microfinance for low-income communities. This, ultimately, helps reduce the poverty rate among Muslim Bumiputera in Malaysia.

FACTORS THAT ARE DRIVING THE ACCEPTANCE OF ISLAMIC MICROCREDIT AMONG B40 MUSLIM BUMIPUTERA

The results of the interviews revealed that three main factors drive the acceptance of Islamic microcredit: the level

of accessibility of services, a Shariah-compliant system, and ease in the financing process. In terms of accessibility, Ar-Rahnu has received a wide response, as customers can do business at branches that operate on Saturdays and through online appointments. As stated by the informant:

"... many branches have already been made, and many stores are already doing this business, and we also have certain outlets that are open on Saturdays. But from there, I see it in terms of accessibility. In terms of virtuality, you can make an appointment."

The flexibility of operating hours and the convenience of this online system provide advantages for low-income customers who often need immediate cash. Most formal financing institutions only operate on weekdays, thus making it difficult for customers in an emergency. This aligns with the findings of Hasan and Mohd Zain²³, who pointed out that Ar-Rahnu is an Islamic financial instrument that is easily accessible and suitable for use by the B40 group. At the same time, accessibility is one factor contributing to the adoption of Ar-Rahnu among B40 Bumiputera, as most of them do not have savings, such as emergency funds. Most formal and informal financing institutions operate only Monday to Friday, making it challenging for the community when faced with urgent financial emergencies.

The second factor is that the Ar-Rahnu system is Shariah-compliant, secure and transparent. The concept of Wadiah Yad Dhamanah makes the institution fully responsible for the security of the pawned goods and obligates it to pay compensation in the event of loss or negligence. Furthermore, the transparency and fairness of this system make it more trusted by both Muslim and non-Muslim customers. According to the informant:

"So, it is clear, and there are no issues that are hidden from customers. Pawned goods are also protected from takaful protection. In addition, an auction notification notice will also be issued, and the auction surplus will be refunded... Make sure customers don't suffer any losses."

This process demonstrates clarity and fairness in every transaction, with the customer receiving letters of agreement and contracts before the mortgage process is finalised. Note that items that are not redeemed will also be auctioned, and the excess auction proceeds will be returned to the pawnbroker or his heirs. Adherence to Shariah principles is a key factor in society's acceptance, as it avoids oppressive elements such as high interest charges in the conventional pawning system. These findings are supported by Azman et al.²⁴ and Yahaya²⁵, who reported that an understanding of Shariah principles increases public trust in Ar-Rahnu as a fair and transparent scheme.

The security features implemented in accordance with Shariah principles include transparency without concealment, which makes this platform more popular. The customer will be provided with a letter of agreement and a contract to read and understand before the mortgage process is conducted, from start to finish. Unclaimed goods will be auctioned off, and the surplus will be returned to the pawnbroker or heirs.

"So, it is clear, and there are no issues of things being hidden from customers; pawned goods are also protected from takaful protection. In addition,

an auction notification notice will also be issued, and the auction surplus will be refunded... to ensure that customers do not suffer any losses."

Shariah compliance is the main factor that drives the selection and acceptance of the B40 Bumiputera who are Muslims, since they can avoid being oppressed through exorbitant charges, as are usually imposed by conventional pawn lending institutions. This makes it challenging for users who may also be burdened by life. This finding is also in line with a study by Yahaya²⁵, which noted a clear understanding of Ar-Rahnu, a Shariah-compliant Islamic financing scheme, making small entrepreneurs in Kelantan also choose Ar-Rahnu. Similarly, findings from Azman, Kassim and Adeyemi²⁶ on 150 women micro-entrepreneurs in Pasar Siti Khadijah, Kelantan, also reported that acceptance of Ar-Rahnu is positively related to the aspect of Shariah compliance.

The third factor driving acceptance is the ease of the financing process. According to the informant:

"... The encouragement to use or accept Islamic pawn is the reason it is on board because the conditions are very simple."

Ar-Rahnu only requires collateral in the form of gold, in contrast to conventional banking institutions, which require guarantors, financial documents, and lengthy approval checks. This makes it easier for B40 customers to obtain instant cash without burdensome bureaucracy. Sha'ari, Mat Zin and Abdullah²⁷ also explained that the ease and speed of the Ar-Rahnu financing process have helped many small entrepreneurs to obtain business capital. A study by Osman et al.²⁸ also noted that the public's perception of Ar-Rahnu is positively influenced by the efficiency and ease of the loan process.

LEVEL OF OPENNESS TO THE USE OF ISLAMIC MICROCREDIT

As for the level of public openness to Islamic microcredit, the findings indicate that awareness and acceptance of Ar-Rahnu are increasing, especially after the COVID-19 pandemic. The informant explained that the fall in gold prices during the pandemic has encouraged gold purchases and raised awareness about the advantages of gold savings as an investment asset. According to him:

"During the post-COVID-19 quarantine period, many people bought gold because the price dropped during that time. From this, it can be seen that the awareness to store gold is high."

This trend also causes the public to better understand the function of Ar-Rahnu as an Islamic microcredit platform that uses gold as collateral to obtain cash quickly and easily. The informant also added:

"I have worked in various places; if you look at it in terms of awareness, it has increased, which means that the acceptance is becoming more widespread."

Traders who do business in the market on a small scale also use Ar-Rahnu services, on average, to obtain business capital. The norm of Malay women keeping gold as jewellery also gives them an advantage, and this Islamic microcredit method is their main option for pawning gold to obtain capital.

Consistent with this, Yahaya et al.'s¹⁷ study also supported this finding, as it suggested that women entrepreneurs are the largest group of Ar-Rahnu customers who use gold jewellery as capital to start a business.

In addition, the public is often exposed to gold storage by financial institutions that use it as a reserve, which indirectly contributes to perceptions and openness toward Islamic pawning schemes. According to the informant, non-Muslim customers also prefer Islamic pawnbrokers over conventional ones, as Ar-Rahnu is more transparent, and many of them become repeat customers.

Nevertheless, acceptance levels in rural areas remain low compared to those in urban areas. Notably, factors such as a lack of exposure to Islamic financial products and limited branch locations are major barriers. The informant shared his experience:

"This is my experience when I was in Sarawak. In the past, those who had difficulty getting capital would rely on Ah Long loans, but after that, they switched to jewellery for saving and rolling business."

Although acceptance is still slow, positive developments are expected over the next 10 to 15 years, driven by Bank Rakyat's efforts to expand its branch network and implement Islamic financial education programmes in rural areas. A study by Rasmin and Markom²⁹ also reported that in the past, rural residents were more inclined to conventional pawnbrokers due to easier access. However, the trend is now shifting towards Shariah-compliant financing.

In addition, public promotion and education also play an essential role in increasing the acceptance of Islamic microcredit. According to the informant, Ar-Rahnu conducted information and da'wah activities in mosques and suraus to foster understanding of the concept of Islamic pawning. He explained:

"An example of this approach is that Islamic pawnbrokers are no longer seen as a person who wants to owe but as an investment and also as a security process for goods."

This da'wah- and financial literacy-based approach is effective in changing the public's negative perception of Islamic pawnbrokers. Simultaneously, positive interactions between existing users and the surrounding community also increase confidence in Ar-Rahnu. According to the informant:

"If they know about this and spread it in their group, maybe they can develop their own businesses, and Ar-Rahnu is one of the options."

These findings align with the results of a study by Ahmad, Lensink and Mueller³², which indicated that religious activities and promotions based on Islamic values can increase openness to Shariah-compliant financial products.

THE IMPACT OF ISLAMIC MICROCREDIT INITIATIVES ON INCOME INCREASE

Regarding the impact on income growth, the interview results revealed that Ar-Rahnu played a key role in empowering the B40 Muslim Bumiputera economy. The informant emphasises that success in increasing income

depends on the individual's own efforts and awareness. He stated:

"So it is from the traders themselves that they can grow their capital on their own or through authorised initiatives."

"If you look at it, many successful traders are due to the access to assistance that has been provided. If they really understand, it's very helpful."

These findings prove that Ar-Rahnu provides financial access and serves as a tool for economic empowerment, as stated in Empowering Theory by Rappaport³⁰. This theory holds that education and access to financial instruments can improve the economic capacity of low-income groups and reduce the risk of long-term poverty.

However, the informant also highlighted that without good financial awareness and management, the benefits of financing will not be maximised. He added:

"... In terms of this context, if the matter can be developed, which means that if there is one option when they have settled the debts and if there is no other need, they have to buy gold first and keep it."

In addition, the informant believes that the B40 group needs to manage their finances well and expand their existing assets to avoid relying too heavily on loans. These findings are supported by Askar et al.³¹, who mentioned that financial literacy has a positive impact on an individual's well-being and expense management.

From an economic perspective, Ar-Rahnu also helps the B40 community increase their sources of income and improve their standard of living. The informant explained that most clients use Ar-Rahnu for business capital purposes. He shared:

"There is no measuring stick to see the total percentage, but rather a picture that can be seen to the purpose that will be asked when pawning gold, and it is a requirement that has been set by Bank Negara to be studied. It is found mostly for working capital."

The use of Ar-Rahnu for business purposes suggests that this scheme is a catalyst for small entrepreneurial activities. According to him again:

"... It can be seen usually from the number of goods brought to us, which is increasing in number, which shows that their business has increased."

Furthermore, the increase in the number of jewellery pawns brought in by customers who return after a financing period clearly demonstrates the encouraging impact of Ar-Rahnu on the targeted businesses. This positive development is also evident through the increase in the number of financing offers by Ar-Rahnu institutions. The informant stated that:

"... The total supply of a bank has also increased to RM1 million, which means that its growth has increased compared to the previous RM500,000."

He added that Bank Rakyat is currently awaiting approval from Bank Negara Malaysia and the Malaysian Cooperative Commission to increase the maximum offer amount to RM500,000 per customer. This proves that financial institutions' confidence in Ar-Rahnu's potential is growing, and its role as an effective Islamic microfinance mechanism in

strengthening the B40 Islamic Bumiputera economy is becoming more significant.

V. CONCLUSION

The study concludes that the Islamic microcredit initiative through Bank Rakyat's Ar-Rahnu scheme plays a crucial role in reducing poverty among B40 Muslim Bumiputera in Malaysia. Accordingly, this scheme provides access to Shariah-compliant microfinance facilities. It also serves as an economic empowerment mechanism, enabling low-income communities to increase their financial capacity and self-reliance without relying on conventional systems.

The results of the study indicate three main factors driving the adoption of Ar-Rahnu: wide accessibility, a transparent and secure Shariah-compliant system, and a convenient financing process. The increase in public awareness and openness towards Islamic finance is also influenced by factors such as education, da'wah, and positive user experiences, especially after the COVID-19 pandemic. Despite this, awareness levels in rural areas remain low, underscoring the need for more comprehensive Islamic financial promotion and education efforts.

Ar-Rahnu has proven to have a positive impact on increasing income and micro-entrepreneurship activities among B40 Muslim Bumiputera. However, this success depends on individuals' awareness and ability to manage their finances prudently, in line with the principles of Empowering Theory, which emphasise responsibility and proactive action in building economic well-being. Therefore, Islamic microcredit should be viewed as a financing instrument and a social vehicle grounded in justice and Maqasid al-Shariah.

Therefore, to strengthen the role of Islamic microcredit, several proposals were put forward. First, expanding Islamic financial literacy programmes through collaboration between financial institutions and mosques to raise awareness among rural communities. Second, strengthening the government's Islamic microfinance policy through incentives, agency coordination and fund support. Third, the application of Islamic fintech technology to facilitate access and increase transaction transparency. Finally, further research is needed, using a blended approach, to assess the true impact of Islamic microcredit on socio-economic well-being and sustainable development.

Overall, Islamic microcredit through the Ar-Rahnu scheme has proven its potential as a Shariah-compliant financial instrument that supports the Sustainable Development Goal (SDG 1 – No Poverty) and the aspirations of the Civil Economy to empower the ummah's economy in an inclusive and sustainable manner.

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