

# MICRO-CREDIT FINANCING (AR-RAHNU) IN SOUTH EAST ASIA: A REVIEW

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**Abstract**— The existence of the Islamic pawnbroking scheme known as Ar-Rahnu is one form of micro financing. This micro financing scheme (Ar Rahnu) provides a cash loan facility that is Syariah compliant, fast, and convenient compared to other financial institutions. This study intended to examine the development of micro financing (Ar-Rahnu) among several South East Asian countries (Malaysia, Indonesia, Brunei, and Thailand). It applied the document analysis method for collecting primary data, while secondary data were based on the history of financing in several South East Asian countries that has immensely helped the local community and fulfilled its needs. Findings show that Ar-Rahnu was implemented in Malaysia more than 20 years ago with the formation of Muassasah Gadaian Islam Terengganu (MGIT), followed by Permodalan Kelantan Berhad (PKB), Ar-Rahnu YaPEIM (Yayasan Pembangunan Ekonomi Islam Malaysia) and banking institutions, such as Ar-Rahnu Bank Rakyat, Ar-Rahnu Agro Bank, Ar-Rahnu Bank Islam and many more. In Indonesia, Perum Pegadaian, which was formed in 1990, manages pawnbroking services. It introduced an Islamic pawnbroking scheme known as Ar-Rahn in 1999 and sent its staff to Malaysia to learn about the Ar-Rahnu scheme in Malaysia. In Brunei, the Ar-Rahnu scheme was introduced by Bank Islam Brunei Berhad (BIBD) in 1996 with the aim of helping society to receive financial assistance faster and in a Syariah-compliant manner. Whereas in Thailand, the Islamic Savings Cooperative of Pattani Limited, which was formed in 1987, had implemented Syariah-compliant financial principles. The society's warm response there shows that the financing scheme (Ar Rahnu) has been welcomed by the local population.

**Keywords:** financing, micro-credit, Ar-Rahnu, South East Asia, Islamic pawnbroking

## I. INTRODUCTION

South East Asia, which comprises Malaysia, Brunei Darussalam, Indonesia, Thailand, Singapore, Philippines, Cambodia, Laos, Myanmar, Vietnam and Timor Leste, is located between the continents of India and China. Most of the countries in South East Asia are developing countries, except for Singapore, which holds the developed country status. The economies of these South East Asian countries have been steadily growing after the formation of the free trade zone by ASEAN countries comprising Malaysia, Indonesia, Brunei Darussalam, Philippines, Singapore, Thailand, Vietnam, Laos, Myanmar and Cambodia. The main aim of forming ASEAN was to protect mutual interests and create regional cooperation.

In line with this, the micro credit financing scheme has played an important role in most of the ASEAN countries. The scheme had introduced micro financing transactions based on Islamic principles that has vastly expanded among Islamic countries in South East Asia, such as Malaysia, Brunei Darussalam, Indonesia and Thailand. The *Ar-Rahnu* Islamic pawnbroking scheme is part of the micro scheme mentioned in this study. The fundamental principle of the *Ar-Rahnu* scheme is aimed at protecting society, mainly the Muslims, from