

**AL-RAHNU DEVELOPMENT IN MALAYSIA: A CASE OF AL-RAHNU
INSTITUTION UNDER THE TERENGGANU ISLAMIC RELIGIOUS AND MALAY
CUSTOMS COUNCIL**

Azizah Othman

Islamic Business School, College of Business^a
Universiti Utara Malaysia
Email: o.azizah@uum.edu.my

Atikullah Abdullah

School of Humanities^b
Universiti Sains Malaysia
Email: atik@usm.my

Date submitted: 28th September 2016; Date Accepted: 24th December 2018

ABSTRACT

The presence of the Islamic pawn broking scheme (al-rahnu) has caught attention in Malaysia, and has encouraged participation by society, especially low-income groups. One of the objectives in implementing this scheme was to protect the society, especially the Muslim community, from transactions involving elements of interest (riba). Al-rahnu operates by offering cash loan facilities that are quick, fair, transparent, and is based on Syariah principles. By the implementation of the Islamic pawn broking scheme the government is hoping that this scheme will be the primary option and eventually will replace the conventional scheme for pawn broking services. Even though the conventional pawn scheme has existed in Malaysia for a long time, and has monopolized the industry, Islamic pawn broking scheme is getting a huge demand by the society. After twenty years of its implementation in Malaysia, al-rahnu has become an important instrument in economic development as customers who have really no access or capacity to receive loans from the banking system can obtain financing from al-rahnu within minutes. As such, this paper will discuss the background of Islamic pawnshops in Malaysia and will be followed by a discussion that is focused on the Islamic concept of the pawnshop based on fiqh. The operation, implementation and performance aspects of Islamic pawnshops are also mentioned in this study by referring to al-rahnu under Terengganu Islamic Religious and Malay Customs Council (MAIDAM), which was started in 1992 and was the first al-rahnu institution in Malaysia.

Keywords: Al-Rahnu, Fiqh Muamalah, Islamic pawn broking, Islamic Banking and Finance

INTRODUCTION

Al-Rahnu is a concept and implementation of mortgage system in Islamic jurisprudence. According to Mohd. Nasir (2008), pawn broking system has been operated a long time ago and its development is flourishing until now. Even though the activity is known to be very popular but the operation of the scheme is exposed to interest which is forbidden by Islamic law and unfortunately most Muslims had to deal with this conventional economic system (Ab. Mu'min, 1999). The implementation of the al-rahnu scheme is an alternative to conventional pawn broking scheme which are mostly spearheaded by the Chinese. Realising the fact that pawn broking is quite popular among the Malays who are Muslims in majority, a few financial institutions in Malaysia have been working hard to implement al-rahnu within their operations as an alternative to the conventional mortgage system that have long been established in the country.

Al-Rahnu as practiced by Islamic financial institutions in this country is a hybrid product (a combination of several mechanisms of contract) in an Islamic Muamalat involve several mechanisms namely al-qard al-hasan (interest free loan), al-rahn (collateral), al-wadiah (savings) and al-ujrah (payroll deposit). This mortgage system is introduced to protect the public, especially the Muslim community from any transactions which involves any interests. Unfortunately, there are some Muslims who do not know the existence of al-rahnu scheme and they are still using the conventional pawn broking when they are in need. Hence it is the responsibility of the Muslim community to explore this field of research to find a solution by referring to the source of revelation in addition to the other Islamic sources and methods. Consequently, this paper tries to discuss the development of al-rahnu in Malaysia and its contributions to the socio-economics of society in the country.

METHODOLOGY

This study used a qualitative methodology that emphasizes the construction of meaning, understanding of concepts or symbols and terms or detailed description of an event, object or process (Tuckman, 1999). According to Strauss and Corbin (1998), qualitative research is any research that produces results not by means of statistical procedures or other quantitative methods. It can refer to studies with respect to a person's life, stories, behaviour and also about the functioning of the organization or the relationship in interactions. In accordance with the method used, this study applies two methods of data collection which are the library method and field research using the interview method. The library method is used by the researchers to gather as much data and information as possible in the form of theses, books, articles, journals, magazines and other scientific studies related to the field of study. The

interview method is used to interview the parties directly involved with al-rahnu MAIDAM and experts in the Islamic finance and banking.

THE CONCEPTS OF AL-RAHNU

Abdul Rahman (2007) defines al-rahnu as evidence or something held as a mortgage. According to al-Misri (1986) al-rahnu in Islam also means blocking a property with the permission of where the property is equal to the total debt. al-Syarbini (1933) defines the collateral makes a property as security or collateral for loans where the loan can be taken away from him when he is unable to pay back.

The legislation of al-rahnu was mentioned in Quranic verse:

If ye are on a journey and cannot find a scribe, a pledge with possession (may serve the purpose). And if one of you deposits a thing on trust with another, Let the trustee (Faithfully) discharge His trust and let him fear his Lord. Conceal not evidence; for whoever conceals it,- His heart is tainted with sin. And Allah Knoweth all that ye do.

(al-Baqarah : 283)

The foundation on al-rahnu is also mentioned in a Hadith which the Prophet Muhammad p.b.u.h says:

“From Aishah r.a said that the Prophet Muhammad s.a.w. had to buy food from a Jew on deferred payment and he mortgaged his armor.”

(al-Bukhari, 1987 no. 2374)

The al-rahnu system uses various Islamic concepts such as:

1. Benevolent loan (al-Qard al-Hasan)

This is a loan agreement between the person taking the loan and the person giving the loan. The loaner is forbidden from taking back more than the value of the loan, but the borrowers are encouraged to give a small consideration as a sign of appreciation.

2. Safekeeping Fee (al-Ujrah)

The loaner is allowed to charge a commission for safeguarding items submitted, and keeping the items in good condition.

3. Assured (Guaranteed) Storage (al-Wadiah Yad dhamanah)

The loaner is required to replace any items that are missing or stolen, if the loaner defaults on the agreement. (al-Zuhayli, 2004; Ab. Mumin, 1999).

DEVELOPMENT OF AL-RAHNU AND ITS IMPLEMENTATION IN MALAYSIA

The introduction of the Islamic pawn broking system is an extension of the process of Islamization in the banking and financial system of the country. Since Malaya achieved its Independence in 1957, there have been calls for the establishment of Islamic financial institutions. However, the involvement of the Muslim community at that time in the field of finance and banking was not very active compared with non-Muslims. This is due to their doubts about the conventional banking system (Ab. Mu'min, 1999).

To meet the demand for Islamic pawn broking service by low-income earners, some of these institutions were established in the early 1990s. The first Islamic pawn shop *Muassasah Gadaian Islam Terengganu* (MGIT) which was established by the *Majlis Agama Islam dan Adat Melayu Terengganu* (MAIDAM) at Jalan Sultan Ismail, Kuala Terengganu in January 1992. The transactions in MGIT was significantly increased from 12,732 customers in 1992 to 26,632 customers in 2005 while the mortgage value increased from RM9.85 million to RM28.9 million in 2005 (Payal Bhatt & Jothee Sinnakkannu, 2008).

In March 1992, Kedai al-rahnu (KAR), a subsidiary of *Permodalan Kelantan Berhad* began its operations in Kelantan. Then, on 21 August 1993, the Ministry of Finance announced the establishment of an Islamic pawn broking scheme named Skim al-rahnu (SAR) through the collaboration of three institutions, namely Bank Negara Malaysia, the Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) and Bank Rakyat. Apart from YaPEIM's cooperative several other cooperatives in most states also run this muamalat system. Since its introduction, the demand for this product is very encouraging and it serves as an alternative to conventional pawn broking which were mostly spearheaded by the Chinese (Engku Ahmad Zaki, 2008).

Al-Rahnu is a scheme which was introduced to protect the public, especially the Muslim community from interest-oriented transaction. Interests or usury can also create a situation where the rich will get richer while the poor will continue to be poor (Sudin Haron, 2006). However this scheme will indirectly help to improve the socio-economic structure of the Muslims because it can be an alternative to cash-stripped group, to prepare schooling needs and pay medical expenses. The existence of al-rahnu can also help customers who are having difficulties to obtain loans from banks or financial institutions due to specific problems such as not eligible, complicated loan management and a lot more. Even more unique when formal financial institutions do offer al-rahnu as one of their products, as well as several state foundations and cooperatives (Nur Azura Sanusi, 2004).

The concern for the community's problems especially the needy has made this scheme as a tool or instrument which is suitable for helping the distressed in order to provide instant cash to them.

AL-RAHNU: THE BEGINNING OF A NEW ERA

Based on historical facts, the majority of the people who follow Islam are afraid to do business with conventional banks, as they deal in interest (riba), which is forbidden in Islam, and management of profits that is definitely not based on Islamic principles (Nor Mohamed Yakcob, 1996).

Howsoever, bank management changed with the introduction of Islamic-based bank management. Even though this happened, the saving culture of keeping decorative items, primarily of gold, continued to be practiced, and because of this pawn broking services continued to be visited by their customers.

Business deals that are fast enough and that people don't have to scramble for money or funds has made the pawnbroker the favourite choice to make micro-loans. However, the pawn broking systems used by many people in Malaysia have the characteristics of conventional pawnbrokers, which reduce the number of Muslims who use pawnbrokers. Based on their need for concern, *Yayasan Pembangunan Ekonomi Islam Malaysia* (YaPEIM) developed an Islamically-based pawn broking system called al-rahnu, as it was then known (Abd Malek Awang Kechil, 2005).

To bring the project to realization, al-rahnu shops were built in the state of Terengganu and Kelantan, where after that it was entrusted to a cooperative to manage and conduct operations at other branches. The first cooperative to conduct al-rahnu business was a bank cooperative (Bank Rakyat), in the month of October 1993 with the cooperation of YaPEIM. The al-rahnu pawn broking system developed rapidly and was widely accepted by the populace. In 2004, there were 22 cooperatives became involved in the business, with 124 central offices nationwide. Out of all the al-rahnu offices nationwide, 100 of them are owned by the Bank Rakyat (Koperasi Bank Rakyat) (Ab Mumin Ab Ghani, 1999).

5.1 Advantages and Benefits of the al-Rahnu System

There are many advantages and benefits in services received from al-rahnu. Among them is the sensitivity towards different groups of women. Many people have compiled information that decorative items are seen as assets, and following Islam, women have complete control over all of their property. Because of this, whatever they do with their property, including items made with gold, is unquestionable. This problem is related to the involvement of

women in small-scale businesses. They need money quickly for raising capital, buying stock for their business, and whatever else. Therefore, the cooperatives with al-rahnu have available schemes that are sensitive to these women's needs and requirements.

Al-Rahnu also doesn't charge interest in their transactions. This follows closely the teachings of Islam along with the main points of the religion as well as the needs of the ummah (the overall Muslim population) of Islam, along with the people who use or support the Islamic banking and financial system. Another advantage is that al-rahnu conducts their business in a transparent, friendly manner with their customers. Every step taken in the acceptance process for items tendered, the valuation and personal records of the customers are done in front of the customer. This ensures that the customer is satisfied; in fact, every transaction is written down clearly, and all the staff speaks clearly so the customer understands them.

All the items tendered would be kept in a secure place under government insurance protection. Every customer would also be told in a monthly notice everything concerning the item submitted including the date of the final day before surrendering the item, excess money from the sale of the item, and whatever else. Another benefit of al-rahnu is that if the customer does not want to claim back the item, then the item would be sold by al-rahnu, and any excess from what they owned al-rahnu would be returned to the customer (Rugayah 1986; Abdul Ghafar 1997).

5.2 The Role of al-Rahnu in Socio-Economic Development

Al-Rahnu is also seen as giving large contributions to the socio-economic development of society in Malaysia. Al-Rahnu is clearly seen as a source of capital for small- and medium-size traders as well as companies that are just beginning, and as a source of capital injection for companies that have already been set up. An individual who has a lot of gold items is more inclined to choose al-rahnu because their business is done much faster and is much easier compared to the normal banking system.

Al-Rahnu also plays the role as a source of funds for educational needs, especially when starting a child's first year in school or to pay the fees for their children to enter a center for higher learning. This also includes buying school supplies such as books, uniforms and transporting their children to college or wherever. Apart from this, al-rahnu plays a major role in agricultural development and village industries. Many people are involved in agricultural projects and small industries in the basic village need rotating capital at a fast rate, and furthermore, these people don't need a guarantor for a bank loan (Rugayah 1986; Abdul Ghafar 1997).

Among the roles that al-rahnu plays is as a tool to encourage people to save and trade at the

same time. In the beginning they save their money to buy jewellery, but when the time is right, they'll be buying or selling their jewellery. This is seen as a form of investment because decorative items, especially those made from gold, always have a strong stable market value. With this kind of transaction a person who needs the money to start a business or inject more capital can go to al-rahnu under many of their borrowing schemes (Abd Malek Awang Kechil, 2005).

THE HISTORY OF AL-RAHNU MAIDAM

It is well known that al-rahnu MAIDAM or formerly known as the *Muassasah Gadaian Islam Terengganu* (MGIT) plays an important role in the economic development of the Muslim community in Terengganu. Consumer research conducted by the Terengganu Development Institute (TDI) in 2007 showed that al-rahnu scheme MAIDAM is the second choice for Terengganu consumers if they need immediate financial (after family and friends). MGIT started its operation without enforcing any safekeeping fee until 2009. According to the study, the main factors that make it is so popular are the low safekeeping fee, fast and easy service.

The initiative to establish an Islamic pawnshop was discussed at the meeting of the National Council of Islamic Affairs Division in April 1983. It is proposed during the meeting that the State Islamic Council or Bank Islam Berhad to implement the pawn broking scheme. However both organizations showed no interest except for *Majlis Agama Islam dan Adat Melayu Terengganu* (MAIDAM) and *Permodalan Kelantan Berhad* (PKB). From there, MAIDAM launched Malaysia's first Islamic pawnshop, the MGIT, on 23 January 1992 and this effort was followed by PKB in the same year and then YaPEIM in collaboration with Bank Rakyat in 1993.

At the same time, MAIDAM is the only State Islamic Council which was granted a license to run pawn activities by the Ministry of Housing and Local Government and placed under the Pawnbrokers Act 1972. Now after more than 20 years of implementation, MAIDAM has nine branches throughout the State (originally 10 branches, but in 2010, the branch has been merged with Kuala Terengganu branch to become one). Through al-rahnu Expansion Plan 2004-2008, MAIDAM has managed to establish nine al-rahnu branches throughout the state. The chronology of their establishments is shown in Table 1 as follows:

Table 1: Chronology of of al-rahnu branches MAIDAM

Date of Establishment	al-rahnu MAIDAM Branch	District
29 June 2004	Jalan Tok Lam Branch	Kuala Terengganu
16 February 2005	Besut Branch	Besut
1 June 2005	Kemaman Branch	Kemaman
3 August 2005	Dungun Branch	Dungun
29 June 2006	Pekan Batu Enam Branch	Kuala Terengganu
1 February 2007	Setiu Branch	Setiu
20 May 2007	Bandar A.M.B.S Branch	Dungun
9 September 2007	Marang Branch	Marang
15 May 2008	Kuala Berang Branch	Hulu Terengganu

Source: al-Rahnu MAIDAM (2012)

6.1 The Objectives of al-rahnu MAIDAM

The objectives of the introduction of al-rahnu scheme are:

- a) To liberate Muslims from being involved in interest-based transactions that is manipulated by the conventional pawn broking system.
- b) To meet the requirements of the Muslim community, particularly in Terengganu, in obtaining loans (micro credit) easily and quickly, especially for low-income earners to be used as capital for small businesses and other productive activities.
- c) To improve the socio-economic development of Muslim community in the state of Terengganu especially small entrepreneurs.
- d) To fully implement Islamic law to help Muslims in the state of Terengganu with sincerity.(MAIDAM Annual Report, 2010)

6.2 The Modus Operandi of al-rahnu MAIDAM

Islam is very concerned about the contract or contracts council because it is a symbol or a sign there is willingness among the parties involved. That willingness to eventually become a binding factor between the two parties involved (Syed Mohd. Ghazali Wafa Syed Adwam Wafa, 2005).

A contract is an act of bonding through the consent process and gaining admission (qabul). It is a contract that is built upon the requirements of two or more parties that will take effect on Islamic legislation. (Zaharuddin Abd. Rahman, 2008).

This scheme aims to provide loan facilities (secured) easily and quickly based on Islamic law to help individuals in coping with cash flow. The mortgage criterion which is acceptable includes jewellery that has the qualities of gold as shown in Table 2.

Table 2: Mortgage criteria for gold

Gold Quality	Gold Content
24.0 carat	99.9 %
22.8 carat	95.0 %
22.0 carat	91.6 %
21.0 carat	87.5 %
20.0 carat	83.5 %
18.0 carat	75.0 %
14.0 carat	58.5 %

Source: Al-Rahnu MAIDAM (2012)

The total mortgage (margin loan) is 80% above the current market collateral or a maximum of RM5,000 for every person who pawn their belongings. The loan period given is 6 month while the loan extension period is up to four months. A collateral auction will be made after the 10 months given expires.

The safekeeping fee is calculated based on the value and is charged monthly subject to a maximum period of 10 months or the period the number of months redeemed. Safekeeping fee rates are shown in Table 3 below.

Table 3: Safekeeping fee rates

Value (Collateral)	Safekeeping Fee For Every RM100.00 Value
RM1,000 and below	Free
RM1,001 to RM 3,000	RM0.50
RM3,001 to RM 5,000	RM0.60
RM5,001 to RM10,000	RM0.70
RM10,001 and more	RM0.75

Source: Al-Rahnu MAIDAM (2012)

CONCLUSION

Generally, the objectives of al-rahnu are to provide micro-credit facilities in an easy, fast and trustworthy to the people, especially the lower income group and who are not eligible for

funding from financial institutions to obtain business capital and other resources for productive activities. Apart from that, it is an alternative to the community to meet cash requirements through mortgage transaction which is in line with Islamic jurisprudence.

The success of al-rahnu MAIDAM in an effort to provide instant cash facility can be seen with the increase in the number of mortgages or pawns made each year. This increase shows that the Muslim community is increasingly aware of and concerned with the implementation of al-rahnu. This institution is far from interests and injustice to those who oppress the weak but can offset the spiritual and physical needs. The community needs to be educated continuously until the grassroot level so that they understand the concept of Islamic mortgage that is fair and transparent in its implementation. In order to improve the efficiency of al-rahnu MAIDAM implementation, some actions should be taken.

Among the actions are by diversifying the types of collateral items, increase staff efficiency and expertise especially in testing the purity of mortgage items and seriously fight in the drafting of a special act for Islamic pawnshop.

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