

Examination the Demand of Ar-Rahnu / Islamic Pawn Broking Services in Indonesia

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Abstract

Poverty has become a serious issue in most developing counties including in Indonesia. Many strategies have been implemented to eradicate poverty including the strategy that is compliance to the Shari'ah, or Islamic rule. Among the Shari'ah compliance' poverty eradication strategy is Ar-rahnu or Islamic mode of pawn broking. This paper aim to investigate the development of Ar-Rahnu in Indonesia by examining the determinant factors that made Ar-Rahnu is increasing recently. The objective of this study is to determine if Islamic pawn broking is acceptable by Indonesian based on their understanding about products as an alternative to the conventional pawn broking, to investigates the current level of people's awareness of Islamic pawn broking in Indonesia, to determine certain factors that influence users to use Islamic pawn broking and to explore if development of Islamic pawn broking nowadays would be sustainable or not.

Key Words: *Ar-Rahnu (Islamic Pawn Broking), Microfinance, Customers' awareness, acceptance, & demand, empirical evidence.*

I. Background of Study

Indonesia suffers with long crisis, since 1998 until today. The increasing of poor people is something that cannot be avoided. Government has done good job to stabilize the economy problem. However, the impact is still cannot be felt by every Indonesian, because of the limitation of economy infrastructure, such as the limit of number of people that able to get funds from economy institutions. In addition to that, we, as part of Indonesian must create fresh institution that more useful to every people, and one suggestion is Islamic Pawn Broking.

Nowadays, Islamic pawn broking has become an Institution. It held from the idealism of Muslims to provide other Islamic institutions as a follow up of successfulness of Islamic bank in Indonesia. After establishment of bank, BMT, BPR and Islamic insurance, people also gives attention in establishing Islamic pawn broking.²

The first Islamic pawnbroking (ar-rahnu) in Indonesia was introduced by Perum Pegadaian (Public Company for Pawn shop) in November 2001 and followed up by opening shariah unit in that company. Perum Pegadaian was established since 1901 with offering conventional services. Now it offers dual system with opening shariah unit with using joint venture between Perum Pegadaian and Bank Muamalat Indonesia. They are using akad profit sharing in establishing shariah unit. Until today, all Islamic pawn broking under Perum Pegadaian is capitalized by BMI.

The successful of Perum Pegadaian in opening shariah division also carried on by some Islamic Bank such as Bank Syariah Mandiri, Bank Mega Syariah, bank BNI Syariah, Bank BRI Syariah, Bank CIMB Niaga Syariah, Bank Danamon Syariah and Bank Jabar Banten Syariah. With that opportunity, the institution that developing Ar-Rahnu made Ar-Rahnu itself become a long hand of Islamic Institutions with hope it will more extend to all people in Indonesia.

II. Problem Statement

The current global financial crisis gives bad impact and long economy problem in Indonesia. There is an example for citizen in Padang, West Sumatera, Indonesia, that affected by big earth quack at the end of Spetember 2009, that suffer crisis over crisis until today. There are people from small income group that need to survive and open new business that more strengthen in facing crisis problem. However, they could not get any credit or loan because of their limitation in 5C. This phenomenon describes the weakness of conventional financial system that could not

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² Wakhyudin (2007). Pengembangan Pegadaian Syariah dengan Analisa SWOT.

images.nuris2007.multiply.multiplycontent.com/.../Pengembangan%20Pegadaian%20Syariah%20Dengan%20Analisis%...

succeed to protect small people with the limited fund. In addition to that, we have to think to establish new institution or develop existing institution that give right to small people. This institution we called micro financing.

There are micro financing institutions in Indonesia, such as Bank Perkreditan Rakyat (Bank for Small Financing) and cooperative. However, since conventional system which is giving loan plus interest is not Shari'ah compliance in nature, so we must establish new trend of Islamic financing that more convenience for small enterprises.

There are Islamic Microfinance (Islamic cooperative) and Islamic pawn broking with the purpose to help small income group to get quick financing ³. For some people who need quick cash, they prefer to borrow from Islamic pawn broking compares to going to Islamic microfinance institutions.

In addition to that, there is increasing of Islamic pawn broking in Indonesia because of the increasing of awareness of people to use Islamic financial product included pawn shop. When we look at the population of Indonesia since 85% of them are Muslim, there is huge market of Islamic pawn broking in Indonesia. On the other hand, Ar-rahnu service which is not charging interest is more profitable to the user that made Ar-rahnu become more interesting.

III. Research Objective

This paper need to examine the demand of Islamic pawn Broking in Indonesia with the purpose study to investigates the development of Islamic pawn broking in Indonesia with examine the determinant factors that made Islamic pawn broking is increasing rapidly recently.

IV. Research questions:

Based on the research objective, research questions for this paper are:

- i. What is current level of awareness of Islamic pawn broking in Indonesia?
- ii. Are the people of Indonesia ready to have an alternative of Islamic pawn broking?
- iii. How to improve the development of Islamic pawn broking in Indonesia?

V. Limitation of Study

There are several limitations of study. First, exploratory study is used since the study area is considered as a new development and no substantial literature for reference. Second, the study is conducted in Malaysia, as a limitation of time because research is conducted during Semester 2, 2009/2010. Third, the sample is limited to Indonesia students at IIUM as a representative of Indonesia population as a whole.

Further study could be done on a large group across the country focusing on some other variables. The three variables chosen for this study were more appropriate especially to conduct the research in new area like Islamic pawn broking in Indonesia, Similarly, research can be done on the financial products that will be able to satisfy the need of the people and beneficial to Indonesia economy development.

VI. Research Methodology

The research follows an overall methodology as follow:

1. Sampling

Sampling is student from Indonesia who study in International Islamic University Malaysia, comprises of Male-30 people and Female-20 people

2. Survey

Questionnaires will be distributed to the sample that chosen randomly with the purpose to examine the awareness of them for the acceptance of Islamic pawn broking, the level of understanding about Islamic pawn broking, and the perception of Indonesia people on the sustainability of development of Islamic pawn broking in Indonesia.

³ Razak (2008). Malaysian Practice of Ar-Rahnu Scheme: Trends and Development.
<http://www.assaif.org/content/download/1490/10030/file/Islamic%20Pawnbroking.pdf>.

3. Secondary data

Secondary data from website that discuss about Islamic pawn broking in Indonesia is important research tool, to know the phenomenon happened in nature regarding the development of Islamic pawn broking in Indonesia.

VII. Concept and Implementation of Islamic Pawn Broking (Ar-Rahn) in Indonesia

The implementation of Ar-Rahnu in Indonesia is based on Indonesian Scholar Association (MUI) No. 25/DSNMUI/III/2002 whereby DSN asserted that a loan with mortgaging goods is collateral in the form of ar-rahnu is permissible with the condition:

- a. The mortgagee (murtahin) has to secure mortgaged/pawned object (marhun) until mortgager (rahn) settle the loan.
- b. Marhun and its benefits still belong to Rahin. Basically, marhun could not been used by rahin unless by murtahin's consent.
- c. Custody fee is not based on the amount of loan
- d. If rahin fails to pay installment, marhun will be auctioned by murtahin. The surplus from the auction will be returned to rahin.

Based on the above regulation, Perum Pegadaian offers Ar-Rahnu with conditions as follow:

- a. Customer can pawn movable objects include jewelries, electronics, motorcycles, etc.
- b. A loan of not more than 90% of the market value.
- c. Pawning period is four months and can be extended to another four months.
- d. Goods that accepted to be pawned are:
 1. Jewellery: Gold and Diamond
 2. Electronic Items: TV, Refrigerator, Radio, Tape Recorder, VCD, DVD, Computer, Washing Machine
 3. Vehicles: Bycycle, Motor Cycle, Car
 4. Household Tools: Mixer, Blender, Magic Jar, Gas Burner, Sewing Machine or others item that the value can be estimated
- e. 1. Types of Custodian Items.

Types of custodian items based on that level:

Table 1⁴
Types of Custodian Items

Types	Loan
A	Until Rp. 150,000
B	Rp. 151,000 – Rp. 500,000
C	Rp. 550,000 – Rp. 20,000,000
D	More than Rp. 20,000,000

⁴ Kamsiah (2007). Analisis Perspektif Syariah Terhadap Proses Lelang Barang jaminan Pada Perum Pegadaian cabang Indramayu. STAIN Surakarta.

e. 2. Determine loan based on Estimation value

Loan is determined based on Appraisal value. Appraisal value is derived bases on market price that occurs at that time

Table 2

Determine Loan based on Estimation Value

Types	Appraisal Value
A	92%
B	89%
C	89%
D	93%

e.3. Determined Custodian Fee

Perum Pegadaian (Ar-Rahnu/ Islamic pawn shop) secures the pawn items. In addition to that, *Perum Pegadaian* determines the administration fee that charged to the customer that is used as operational cost to maintain the custodian items.

Table 3

Determine Custodian Fee

Types	Loan	Duration	Rent Fee/ 10 days
A	Until Rp. 150,000	4 months	1,25 %
B	Rp. 151,000 – Rp. 500,000	4 months	1,6 %
C	Rp.550,000 – Rp. 20,000,000	4 months	1,6 %
D	More than Rp. 20,000,000	4 months	1

Customer has responsibility to pay loan and custodian fee (for rent the box for securing the item). Custodian fee includes security and maintenance expense.

f. d. Customer pays ijarah fees based on the formula: $N \times T \times W$

N = Estimation value

T = Rate based on the percentage of loan

W = Rate determined

VIII. Profile of Respondents

This section provides some vital information about the respondents as it relates to this study. All of respondents are Muslim, and all are students of IIUM. A total 50 respondents participated in the survey, and all of questionnaires are completed, because the researcher is waiting while the respondents answer the questionnaires and explain what the questions ask when the respondents could not understand. Table 1 provides the profile of the respondents.

Table 4: Profile of Respondent

	Frequency	Percentage
1. Gender		
Male	30	60
Female	20	40
2. Marital status		
Single	41	82
Married	9	18
Divorce	0	0
3. Highest Completed Level of education		
Senior High School	10	20
Graduate Degree	30	60
Master Degree	8	16
PhD Degree	2	4
4. Age		
21-30	47	94
31-40	2	4
41-50	1	2
51 or more	0	0

Table 1 summary the basic statistics on gender, marital status, highest completed level of education, and age of respondents. As for gender, it comprises 60% of males and 40% of females. As for marital status, 82% respondents are single, and 18% of respondents are married, and 0% is divorced. For highest completed level of education, 10% of respondents have been completed their senior high school, 30% has been completed their graduate degree, 8% for master degree and 2% for PhD degree. The level of completeness of education reflected the respondent's ability to understand the phenomenon in Islamic pawn broking, and ability to give some statements about this phenomenon based on the question in the questionnaires. Based on the age of respondents, majority of respondent's age are between 21-30 years with percentage of 94%. The age of respondents show their maturity to answer the question based on their finding regarding to phenomenon. With this sample, the study would provide useful comprehension regarding the phenomenon.

Descriptive Statistic

Table 5: Respondents' perception of Islamic pawn Broking and Operation (%)

No	Level Measurement and Percentage	Disagree	Neutral	Agree
1	Our country need quick cash scheme, especially for micro financing	0	10	90
2	Quick cash scheme is not important, because we are easy to get small fund from bank	62	30	8

3	Islamic pawn broking is most appropriate mechanism because loan is granted based on qardhul hasan and ijarah	0	34	66
4	Using pawn broking is not a problem, because the interest is cheap (2%/month)	48	34	18
5	In Islamic pawn broking, the storage fee is based on value of item. So it is more convenience	6	20	74
6	Using interest to measure the repayment of loan is much better that storage fee	42	34	24
7	Going to Islamic pawn broking is a good idea, compares to other institutions	0	24	62
8	Going to conventional pawn broking is not a problem, because I will receive the loan immediately and I could be able to negotiate the amount of loan with the pawnbrokers	32	44	24
9	Riba, gharar and maysir are important element to be avoided in every business transaction. This is why I use Islamic pawn broking	4	4	92
10	Using Islamic or conventional pawn broking is not a problem. The important thing is I get quick financing	66	24	10
11	Conduct with the transaction that comply with shariah is important to me	0	20	80
12	I only need making profit, whereas the profit is from interest or fees, I don't care	68	26	6
13	Islamic pawn broking could be the best solution to get quick cash nowadays compares to all banks	0	38	62
14	Development conventional pawn broking is better that Islamic pawn broking	18	44	34

Now, let we analyze that data based on modified SWOT⁵ . To begin with, we determine the category for each question, and we divided it as Strengthen-Weakness and Opportunity-Threatening. After that, we measure the value of each question with give -1 for disagree, 0 for neutral, and 1 for agree. After that, each result we divided by 100 (we measure the result of questionnaire based on scale of 100). Next, the sum of the result we divided by 7.

⁵ Wakhyudin (2007). Pengembangan Pegadaian Syariah dengan Analisa SWOT. images.nuris2007.multiply.multiplycontent.com/.../Pengembangan%20Pegadaian%20Syariah%20Dengan%20Analisis%...

Tabel 6
Modification by using modified SWOT

Number	Categorize	Estimation	Result	Result / 100
1	SW	0(-1)+10(0)+90(1)	90	0.90
3	SW	0(-1)+34(0)+66(1)	66	0.66
5	SW	6(-1)+20(0)+74(1)	68	0.68
7	SW	0(-1)+24(0)+62(1)	62	0.62
9	SW	4(-1)+ 4(0)+92(1)	88	0.88
11	SW	0(-1)+20(0)+80(1)	80	0.80
13	SW	0(-1)+38(0)+62(1)	62	0.62
Total / 7				5.16/ 7 = 0.74
2	OT	62(-1)+30(0)+ 8(1)	-54	-0.54
4	OT	48(-1)+34(0)+18(1)	-30	-0.3
6	OT	42(-1)+34(0)+24(1)	-18	-0.18
8	OT	32(-1)+44(0)+24(1)	- 8	-0.08
10	OT	66(-1)+24(0)+10(1)	-56	-0.56
12	OT	68(-1)=26(0)+ 6(1)	-62	-0.62
14	OT	18(-1)+44(0)+34(1)	16	0.16
Total / 7				-2.12/ 7 = -0.3

After that we put that result in the SWOT diagram in order to know the place of Ar-Rahnu in Indonesia nowadays and what we have to do to develop Ar-Rahnu in the future.



Based on this estimation, we can see Ar-Rahnu nowadays is in the strengthen position but it would become threatened if Ar-Rahnu does not regulate well. Ar-Rahnu is strengthen because of big support from government especially in the program to reduce poverty in Indonesia. In addition to that, MUI also support it with giving regulation concerning to implementation in Ar-Rahnu (Regulation No. 25/DSNMUI/III/2002)⁶.

IX. Discussion

The implementation of Ar-Rahnu as a quick finance scheme would address several issued to study. The result for questions number 1 and 2 indicates that quick cash scheme is important microfinance institution nowadays especially to small entrepreneurs to get capital with easy way.

The result for questions number 3 and 4 indicates there is pleasure on using Islamic pawn broking (Ar-Rahnu). It is shown from the percentage of people agree if Islamic pawn broking (Ar-Rahnu) is more convenience, because people only payback the loan and storage fee to redeem the good. At question number 4 we can see that people do not agree to use scheme that paying interest (48%). Only 18% of respondent that agree to put interest in pawn shop. However, the percentage of neutral is quite big (34%). It indicates that people still do not have enough understanding about the prohibition of riba as a basis principle of ar-rahnu. And also there are people that still do not know about the concept of Ar-Rahnu that only charge storage fee for the loan. In addition to that, there are people that still fall into deep water when hearing the cheapest of interest 2% per months that actually quite high in term of EAR for micro finance institution. In addition to that, there is suggestion to increase academia activity to write a lot in article, newspaper and give seminar about what is riba and the important things to avoid riba in our life. In addition to that, Ar-Rahnu also needs to socialize and advertise its product, so people know the features and advantages using Ar-rahnu compares to pawn broking.

In addition to that, the result of question number 5 indicates that people agree with Ar-Rahnu that is more convenience, because in this question the writer gives clue about the benefit of Ar-Rahn which is the storage fee is based on the value of items and not the amount of the loan. 74% of respondents are agree about it. Question number 6 also shown that using interest to measure the repayment of loan in pawn broking is not so interested (42%).

Result for question number 7 indicates that people agree to go to Ar-Rahnu to get small quick financing (62%). It shows there is a demand of ar-Rahnu in Indonesia. On the other hand, in question number 8, there are people (44%) that still thinking the advantage of going to pawn broking which is preferable in term of loan that the value of the loan can be negotiate. But they also think of riba in pawn broking. For that person, Ar-Rahn and other Islamic financial institution must give direction about prohibition of riba, until people have believeness and ability to choose Islamic scheme, although there are charming features of conventional scheme.

On the statement number 9, 92% of respondent agree of avoiding riba, gharar and maysir. It indicates the level of knowledge of respondent about the prohibition element in Islamic finance. After that, people become do not agree (66%) for the statement in number 10 who said that using Islamic or conventional pawn broking is not a problem, since they get quick financing. Now they more aware about prohibition element in IFI, although they easy to get quick financing in pawn broking. The gharar element is still important aspect to be avoided.

And now, respondent more agree about important things to conduct with shariah compliance transaction (80% agreement for question number 11), and there are 68% of respondent that disagree for getting profit that comes from non shariah ways (question number 12)

Lastly, there are 62% of respondent who said that Ar-Rahn could be the best solution to get quick cash financing (number 13). It is added by the percentage of people that doubt if pawn broking could be best institution to help the needy.

X. Conclusion

To conclude, Ar-Rahnu in collaboration with IFI should trains people about the important aspect to avoid riba, gharar and maysir. People must know the concept first. Such as what is the dalil that mentions Allah Swt declare war to those people that taking riba. After that, that institution have to elaborate the effect of using interest. With

⁶ Natalia (2009). Pegadaian Syariah. Teori dan Aplikasinya pada perum pegadaian di Indonesia. <http://www.scribd.com/doc/25043098/PEGADAIAN-SYARIAH-TEORI-DAN-APLIKASINYA-PADA-PERUM-PEGADAIAN-DI-INDONESIA>

people understanding we hope that the mindset of people change and belief Riba doesn't help people to prevent financial problem at all.

In addition to that, Ar-Rahnu must take opportunity where Government supported much in the development of Ar-Rahnu. Actually, Ar-Rahnu is strong institution. In addition to that, based on result of modified SWOT analyzes, which is Ar-rahnu actually strong, but threaten, Ar-Rahnu must give much information and advertisement with the purpose to increasing the awareness of people about Ar-Rahnu, the concept of Ar-Rahnu and the purpose of Ar-Rahnu which is to 'solve the people financial the problem without the problem behind'. We hope that Islamic Microfinance in Indonesia will be widened and the percentage of poverty decreasing for time to time.

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