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ACCESS TO FINANCE: AR-RAHNU AS AN ALTERNATIVE FINANCING TO ENHANCE FINANCIAL INCLUSION AMONG WOMEN MICRO ENTREPRENEURS IN MALAYSIA

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ABSTRACT

In Malaysia, the role of women microentrepreneurs is crucial for socio-economic development, poverty alleviation, and the provision of employment opportunities for the lower-income group. Nevertheless, access to finance remains a significant challenge for women micro-entrepreneurs, hindering their entrepreneurial growth and sustainability. Given the numerous financial institutions and government initiatives to foster entrepreneurship, these mechanisms often fail to address the barriers to formal credit. Many women continue to face challenges in accessing finance, such as poor credit records, a lack of formal documentation, and collateral requirements. These are the limitations that often hinder women's ability to set up businesses, maintain, and grow their operations, thereby affecting their involvement in the economy and limiting their empowerment. To address these issues, this paper explored the role of Ar-Rahnu as an alternative financing option to enhance financial inclusion among women microentrepreneurs in Malaysia. A qualitative method was utilized to obtain an in-depth understanding of Ar-Rahnu as an alternative financing mechanism using semi-structured interviews with women microentrepreneurs in Kelantan. The findings of this study provide insight into the barriers to women's access to formal financial services and highlight the role of Ar-Rahnu as an alternative financing mechanism for microenterprises. This study demonstrates the benefits for women micro-entrepreneurs, society, and Ar-Rahnu institutions, and highlights the role of Ar-Rahnu and its broader impact on women's financial empowerment and financial inclusion in the context of Malaysia.

Keywords: Alternative financing, Ar-Rahnu, financial inclusion, women micro entrepreneurs, Malaysia

INTRODUCTION

Women's involvement in entrepreneurial activities is recognized as a critical force for comprehensive economic and social development. Globally, women entrepreneurs contribute significantly across sectors, including employment opportunities, household wellbeing, and empowerment (Gulvira et al., 2024). In Malaysia, women represent around 21 percent of Micro, Small, and Medium Enterprises (MSMEs) establishments, with a significant number involved in the microenterprises sector (Bank Negara Malaysia, 2024). Particularly, women micro enterprises are typically involved in the services sector, such as running home-based businesses, such as food and beverages, hairdressers, and others (Department of Statistics Malaysia, 2024). These entrepreneurial activities aim to support and improve household income, strengthen financial independence, and finally, to escape from poverty.

Despite the significant contribution of women's participation in entrepreneurial activities, access to finance remains a fundamental barrier to entrepreneurs' success. In Malaysia, the financial system comprises a dual system of conventional and Islamic financial institutions that contribute to economic expansion and business development (Bank Negara Malaysia, 2023). Considering these advancements, a previous study reveals that women entrepreneurs endure financial difficulties due to several issues, such as collateral requirements, lack of credit record, and gendered risk perspectives among mainstream financial institutions (Kowsick & Ramasamy, 2024). Further, women microentrepreneurs are mainly disadvantaged due to low financial literacy, a lack of formal documentation, and experience that restricts their eligibility for loans from mainstream financial institutions (Tirumalaisamy et al., 2024). This resulted in a significant number of women microentrepreneurs remaining financially excluded and depending on self-financing or choosing alternative financing (Simba et al., 2024).

In highlighting these constraints, alternative financial services have emerged as an appealing alternative to mainstream finance, enabling accessible and inclusive financial options. These comprise microfinance, pawnbroking, cooperative credit schemes, rotating savings and credit associations (ROSCAs), and other community-based financial mechanisms (Baharudin et al., 2024; Nik Azman et al., 2020). These mechanisms are vital for women micro-entrepreneurs who face difficulties in mainstream financing. The purpose of this paper was to examine the role of Ar-Rahnu in promoting financial inclusion among women micro-entrepreneurs in Malaysia.

LITERATURE REVIEW

Barriers to Access to Finance

In Malaysia, access to finance remains a significant barrier that limits women microentrepreneurs' ability to participate in and grow their entrepreneurial activities. Under the purview of central regulation, Bank Negara Malaysia, mainstream financial services comprise commercial banks, credit cooperatives, and development financial institutions (DFIs) that operate within a framework that promotes financial resilience and ethical lending (Bank Negara Malaysia, 2023). Considering these achievements, empirical evidence suggests that mainstream financial institutions constantly underserve women micro entrepreneurs, mainly those in informal or small-scale business (Shaikh, 2021). Prominent commercial banks in Malaysia, such as Maybank, CIMB, and Public Bank, offer various financing products for small and medium enterprises (SMEs). Nevertheless, these products are designed for businesses that are formally registered and can present verifiable business records, possess collateralizable assets, and have audited financial statements. These strict requirements are totally against most women microentrepreneurs who usually operate informal, home-based, and small businesses (Rajamani et al., 2022). Further, the credit approval process for formal financing is lengthy, complicated, and largely depends on credit scoring systems that disadvantage the borrowers who have a limited credit record and unstable income (Tariq et al., 2020).

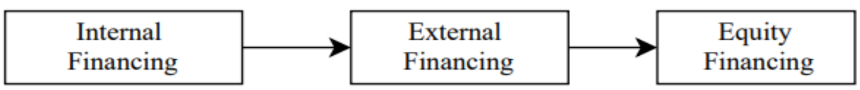
The exclusion of these entrepreneurs continues even within development financial institutions such as SME Bank, Agro Bank, and Bank Rakyat, which are mandated to enhance financial inclusion through specific SME financing services. However, the majority of financing schemes, such as DanaNITA and Skim Pembiayaan Mikro, offered are focused on small and medium enterprises rather than micro enterprises, thus creating a significant gap in reaching the smallest business sections (Umejiaku, 2020). However, such programs have limited access for women microentrepreneurs, as they require formal business registration and a minimum level of financial records. These are among the criteria that exclude the large segments of women micro entrepreneurs who typically operate businesses informally or lack business documentation (Rajamani et al., 2022). This systemic hole pushes the majority of women to seek alternative financing instruments, such as Ar-Rahnu, which are accessible and culturally adapted to liquidity needs. By bridging the divide between informal risk and mainstream exclusion, alternative services are necessary to support business continuity and improve the socio-economic well-being of women who remain on the sidelines of the formal financial system. Consequently, acknowledging these institutional barriers is crucial for Malaysian policymakers to guarantee that inclusive finance acts as a real engine for financial resistance and gender empowerment.

Pecking Order Theory

The Pecking Order Theory (POT), demonstrated in Figure 1 below, was developed by Myers and Majluf (1984) and presents a significant foundation for understanding financing preferences among businesses, including micro entrepreneurs. This theoretical lens helps explain women microentrepreneurs' financing preferences in choosing the right, affordable financing facility. The sequence of financing begins with internal funds, external funds, and equity financing. Internal financing refers to savings or retained earnings. However, internal financing is limited, and entrepreneurs seek external financing. Traditionally, mainstream financial institutions, such as banks, are the preferred source of external financing. Unfortunately, tight collateral requirements, complicated processes, and credit record evaluation often impede women micro entrepreneurs from accessing these mainstream sources (Demirgüç-Kunt et al., 2022). Meanwhile, equity financing is seen as impossible for micro enterprises due to small scale, lack of investor interest, and high risk (Demirgüç-Kunt et al., 2022).

Figure 1

Pecking Order Theory



The Pecking Order Theory is in line with Shariah-compliant financing as both promote ethical and low-risk funding. The theory suggests prioritizing internal financing over external financing, which is in accordance with Islamic principles that prohibit riba and gharar. Therefore, people seek alternative financing which expected to provide simple, cheaper, and Shariah-compliant financing. The Pecking Order Theory helps justify the financing preferences of women microentrepreneurs in Malaysia.

The Rise of Alternative Financing in Malaysia

In response to the persistent shortcomings of mainstream financial services in Malaysia, there is a need to develop and expand alternative financial instruments specifically designed to meet the unique needs of women micro-entrepreneurs. In Malaysia, the growth of alternative financial services is driving changes in the financial landscape that are encouraging the government's commitment and financial regulators' approach to inclusive development. The foundation for this transformation is the National Entrepreneurship Policy 2030, which explicitly highlights the essential need to expand access to finance for women-owned microenterprises as a means to drive national economic growth. However, despite these policy initiatives, financial exclusion among women micro-entrepreneurs persists because mainstream financial institutions often view them as high-risk borrowers. This insight is mainly driven by the inherent nature of small-scale business operations and the lack of formal financial histories and verifiable business records requested by traditional credit assessment models (Shaikh, 2021). Hence, women microentrepreneurs are usually trapped in a cycle of financial exclusion, where the lack of formal support prevents them from obtaining the required documentation to become eligible for future mainstream financial assistance.

Further, a recent report from Bank Negara Malaysia highlights that improving the labor force participation rate and increasing the intensity of women-owned SMEs are crucial standards for securing financial inclusion (Bank Negara Malaysia, 2023a). The emergence of alternative financing, particularly Shariah-compliant models such as Ar-Rahnu, reflects a practical response to these systemic gaps. While commercial banks prioritize high-value collateral and audited documentation, the alternative services concentrate on procedural agility and culturally related asset-backed financing. This transformation is crucial, particularly for women who are involved in the informal economy, because it allows for personal assets leverage, such as gold jewelry, against fast liquidity without the bureaucratic delays of conventional banking. This type of financial support system acknowledges the realities of small-scale, home-based business operations, thereby helping bridge the gap between financial exclusion and economic participation. This shift is not only about credit provision, but it is about preparing for a more equitable financial landscape where gender sensitive instruments are recognized as genuine drivers of socio-economic empowerment. Finally, the persistent growth of these alternative financing is essential to meet Malaysia’s goals of an inclusive financial ecosystem and to help marginalized entrepreneurs expand beyond the subsistence level.

Microfinance Services

Microfinance institutions are among the earliest and most effective mechanisms for addressing financial exclusion among vulnerable people, including women microentrepreneurs who operate on the fringes of the formal economy. In Malaysia, Amanah Ikhtiar Malaysia (AIM), TEKUN Nasional, and Majlis Amanah Rakyat (MARA) are prominent institutions within this alternative financial structure, and all have played a vital role in providing microfinance to women entrepreneurs who are excluded from formal financing services. Amanah Ikhtiar Malaysia is the first micro-credit scheme implemented in September 1987, remain the largest microfinancing provider in Malaysia, reflecting heavy inspiration from the Grameen Bank from Bangladesh model (Mokhtar et al., 2012). The Ikhtiar Project was a pilot program in which women's participation increased income and was more responsible for improving their household well-being. Research highlights that women participation in the microfinance program possesses a higher degree of responsibility and prioritizing especially towards the wellbeing of their children and the overall quality of life for their household, and at the same time improving their self-esteem as well as social standing within their societies (Khong, 2006).

Another key microfinance institution is TEKUN Nasional, operating under the Ministry of Entrepreneur Development and Cooperatives. This institution focuses on micro and small entrepreneurs and provides financing options ranging from RM1,000 to RM100,000, specifically tailored for them. Also, TEKUN has implemented gender-sensitive financing programs that acknowledge the distinct challenges women face, such as balancing household duties and business activities (Liang et al., 2024). By offering a flexible financing framework, TEKUN supports women microentrepreneurs in balancing these dual roles without excessive requirements for immovable collateral. Complementing this determination is MARA, which serves as another main microfinancing tool and plays a crucial role, particularly in supporting Bumiputera micro entrepreneurs. Programs offered by MARA, through initiatives such as Skim Pembiayaan Perniagaan MARA (SPiM), provide access to capital suitable for initial startup costs and business expansions, confirming that indigenous micro enterprises have the necessary resources for growth (Baharudin et al., 2024).

Apart from the achievement of these institutions in safeguarding entrepreneurs, they usually face challenges that are associated with expensive operational costs and geographic outreach, where Ar-Rahnu plays an essential role as a complement. While microfinance institutions such as AIM and TEKUN focused on group-based lending or credit-based models, Ar-Rahnu offers an asset-based financing alternative that requires a short-term commitment and no group liability. This variation in these institutions is essential because the transition between different financing needs of women micro-entrepreneurs, depending on their urgent liquidity needs and the progress of their businesses. These microfinance institutions and Ar-Rahnu providers mutually contribute to a wider and inclusive financial ecosystem, which not only offers capital accumulation but also plays a prominent role as a driver of financial resilience, allowing women micro entrepreneurs to evolve from subsistence level towards sustainable entrepreneurial ventures that contribute to the Malaysian economic growth (Nik Azman et al., 2020). Eventually, the financing facilities from microfinance institutions and Ar-Rahnu providers ensure that financial inclusion in Malaysia is addressed accordingly.

Rotation Savings and Credit Associations (ROSCAs) and Borrowing from Family and Friends

Meanwhile, rotation savings and credit associations (ROSCAs) are locally known as 'kutu' and are well known among lower-income people and in rural areas. It is an informal financial tool that relies on members' contributions at a fixed amount, at regular intervals, and every group member takes turns receiving the accumulated funds. These instruments depend on social and mutual ties among members. In Malaysia, ROSCAs are also popular among women microentrepreneurs who have limited access to mainstream financial services. This system allows participants to access money for savings, accumulate funds for business capital, and also for household purposes (Noordeen et al., 2022).
Lastly, borrowing from family and friends is another common alternative financing option among women microentrepreneurs in Malaysia. This type of financing is usually preferred because it is flexible, easy to access, and has almost no interest charges (Balyuk and Williams, 2022). For example, women microentrepreneurs borrowing from family can access quick, trusted financing without stringent documentation. This alternative financing is typically grounded in kinship and a strong social network that enhances trust and mutual responsibilities; thus, it helps to reduce the default risk (Laila et al., 2025).

Table 1

The Differences Between Mainstream Financing and Alternative Financing

Financial Service	Accessibility	Collateral Requirement	Contribution to Financial Inclusion
Mainstream Financing	Low – stringent requirements and formal documentation.	High – requires fixed assets or a guarantor.	Low – excludes informal sector women entrepreneurs.
Ar-Rahnu	High – less documentation and fast approval	Moderate – gold jewelry as collateral.	High – empowers women through Shariah-compliant access.
Microfinance	Moderate – group-based lending helps improve access.	Low social collateral through group guarantee.	Moderate – supports low-income groups.
ROSCA and borrowing from family and friends	Very High – community and family-based trust system.	None – based on trust among members and family.	Informal – enhances community-level inclusion but lacks regulation (ROSCA).

Table 1 compares mainstream and alternative financing to provide a better understanding of these services. In summary, mainstream financial services are less accessible than alternative financing due to stringent requirements, including formal documentation. Meanwhile, mainstream financial services require fixed assets, such as a land certificate, as collateral, whereas Ar-Rahnu only requires gold jewelry. Finally, based on these criteria, mainstream financing contributes less to financial inclusion than alternative financing.

Despite their critical role in promoting financial inclusion among women microentrepreneurs, alternative financial services also face certain limitations. For example, as microfinance offers a variety of microfinancing forms from different microfinance providers, it usually comes with an expensive cost of financing and has limited outreach to customers (Nik Azman et al., 2020). Moreover, borrowing from family and friends and joining ROSCAs, which both depend on social trust and relationships, may lead to social pressure due to fund mismanagement and higher default risk (Nik Azman and Kassim, 2019). This paper, therefore, proposes Islamic pawnbroking services, also known as Ar-Rahnu, which are expected to meet financing needs and enhance financial inclusion among women microentrepreneurs in Malaysia.

Ar-Rahnu as an Alternative Financing Instrument

Islamic pawnbroking, also known as Ar-Rahnu in the Malaysian financial environment, is one of the most significant innovations and a culturally indicative feature of Islamic finance. It serves as a critical medium for financial inclusion by providing access to finance and an interest-free microcredit solution, particularly for underserved people, including women micro entrepreneurs who are excluded by mainstream financial services. Contrary to traditional pawnbroking, which relies on interest-based financing, strictly prohibited under Shari'ah law due to its association with riba, Ar-Rahnu practice is in line with Islamic ethical principles. The mechanism of Ar-Rahnu mainly operates based on *tawarruq* concepts, proposing a short-term financing that is secured by gold collateral without excessive interest and exploitative profit margins (Muhammad, 2023). This aligns with religious values, making it a more attractive and ethical option for Malaysia's Muslim-majority society, thereby ensuring that financial activities are conducted in a manner that promotes social justice and equitable wealth distribution.

Empirical research has acknowledged that Ar-Rahnu plays a critical role in promoting inclusive financial services. For example, a seminal study by Nik Azman et al. (2018) revealed that several factors, such as adherence to Shariah, the location of the physical store, lower financing costs, and customer satisfaction, are the main drivers influencing women microentrepreneurs to utilise Ar-Rahnu services. In a similar vein, Mohd Thas Thaker et al. (2021) discovered that factors such as institutional reputation, religious adherence, and trust are among the critical elements driving Ar-Rahnu adoption among borrowers. These factors indicate that women microentrepreneurs' decision to engage with a financial provider is not only transactional but also rooted in the perceived integrity and ethics of the institution.

In addition, Zainol et al. (2022) showed that the values of collateral, social influence, and customer service quality are the main predictors of Ar-Rahnu consumption among customers. This is also in line with Nik Azman, Md Zabri, Masron, et al. (2020), where the study disclosed that Ar-Rahnu involves a lower cost of financing and has a simple and quick process, thus particularly effective in attracting customers, particularly women micro entrepreneurs who often struggle with a complex and lengthy credit application process from mainstream financing. Across these studies, a consistent finding emerges: women approach Ar-Rahnu not only because it complies with Shariah but also because it offers quick, easy financing.

Highlighting a significant gap in the existing literature, which mainly utilizes quantitative methodologies, concentrating on metrics such as satisfaction levels and efficiency of the services, this study explored how Ar-Rahnu influences the dimensions of financial inclusion and socio-economic empowerment from a qualitative lens. By providing in-depth insights into the subjective experiences of women microentrepreneurs, this study offers critical information for Ar-Rahnu operators and policymakers to craft gender-sensitive mechanisms that address the persistent financial inclusion gap in Malaysia. Recognizing these qualitative experiences is crucial to understanding how Ar-Rahnu plays a critical role as a financial support system, allowing income stability and sustainability Nik Azman et al., 2020).

Financial Inclusion and Women Micro-Entrepreneurs Socio-Economic Role

Financial inclusion refers to 'the process of ensuring affordable, prompt and adequate access to a wide range of financial products and services, as well as proliferation to their use in all parts of society with a special focus on vulnerable groups' (Adamo et al., 2024). In Malaysia, the foundation of inclusive finance goes beyond access to financial services; it also encompasses empowerment through mechanisms such as savings, borrowing, insurance, and investment, which are necessary to support financial stability and enhance long-term livelihoods. Financial inclusion offers a vital avenue for ensuring business sustainability, income creation, and social advancement for women microentrepreneurs. Nevertheless, despite the progress of the financial landscape in Malaysia, a persistent gender gap remains, with issues where women continue to experience structural barriers that restrict their participation with banking institutions (Demirgüç-Kunt et al., 2022).

To highlight these gaps, Ar-Rahnu has been acknowledged as a crucial bridge that effectively links mainstream financial services and alternative, society-based solutions. This instrument allows women to utilize gold jewelry, an asset that is culturally embedded with Malay communities, as collateral against financing for business capital. As has been discovered by Abdul Razak and Asutay (2021), Ar-Rahnu has significantly enhanced financial inclusion among women by promoting not only economic empowerment but also financial literacy, as it supports borrowers to steer institutional processes within a framework that values their culture. Besides, a study from Nik Azman et al. (2020) found that Ar-Rahnu acts as a critical financial support system, where it offers entrepreneurs the opportunity to fulfil urgent working capital needs and sustain business operations, particularly during unforeseen circumstances or market instability. This aligns with the findings from the World Bank Group (2022) that highlight inclusive finance as an engine of financial resilience for vulnerable people.

Further, in socio-religious contexts such as Kelantan, where it is known that gold possessions among women are not only for cultural and financial practices, Ar-Rahnu also carries an additional meaning as a culturally integrated microfinancing institution. In this region, gold plays a role not only as a financial asset or an accessory, but also as a form of security culturally embedded in the routine and nature of women micro-entrepreneurs in Kelantan. Subsequently, Ar-Rahnu serves as a culturally resonant microfinance facilities that fulfil the unique intersection of the community's social, economic, and religious aspects. As a Shariah-compliant provider, Ar-Rahnu also serves as an alternative to conventional pawnbroking, known for its expensive, high-risk, informal loans; it offers women micro-entrepreneurs a safer, less risky financing option. Thus, the inclusive approach of Ar-Rahnu ensures that the opportunity to access finance is available even to those with limited formal documentation or operating in small-scale operations, thus contributing towards the overall socio-economic growth of the country.

METHODOLOGY

This study adopted a qualitative research approach to gain an understanding of women microentrepreneurs who use Ar-Rahnu as a financing alternative. The qualitative approach is considered appropriate because it allows for an in-depth understanding of social phenomena through participants' experiences. Creswell and Creswell (2018) highlighted that qualitative research is appropriate when the study aims to reveal meanings, motivations, and interpretations that people relate to their experiences.

To understand the use of Ar-Rahnu among women microentrepreneurs, the study employed semi-structured interviews as its primary data collection method. The semi-structured interview ensures that all participants receive the same set of questions regarding their experiences with Ar-Rahnu and their perceptions of financial inclusion; other questions may emerge to expand or clarify the specific themes that arise during the interview. This technique is parallel with the interpretivist research paradigm, where it values participants' subjective realities and emphasizes the researcher’s participation in co-developing meaning (Miles et al., 2014).

Kelantan was chosen as the research setting because of the interrelated relationships between cultural and gold possession among the Kelantanese, with extensive application of Ar-Rahnu services in society. This situation makes Kelantan an ideal context for investigating financial inclusion among women microentrepreneurs through the Ar-Rahnu mechanism. The participants in this study were women microentrepreneurs, defined as people engaged in home-based or small-scale businesses, such as food and beverage sales, small retail enterprises, and handicrafts. This study adopted a purposive sampling strategy to recruit potential participants who have utilized Ar-Rahnu services as a financing instrument. This sampling method guarantees that information-rich participants are chosen to provide significant results to the research questions (Creswell and Poth, 2018).

The number of participants in this study was determined based on data saturation, with 12 to 15 women microentrepreneurs, as this was found to be sufficient to achieve saturation. Before the interview, participants were briefed regarding the purpose of the study, confidentiality of information, and their right to withdraw at any time during the interview. Consent was obtained from the participants in both verbal and written form. Every interview lasted 45-60 minutes, and interviews were conducted in Bahasa Malaysia, the local language, to ensure clarity and convenience for the participants. The interviews were audio-recorded with participants' consent, and transcribed thematically for analysis. As the researcher is also familiar with Kelantanese culture, rapport building was smoother.

This study followed Braun and Clarke (2024), who proposed an analysis approach that involves six steps: familiarization with data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the final report. The technique allows patterns of meaning into thematic categories according to participants' experience with Ar-Rahnu and its role in promoting financial inclusion. Meanwhile, to ensure data trustworthiness, this is achieved through participant validation and by maintaining consistency and transparency throughout the data collection and analysis processes.

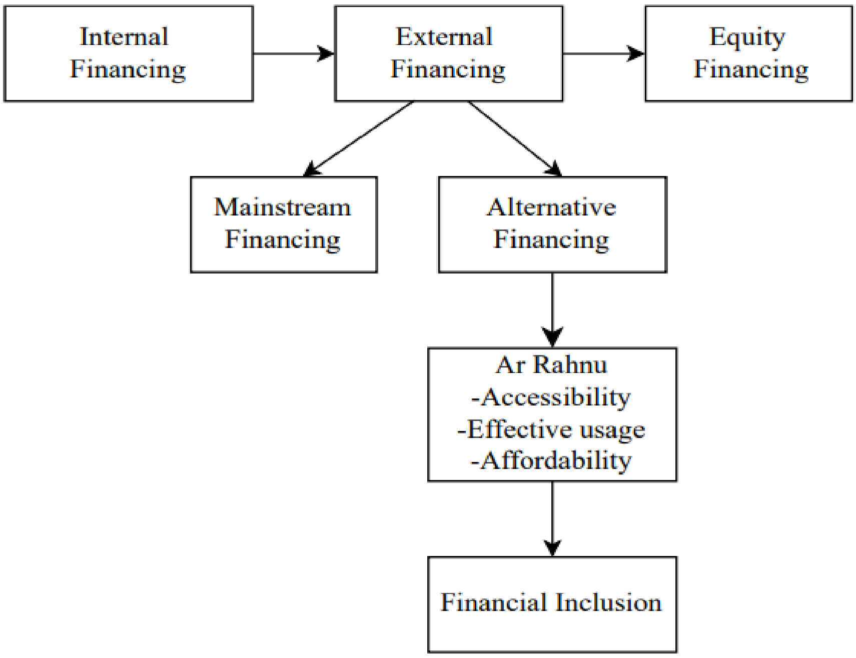
Findings and Discussion

This study explained the crucial role of Ar-Rahnu as an alternative financing option to improve financial inclusion for women microentrepreneurs. The empirical findings are evident that access to finance is a critical driver of women's involvement in entrepreneurship, business growth, and ultimately, socio-economic empowerment. Thus, the study introduces a proposition conceptual framework (Figure 2) that demonstrates how women's access to finance through alternative financial services improves financial inclusion, a main finding of this research. Within this framework, inclusion not only refers to financial liquidity but also represents a thriving institutional infrastructure that permits women to bridge the gap between economic agency and financial invisibility.

The main theoretical contribution of this research rests on the extension of the Pecking Order Theory within the context of informal and women micro entrepreneurs. Integrating the Pecking Order Theory into this study demonstrates that firms prefer internal financing that has a lower risk of debt. When internal financing is limited, women micro entrepreneurs prefer external financing. While mainstream financing falls under external financing, it often fails to meet some of the financing criteria for women microentrepreneurs. This study realizes that mainstream financing is usually unavailable for women micro entrepreneurs since it imposes strict requirements and is associated with structural biases. Therefore, the affordable, available, and ethical alternative financing makes Ar-Rahnu a relevant external financing option that assists the distinct socio-economic status of women. Also, this study discovered that access to Ar-Rahnu fosters financial inclusion through several approaches, significantly addressing the limitations of mainstream financial services.

Figure 2

Proposition Conceptual Framework



The first key finding concerns the high accessibility of Ar-Rahnu, which offers simplified workflows and quick transactions, effectively eliminating the stringent requirements and bureaucratic hurdles prevalent in mainstream financing. While mainstream financing requires formal credit records, formal financial statements, or immovable property, the ease of access to Ar-Rahnu has leveraged gold jewelry, which is regarded as a culturally significant asset in Malay communities, acting as collateral. Ar-Rahnu simplifies the financing process by providing instant liquidity without requiring formal financial records. This finding is in line with previous studies highlighting Ar-Rahnu's effectiveness in connecting entrepreneurs who are excluded by mainstream services, visualising how it fills the gap for those operating micro, informal, or home-based businesses. Fast financing approval, a recurring theme in interviews, proved critical for business sustainability and managing instant financial pressures, supporting the earlier observations by Nik Azman, et al. (2020) regarding its quick transactions. This ease of access ensures that women operating small-scale or home-based businesses can participate in the financial system.

The second dimension highlights the effective usage of credit obtained from Ar-Rahnu. The study reveals that women who utilized this credit for business purposes, such as for startup capital or business expansion, directly improved business continuity and income stability. Ar-Rahnu plays a crucial role as a financial support system, offering the essential cash flow to meet the credit needs, especially during unforeseen economic situations, and thereby developing financial resilience among vulnerable groups, consistent with findings by Nik Azman et al., 2020. This not only sustained individuals' businesses but also contributed to the socio-economic advancement of entrepreneurs, their families, and broader society.

Third, affordability was identified as a key factor that distinguishes Ar-Rahnu as a sustainable financing alternative, particularly compared to expensive informal loans or the default risk associated with microfinance services. Ar-Rahnu enhances the profitability of business operations and widens household wellbeing by offering lower financing costs through Shariah-compliant instruments. Micro entrepreneurs, especially women, experienced a predatory choice between oppressive informal moneylenders such as *Alongs* or expensive conventional microfinance like traditional pawnbroking. Ar-Rahnu mitigates these risks by offering financing at lower costs, in accordance with Shariah principles (Table 2).

Table 2

Ar-Rahnu as Alternative Financing

Criteria	Mainstream/Informal Financing	Ar-Rahnu
Collateral Requirement	Good credit history, land certificates, and formal business documentation	Liquidity assets (gold jewellery)
Ethical Alignment	Compound default rate penalties and a higher interest rate	Cheaper cost and Shariah compliant
Socio-Economic	Cyclical debt and household pressure	Household and financially wellbeing

This resonates deeply with the cultural and religious values of women micro entrepreneurs in Kelantan, making it an ethically attractive and viable option. Lower debt burdens observed among participants allow for the reallocation of funds towards essential needs such as healthcare and education, thus improving household educational needs and overall quality of life, a finding supported by Abdul Razak & Asutay (2021). By reducing the debt burden, Ar-Rahnu empowers women to reallocate funds to essential needs, thereby improving household educational opportunities and overall quality of life. Previous studies demonstrated that Ar-Rahnu is crucial in providing liquidity to women micro-entrepreneurs who are excluded from mainstream financing (Nik Azman & Kassim, 2019).

In Malaysia, Ar-Rahnu services are offered by various institutions, such as Bank Rakyat, YaPEIM, and cooperatives, which provide an accessible financing channel for women micro-entrepreneurs. Consequently, alternative financing through the Ar-Rahnu mechanism has evolved as a crucial instrument for enhancing inclusive financing that accommodates the needs of women micro-entrepreneurs across cultural, religious, and economic dimensions.

CONCLUSION

This study affirms the critical role of Ar-Rahnu, which serves as an alternative financing that significantly enhances women micro-entrepreneurs' access to finance and promotes financial inclusion in the Malaysian context. While mainstream financial services seem to fail to meet the financing needs of women micro-entrepreneurs, this study confirms that such exclusion is mainly due to structural barriers, including limited credit records, a lack of formal documentation, and the perceived high risk of small business operations (Demirgüç-Kunt et al., 2022). This has led women to seek alternative financing, such as Ar-Rahnu, which offers Islamic-based microfinance that aligns with their cultural and religious values.

By qualitatively investigating the dimensions of accessibility, effective use, and affordability through the lived experiences of women microentrepreneurs, this study provides a comprehensive understanding of Ar-Rahnu’s role as a critical channel for inclusive finance. Furthermore, the findings suggest that the simplicity of Ar-Rahnu transactions allows vulnerable entrepreneurs to utilize personal assets such as gold jewelry to maintain business continuity and enhance income stability. The widespread application of Shariah compliance mechanisms generates a multiplier effect, benefiting broader communities and the national level by nurturing financial resilience among micro enterprises.

Besides, the findings of this study offer critical insights for Ar-Rahnu providers and policymakers, encouraging the design of a gender-sensitive financing mechanism that particularly emphasizes the unique barriers faced by women entrepreneurs. By offering lower costs of financing and simplifying the application process, these organizations bridge the persistent financial inclusion gap in Malaysia. This study, therefore, provides a pertinent overview of Ar-Rahnu as an alternative financing option towards inclusive finance in Malaysia.

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