Sustainable Collateral-Based Microfinancing as an Alternative Economic Empowerment Instrument for Women Community Entrepreneurs

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Abstract. Women entrepreneurs often face difficulties in obtaining capital financing, as most of their businesses operate on a small scale, which raises concerns among financial institutions regarding their ability to repay loans. In this context, collateral based micro financing, such as pawnbroking, is an alternative source of funding to support entrepreneurial activities. In Malaysia, there are two types of pawnbroking offers shariah compliant financing that is simple, fast and transparent. This research aims to identify and analyse experts perspectives on the potential transformation of Islamic pawnbroking to support the development of women entrepreneurs. Data were collected through in depth interviews and analysed using NVivo version 14 software. The findings indicate that Islamic pawnbroking has the potential to serve as an alternative financing instrument that can empower women entrepreneurs through easier, more flexible, and Shariah-compliant access to capital, thereby supporting more inclusive community economic development.

Keywords: Islamic Pawnbroking, Microfinancing, Women Entrepreneur.

1 Introduction

Small-scale entrepreneurial activities have become one of the country's important economic sources, in addition to serving as an economic activity that increases household income [1]. These activities have also alleviated poverty within the country. Therefore, the objective of introducing microcredit financing is to provide communities with financial resources and help them alleviate poverty through engagement in entrepreneurial activities [2]. One of the services that provides microcredit financing to entrepreneurs is Islamic pawnbroking, which can offer promising opportunities for small entrepreneurs to obtain funds for conducting entrepreneurial activities. In addition to assist-

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ing the poor and low-income groups in obtaining immediate cash needs, the establishment of Islamic pawnbroking also aims to support small entrepreneurs in accessing capital financing [3].

Statistics released by the Persatuan Peniaga dan Pengusaha Melayu Malaysia (PERDASAMA) in 2016 indicate that 80% of registered entrepreneurs are women [4]. However, small-scale women entrepreneurs are facing various issues and challenges in the current economic environment. One of the most significant issues is the difficulty in obtaining capital financing. According to Abdullah, Muhammad, and Rahman (2023), women entrepreneurs obtain limited access to financial resources, particularly for start-up capital and business expansion [5]. In addition, financial institutions are often reluctant to offer loans to women entrepreneurs due to the small scale of their business operations.

Although microcredit schemes are available to support small-scale women entrepreneurs, most of them have limited knowledge of these schemes, facilities, and appropriate financial institutions that provide financing [6]. This situation is largely attributed to the limited exposure and access of small-scale women entrepreneurs to the available financing opportunities. One of the financing facilities available is Majlis Amanah Rakyat (MARA). In addition, commercial banks are often cautious in providing financing to small entrepreneurs due to several factors, including the small scale of their businesses, insufficient documentation, lack of high-value collateral, and failure to meet the requirements set by banks [7-9]. Consequently, commercial banks often question the repayment capacity of these small-scale women entrepreneurs.

Regarding Islamic pawnbroking as a source of financing, small-scale entrepreneurs typically pledge their gold jewellery to secure business capital and redeem it after generating profits from their business activities [10]. Women, in particular, tend to pledge their jewellery early in the morning to access immediate cash for daily entrepreneurial activities and redeem it within a few days after realizing profits [11]. This practice aligns with the concept of Islamic pawnbroking, which provides short-term financing. Thus, this study aims to identify and analyse experts' perspectives on the potential transformation of Islamic pawnbroking to support the development of women entrepreneurs.

2 Literature Review

The literature review in this article is organised into several key themes: (1) microcredit financing, (2) women's participation in microcredit schemes, (3) entrepreneurship development through microcredit programmes, and (4) the advantages of Islamic pawnbroking.

2.1 Microcredit Financing

Microcredit adopts the Grameen Bank approach, introduced by Dr. Muhammed Yunus in 1970 in Bangladesh. Through the Grameen Bank Model, impoverished individuals are able to become productive by accessing the financing provided [12]. Microcredit has played a significant role in alleviating poverty and addressing limited employment opportunities, while also enabling low-income individuals to engage in self-employment [13]. The primary objective of microcredit financing is to provide communities with financial resources that enable them to overcome poverty by engaging in entrepreneurial activities [2].

Microcredit schemes have had a positive impact on communities. In addition to alleviating poverty, microcredit programmes have also led to an increase in the number of household members participating in the labor force [14]. Consequently, demand for microcredit financing has been particularly high among low-income households. For instance, in Bangladesh, the uptake of microcredit was notably high, with women constituting 90% of borrowers [15].

2.2 Women's Participation in Microcredit Schemes

Women's involvement in microcredit schemes is well established. They have become a central figure in the development of such programmes due to their substantial participation. Accessing microcredit financing is generally easier compared to other forms of funding. Small-scale entrepreneurs are particularly drawn to Islamic microcredit schemes due to the motivation they derive from participation [16]. Women's response to microcredit programmes has been highly encouraging. Sonja & Olivera (2015) noted that microcredit has contributed to the advancement of female entrepreneurship in Serbia [17]. Microcredit has been shown to empower women, enabling them to become competitive household actors by engaging in entrepreneurial activities [18].

Recent studies have also shown that Islamic microfinance plays an important role in empowering women entrepreneurs economically and socially, in addition to increasing financial inclusion and business sustainability [19]. In addition, Islamic microfinance has been found to have a positive impact on entrepreneurial growth and increased income among women small entrepreneurs [20].

2.3 Entrepreneurship Development Through Microcredit Schemes

In Malaysia, the government has provided various financial aids and credit facilities to entrepreneurs as part of efforts to enhance and encourage community participation in the entrepreneurial sector. Microcredit financing is designed for small-scale entrepreneurial activities with the aim of assisting low-income groups to improve their livelihoods [21]. The primary objective of microcredit programmes is to provide capital for communities to engage in income-generating activities, thereby helping to reduce poverty levels. In Malaysia, microcredit programmes play a significant role in supporting economic activities through the development of small-scale entrepreneurship. The financial support provided through these programmes helps to alleviate capital constraints, particularly for small entrepreneurs who face difficulties in obtaining financing from conventional banks [22].

Furthermore, the motivational factors of entrepreneurs, as highlighted by Thambiah, Muthaiyah, and Kew (2015), have been identified as a key driver of small entrepreneurs' participation in Islamic microcredit schemes [16]. Microcredit financing has undeniably contributed significantly to the development of women entrepreneurs. This is supported by Sonja and Olivera (2015), who noted its role in advancing female entrepreneurship in Serbia [17]. Similarly, Yogendrarajah and Semasinghe (2015) argued that microcredit has empowered women, particularly by fostering competitive personal development [18]. Several studies have also demonstrated the enthusiastic response of women to microcredit schemes. For instance, Uddin and Barai (2016) found that the uptake of Islamic microcredit in Bangladesh was notably high, with women comprising 90% of borrowers [15].

Female entrepreneurs are not exempt from financial challenges. They often face difficulties in accessing funding. Duffy and Zelbst (2000) noted that women entrepreneurs, in any country, encounter greater obstacles in obtaining financial assistance compared to men [23]. Additionally, women are not afforded the same treatment and trust by commercial banks. Rani and Sundaram (2023) concurred that women entrepreneurs, whether in urban or rural areas, continue to struggle with financial issues and require support from government programmes [24]. Pareek and Bagrecha (2018) further argued that women entrepreneurs find it particularly difficult to secure financing due to investors' lack of confidence, stemming from perceived business risks associated with women-led ventures [25].

Conversely, Shahrukh and Shaheen (2016) reported that microcredit has exploited women in Pakistan [26]. Microcredit services also exhibit weaknesses, particularly in terms of small entrepreneurs' difficulties in accessing entrepreneurial financing. These weaknesses include bureaucratic procedures, stringent loan conditions, high collateral and guarantor requirements, and complex repayment methods. As a result, some small entrepreneurs turn to unlicensed lenders, such as moneylenders (along) and conventional loans that charge interest (riba). In terms of acceptance, the high demand for conventional microcredit compared to Islamic microfinance is also a significant issue, especially in countries where most of the population is Muslim [27]. Similarly, Abdullah and Ismail (2014) noted that the absence of the concept of tawhid in certain microfinance institutions has led to the rejection of these services by Muslim microentrepreneurs [28]. This concept advocates for fair practices free from riba and gharar, which would contribute to the economic development of the Muslim community.

Despite the weaknesses in microcredit services, their success is undeniable. Microcredit financing has made significant contributions to entrepreneurship development. Community participation in microcredit schemes is often associated with small-scale entrepreneurial activities and women's engagement in accessing financing through these programmes. This is largely because microcredit is more easily accessible compared to other financing schemes.

Consequently, the discussion extends to Islamic pawnbroking, one of the microcredit products introduced to assist low-income groups through productive activities. Islamic pawnbroking has also witnessed high women's participation. Several advantages of Islamic pawnbroking are discussed below to provide an appropriate explanation of this microcredit product.

2.4 Advantages of Islamic Pawnbroking

Islamic pawnbroking also offers several advantages. These include adherence to Shariah principles and the provision of cash financing services that are more accessible, rapid, transparent, fair, and uncomplicated [29]. In addition to offering improved management through simpler and faster pawning transactions [30], Islamic pawnbroking is free from bureaucratic procedures and does not impose stringent requirements on users. It operates fully in accordance with Islamic law and is free from elements of riba [31]. Moreover, Islamic pawnbroking provides financing without the need for high-value collateral or guarantors [32]. These features indicate a high potential for Islamic pawnbroking to continue thriving in line with the increasing needs of the community.

3 Methodology

A qualitative approach was employed in this study through in-depth interviews. Insights from selected experts were considered to examine the potential of Islamic pawnbroking in developing assets for women small-scale entrepreneurs.

3.1 Research Design

This study employed a qualitative approach to evaluate and analyse expert perspectives on the potential transformation of Islamic pawnbroking as a collateral based micro finance instrument to empower women entrepreneurs. This approach was chosen as it allows for an in depth exploration of experts' experiences, views, and knowledge within the context of community economic development, thereby enabling a more precise understanding of the challenges, opportunities and recommendations for institutional transformation. This study focused on three main areas, which is, 1) the effectiveness of Islamic pawnbroking as an alternative financing mechanism, 2) institutional transformation through operational and service enhancements, and 3) impact on the economic empowerment of women entrepreneurs.

3.2 Sample Selection

Respondents were selected using purposive sampling to ensure that only experts with direct expertise and experience in Islamic finance, entrepreneurship development and operations of Islamic pawnbroking institutions were involved. This study chosen Five experts to provide their insights, comprising one religious scholar serving as a Shariah advisor, two academics specializing in Islamic finance and entrepreneurship, and two professionals working within Islamic pawnbroking institutions. Selecting respondents based on these criteria enabled this study to obtain relevant, in depth, and accurate data, a sample size of five to ten experts is sufficient for qualitative studies involving a homogeneous subject group.

3.3 Data Collection

Data were collected through in-depth, semi-structured interviews, with each session designed to allow respondents to share their perspectives on the challenges and needs of microfinance for women entrepreneurs, advantages and limitations of Islamic pawnbroking, and recommendations for institutional transformation, including the digitalisation of operations and the enhancement of community awareness. The interviews were digitally recorded, and transcripts were prepared for further analysis. The researcher ensured that data were collected in an ethical manner.

3.4 Data Analysis

Interview transcripts were analysed using NVivo version 14 through thematic analysis. The analysis began with open coding, whereby transcripts were read repeatedly to identify initial codes based on keywords, concepts, and respondents' statements. The identified codes encompassed access to capital, financing flexibility, Shariah compliance, digitalisation, and community development. These codes were then organised through axial coding to form broader categories; for example, the category "Collateral-Based Microfinance Accessibility" encompassed codes related to easy capital access and minimal collateral requirements. Subsequently, selective coding or thematic analysis was conducted to synthesise the categories into overarching themes representing the study's findings. Three main themes were identified: Islamic pawnbroking as an alternative financing instrument, institutional transformation through digitalisation and service enhancement, and the empowerment of women entrepreneurs alongside community economic development.

4 Results

This section presents the findings on the potential transformation of Islamic pawnbroking in the development of women entrepreneurs, followed by a discussion grounded in field data and supported by previous studies. To clarify the findings, the results are discussed under five main sub themes, which is (1) Digital transformation in collateral based financing operations, (2) accessibility of financing for women entrepreneurs, (3) enhancement of operational efficiency in Islamic pawnbroking institutions, (4) the role of Islamic pawnbroking in community economic empowerment, and (5) themes and codes (NVivo analysis).

4.1 Digital Transformation in Collateral Based Financing Operations

The findings indicate that digital transformation is a key strategy to strengthen the operations of collateral-based financing. The advancement of digital technology provides financial institutions with opportunities to enhance service system efficiency and expand customer access to financing facilities.

Digitalisation of service systems is perceived to reduce reliance on physical transaction at financial institution premises, thereby enabling clients to access financial services more quickly and efficiently. This is particularly relevant for women small scale entrepreneurs, who often face time constraints in managing their businesses alongside family responsibilities. One respondent emphasised the importance of integrating digital systems to improve the effectiveness of financing service operations.

"The establishment of digital transformation, particularly through the digitalisation of collateral and the core service system is essential. As customers of institutions such as Bank Rakyat or MAIDAM, we would no longer need to visit their premises physically. Given the increasing time constraints faced by individuals today, such as systems should be integrated to optimized service delivery for customers." (Statement from respondent 5).

These findings indicate that the integration of digital technology has the potential to enhance the operational efficiency of financial institutions while expanding access to financing for a greater number of small entrepreneurs within the community. This finding is consistent with the study by Hassan and Ali (2022), who emphasised that are digitalisation of Islamic financial institutions can improve operational efficiency and reduce costs [33]. Similarly, Rahman et al. (2003) highlighted that financial technology (fintech) can broaden a access to microfinance for small entrepreneurs more flexibly and rapidly [34].

4.2 Accessibility of Financing for Women Entrepreneurs

The findings also indicate that Islamic pawnbroking provides financing facilities that are more flexible and easily accessible for women small scale entrepreneurs. The process, which does not heavily rely on complex documentation, enables this group to obtain working capital more quickly. A respondent noted that:

"Many women entrepreneurs face difficulties in obtaining bank loans because their businesses are small and they often lack complete financial documentation. Islamic pawnbroking enables them to obtain funds with fewer barriers'. (statement from respondent 1).

These findings support the study by Nawai and Mohd Shariff (2021), who stated that microfinance plays an important role in assisting women in developing their businesses and improving their economic well-being [35]. Similarly, Abdullah et al. (2023) emphasised that difficulties in obtaining capital remain a major challenge for women entrepreneurs [36]. Therefore, Islamic pawnbroking can serve as an important mechanism in overcoming such a challenge.

4.3 Enhancement of Operational Efficiency in Islamic Pawnbroking Institutions

The Nvivo thematic analysis indicates that the transformation of institutional operations through digitalisation and integrated systems not only benefits customers but also enhances the management effectiveness of Islamic pawnbroking institutions. Digital systems enable the systematic management of customer data and collateral records, thereby reducing the risk of errors in documentation processes and expediting the evaluation and approval of financing applications. One respondent states that;

"With an integrated digital system, we can process applications more quickly and reduce the risk of manual errors, thereby enhancing customers confidence in our services." (Statement from respondent 4).

These findings are consistent with the study by Khan et al. (2021), who emphasised that the digitalisation of microfinance systems enhances the operational efficiency of Islamic financial institutions [37]. Similarly, Yusuf and Bakar (2022) highlighted that digital transformation is essential that Islamic financial institutions remain relevant in the digital economic era by providing services that are more efficient, faster and more easily accessible to customers [38].

4.4 The role of Islamic Pawnbroking in Community Economic Empowerment

The NVivo analysis also indicates that Islamic pawnbroking not only provides access to capital but also functions as an instrument for community economic development. By offering financing that is accessible, flexible and Shariah compliant, Islamic pawnbroking enhances the capacity of women entrepreneurs to operate and expand of businesses. This strengthens inclusive economic development at the community level, in line with the objective of Islamic pawnbroking institutions to assist low income and poor groups through productive activities [39, 40].

Respondents further emphasised that public awareness of the services offered by Islamic pawnbroking institutions needs to be enhances, including through digital promotion and training programmes for women entrepreneurs. In this regard, institutional transformation that integrates digitalisation, efficient service delivery and customer education can improve the effectiveness of Islamic pawnbroking as a mechanism for supporting community economic development.

Overall, the findings of this study indicate that Islamic pawnbroking has significant potential as a collateral based microfinance instrument capable of empowering women entrepreneurs, enhancing institutional operational efficiency, and supporting inclusive economic development. The thematic analysis conducted using NVivo provides a more comprehensive understanding of the relationship between digitalisation, access to financing and community economic impact, thereby contributing to academic knowledge in the fields of Islamic finance and micro entrepreneurship.

4.5 Themes and Codes (NVivo Analysis)

Through this analytical process, several key codes were identified relating to financing access, institutional transformation and the impact on women entrepreneurs' empowerment, as well as community economic development. These codes were then systematically organised under specific themes to facilitate understanding of patterns and relationships between concepts emerging from the study data. Table 1 provides details of the main themes and the corresponding codes identified through NVivo analysis.

Table 1. Themes and Codes (NVivo Analysis)

Theme	Sub-theme / Code	Description
Islamic pawnbroking as an alternative financing instrument	Easy access to capital	Women entrepreneurs can obtain capital without extensive requirements or guarantors.
	Financing flexibility	Financing schemes are adapted to the needs of small-scale businesses.
	Shariah compliance	All financing transactions are free from riba and comply with Shariah principles.
Institutional transformation through digitalisation and service enhancement	System digitalisation	Use of technology to process applications, approvals, and collateral management online.
	Operational improvement	More systematic data management reduces manual errors and increases efficiency
	Community awareness	Promotion and education to increase understanding of Islamic pawnbroking services.
Women entrepreneurs' empowerment and community economic development	Business capability	Women entrepreneurs are able to operate and expand their businesses more sustainably.
	Community economic enhancement	Productive activities support inclusive economic development at the community level.
	Institutional Support	Strengthened relationships between Islamic pawnbroking institutions and clients.

Fig. 1 illustrates the conceptual framework for the potential transformation of Islamic pawnbroking in the development of women entrepreneurs. Bases on the NVivo analysis, the findings highlight the relationships among three main components that form the analytical framework derived from thematic analysis using NVivo 14. In the figure, Islamic pawnbroking is positioned as the core of the collateral-based microfinance instrument. Its role is explained through three elements, which is easier access to capital, financing flexibility and adherence to Shariah principles. These elements demonstrate how Islamic pawnbroking functions as a practical and inclusive alternative financing mechanism, particularly for women entrepreneurs who often face challenges in obtaining funding from formal financial institutions.

Moreover, the findings indicate that the effectiveness of Islamic pawnbroking as a financing instrument is closely linked to institutional transformation. This transformation encompasses digitalisation of systems, operational improvements and enhanced public awareness regarding the functions and advantages of Islamic pawnbroking. These elements act as supportive layers that strengthen the effectiveness of the financing system. Through the use of digital technology and more systematic operational management, Islamic pawnbroking institutions can improve service efficiency, accelerate transaction processes and broaden for clients requiring immediate financing.

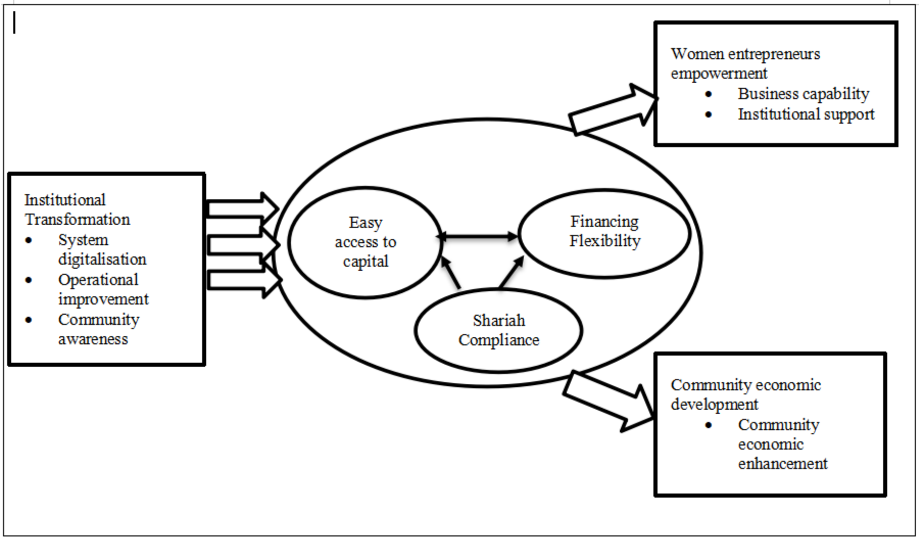

Fig. 1. Conceptual framework for the potential transformation of Islamic pawnbroking in the development of women entrepreneurs.

Furthermore, the effectiveness of this financing instrument is reflected in the empowerment of women entrepreneurs and community economic development. Easier access to working capital enables women entrepreneurs to operate and expand their businesses more sustainably and competitively. This contributes to increased economic activity at the community level and promotes more inclusive economic development. Therefore, the relationship among these three components in the figure demonstrate a clear flow, whereby institutional transformation enhances the effectiveness of Islamic pawnbroking as a microfinance instrument, ultimately generating positive impacts on women entrepreneur's empowerment and overall community economic development

5 Conclusion and Recommendation

Overall, this study demonstrates that Islamic pawnbroking has significant potential as a micro finance instrument capable of empowering women entrepreneurs through accessible, flexible and Shariah complaint financing. The effectiveness of this instrument is further strengthened through institutional transformation involving system digitalisation, operational improvements and increased public awareness. The combination of these elements not only enhances the efficiency of Islamic pawnbroking services but also enables women entrepreneurs to expand their businesses more sustainably. Indirectly, this contributes to women's economics empowerment and stimulates more inclusive and sustainable community economic development. The findings highlight the potential of Islamic pawnbroking to challenge the perception that is solely a mechanism for individuals in financial distress. By providing opportunities for small entrepreneurs to access financing, awareness of Islamic pawnbroking should be promoted to ensure it is not marginalised within the contemporary financial landscape. This study contributes to the academic field by expanding knowledge related to Islamic pawnbroking industry, particularly for institution involved by providing insight to improve the quality of their services and better serve their clients.

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