



Gold pawning as a transitional financial inclusion mechanism that bridges access, trust, and household assets

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ABSTRACT

Background: Financial inclusion has widened formal access since the global financial crisis, yet sustained use of financial services remains low among low-income households and informal sector workers. Account ownership rarely translates into effective engagement because formal instruments are poorly matched to users' economic realities and institutional trust is weak. Existing studies concentrate on microfinance and digital financial services, leaving collateral-based instruments such as gold pawning underexplored. This study examines gold pawning as an asset-based and trust-based mechanism of financial inclusion and explains its potential as an entry point in the financial inclusion cycle. **Methods:** A descriptive qualitative design was applied through a semi-systematic literature review of peer-reviewed articles and institutional reports published mainly between 2015 and 2025, analysed through thematic coding and narrative synthesis within the financial inclusion cycle framework. Evidence was drawn mainly from developing economies, particularly Indonesia, Malaysia, and India, where gold-backed lending is institutionally established. **Findings:** Gold pawning shows low entry barriers, a simple operational mechanism, and a high level of user trust, so that it functions as a provider of rapid liquidity, a means of experiential financial learning, and a channel of initial institutional linkage to the formal financial system. However, its use does not automatically drive a transition toward formal savings or productive financing, and it carries risks of asset depletion and credit dependency when unsupported by adaptive product and policy design. **Conclusion:** Gold pawning can act as a strategic component of sustainable financial inclusion when it is positioned complementarily within the policy trajectory rather than as a stand-alone or last-resort instrument. **Novelty/Originality of this article:** The contribution lies in integrating gold pawning into an asset-based and trust-based framework of financial inclusion as a transitional mechanism, a position previously overlooked in mainstream financial inclusion literature.

KEYWORDS: financial inclusion; gold pawning; structural mismatch.

1. Introduction

The term of financial inclusion began to gain prominence in global policy discourse after the 2008 financial crisis. The crisis clearly demonstrated the vulnerability of groups at the bottom of the pyramid, including low-income and irregular households, people living in remote areas, people with disabilities, workers without legal identity documents, and other marginalized groups, many of whom were unbanked. The high level of financial exclusion of these groups, particularly in developing countries, has fueled global awareness of the importance of financial access as part of a more inclusive development agenda. Since the

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G20 commitment and various international institutional initiatives, financial inclusion has been positioned as a crucial prerequisite for poverty reduction, economic stability, and sustainable growth.

As the financial inclusion agenda has more widely adopted, academic literature has begun to evaluate the extent to which increased financial access actually translates into equitable financial inclusion. In this context, approaches to measuring financial inclusion have been dominated by access indicators, such as bank account ownership and the expansion of formal financial infrastructure. These indicators are frequently used to rate the success of financial inclusion policies in various countries, particularly in developing countries. However, these access indicators do not fully reflect the actual level of financial participation. There is a significant gap between account ownership and the use of formal financial services. In many contexts, accounts held by low-income individuals or informal sector actors are not actively used, or are used only for limited administrative purposes (Beck, 2016).

Quantitative progress in financial inclusion over the past decade has indeed demonstrated significant achievements. Global Findex data shows an increase in formal account ownership across various countries, with penetration reaching 91% in high-income countries and 41% in developing countries (Allen et al., 2016). Large-scale financial inclusion programs in various countries, such as the Prime Minister's People's Wealth Scheme/*Pradhan Mantri Jan Dhan Yojana* (PMJDY) in India, the *Umurenge* Sector Savings and Credit Cooperatives (Umurenge SACCOs) in Rwanda, and M-Pesa (mobile money, from "M" for mobile and "pesa," Swahili for money) in Kenya, are often seen as evidence of the success of the financial inclusion agenda, which has become a global development priority. However, behind these quantitative successes, a worrying fundamental contradiction emerges: high account ownership is not directly proportional to active use of formal financial services. The phenomenon of dormant accounts indicates that many account holders rarely or never make transactions. Individuals who have been successfully financially included are at risk of re-exclusion. After policy efforts bring unbanked communities into the formal system, they are faced with costs and market mechanisms that are not entirely friendly to low-income groups. Account maintenance fees, transaction costs, and requirements for using digital services often erode the expected economic benefits. When the costs of using formal services outweigh the perceived benefits, individuals tend to discontinue using formal accounts or exit the financial system entirely (Ozili, 2021).

The financial inclusion paradox is closely related to the structural mismatch between the design of formal financial instruments and the economic realities of low-income households and informal sector workers. Household financial decisions cannot be understood solely through assumptions of complete rationality and stable economic conditions. Financial behavior is strongly influenced by individual and household characteristics, such as life cycle, income uncertainty, cognitive limitations, and differences in financial literacy and access to information. These limitations in financial literacy and decision-making capacity are not solely individual issues but also part of a complex financial market structure that is not entirely user-friendly for all household groups. Product complexity, hidden transaction costs, and the need to make abstract and long-term decisions create systemic barriers (Gomes et al., 2021).

This context becomes even more relevant given the size of the informal sector globally, with the average size of the informal economy worldwide reaching approximately 32%, varying from 62.3% in Bolivia to 7.2% in Switzerland. More worryingly, the informal sector is much larger in low-income countries (39.6%), lower-middle-income countries (36%), and upper-middle-income countries (32.6%) compared to high-income countries (17.2%) (Medina & Schneider, 2018). The structural characteristics of low-income households and the informal sector create economic conditions that differ fundamentally from the assumptions underlying the design of formal financial products. Households and businesses in the informal sector face fluctuating incomes, high economic risks, and limited formal documentation. In contrast, formal financial instruments are generally designed with the assumptions of stable incomes, comprehensive documentation, and long-term planning

capabilities. This mismatch creates hidden exclusion, a situation where individuals formally have access to financial services but are unable to use them effectively because product designs are not aligned with their economic realities (Cama et al., 2024).

In addition to structural factors, other literature emphasizes the importance of trust as a key determinant of financial service use. Trust plays a central role in determining individual engagement in various economic and financial activities, particularly in environments characterized by uncertainty and information asymmetry. When individuals face choices involving formal institutions with complex rules and long-term consequences, the decision to participate depends heavily on the extent to which those institutions are perceived as trustworthy, fair, and understandable. This complexity of formal institutions and contracts creates non-monetary barriers in the form of cognitive and psychological costs, particularly for individuals with limited experience and exposure to the formal financial system. Under conditions of uncertainty, financial decisions become socially embedded and are heavily influenced by collective experiences and perceptions of institutional fairness and transparency (Fungáčová et al., 2019).

While financial literacy is important, trust has a more consistent and linear relationship with increased financial participation, while financial literacy exhibits a non-linear relationship, where increasing literacy at low to medium levels can decrease participation before ultimately having a positive impact at higher literacy levels. A lack of trust can encourage individuals to avoid formal systems despite having knowledge and access (Fisch & Seligman, 2022). In this context, people tend to rely on social trust-based mechanisms and traditional assets, such as gold, which serve as a store of value, a hedge against risk, and social security for informal workers. Borrower discouragement is a condition in which individuals consciously choose not to interact with formal financial institutions despite having financial needs and potential access. This phenomenon arises when perceived risk, previous negative experiences, or weak institutional memory erode trust in banks and other formal financial institutions (Koomson et al., 2023). In such situations, people tend to avoid credit-based and digital financial instruments that are perceived as complex, risky, or inappropriate for their economic circumstances.

Despite the increasing recognition of the role of traditional assets in household financial practices, mainstream financial inclusion literature still tends to marginalize real asset-based instruments such as gold pawning. Gold pawning is often positioned as a marginal or informal form of emergency financing. However, various studies show that gold pawning operates within a regulated formal financial system, is based on real assets with stable value, and is supported by a high level of trust in gold and its managing institutions (Razak & Asutay, 2022; Gomis-Porqueras et al., 2022). Recent research on Islamic pawnbroking (Ar-Rahnu) demonstrates that gold pawning functions not only as a short-term liquidity solution but also actively promotes financial inclusion and empowers small businesses. (Ma'ruf et al., 2025). However, the existing literature remains fragmented and has not systematically integrated gold pawning into the framework of financial inclusion. Consequently, the role of gold pawning as an asset- and trust-based transitional financial inclusion remains a blind spot.

Based on the literature and identified gaps, this study aims to re-examine the position of gold pawning in the contemporary discourse of financial inclusion. Specifically, this study starts from the perspective that financial inclusion is a gradual process determined not only by formal access but also by the suitability of instruments, the level of trust, and the characteristics of the assets used by households. More specifically, this study aims to explain why increased access to formal financial services does not always result in effective and sustainable financial inclusion, analyze the role of gold pawning as a real asset-based financial mechanism that aligns with the characteristics of low-income households and informal sector workers, and examine how gold pawning can function as an entry point that facilitates the transition to the use of other formal financial instruments.

Based on a theoretical review emphasizing the role of structural mismatches and trust in the use of financial services, this study starts from the tentative assumption that financial mechanisms based on real assets and high levels of trust, such as gold pawning, are more

suited to the needs of low-income households than formal credit-based and digital financial instruments. Therefore, gold pawning is posited to serve as a transitional mechanism for financial inclusion, offering not only immediate liquidity but also facilitating broader and more sustained engagement with the formal financial system. In line with these objectives, this study focuses on three main analytical issues. First, it examines why increased account ownership and access to formal finance are not always followed by active and meaningful use of financial services. Second, it examines how the characteristics of gold pawning as a real asset-based and trust-based instrument enable this mechanism to bridge the gap between the design of formal financial instruments and household economic realities. Third, it analyzes the conditions under which gold pawning has the potential to contribute to driving the transition towards wider use of formal financial instruments.

2. Methods

This research employs a descriptive qualitative approach and a literature review method. A descriptive qualitative approach emphasizes in-depth understanding and explanation of phenomena through narrative and thematic interpretation of relevant literature (Sugiyono, 2019). This approach aims to analytically examine and explain financial inclusion issues, particularly the gap between access to and use of formal financial services, and to develop a conceptual framework that positions gold pawning as a transitional mechanism in the financial inclusion cycle. This research is interpretive and conceptual in nature; therefore, it does not focus on hypothesis testing or measuring causal relationships, but rather to synthesize theoretical reasoning based on relevant literature.

The data sources for this study are entirely secondary and consist of academic publications and institutional reports. The academic literature includes peer-reviewed journal articles published within the past five to ten years in reputable national and international journals. In addition to journal articles, this study draws on academic books and key theoretical works as its conceptual foundation. Official reports from institutions such as the Financial Services Authority and the World Bank are used to provide empirical and policy context. The sustainability reports of PT Pegadaian are also utilized to complement the analysis of gold pawning practices within the formal financial system.

A literature search was conducted through academic databases and institutional repositories using keywords related to financial inclusion, the gap between access and use of financial services, gold pawning, asset-based financing, trust, and household financial behavior. To maintain the relevance and validity of the analysis, the literature used was limited to publications published within the last five to ten years, except for seminal theoretical work used as primary conceptual references. Literature selection was based on its relevance to the research focus, which addresses structural, behavioral, and institutional factors in financial inclusion as well as the role of asset-based financing instruments. Articles and reports that did not directly address the household financial context, or that focused solely on technical aspects without incorporating social and institutional dimensions, were excluded from the analysis.

Data analysis was conducted using a thematic approach combined with narrative synthesis. This step is suitable with qualitative research analysis guidelines, which emphasize the identification of conceptual patterns emerging from the literature and then building them into a coherent argument framework (Creswell & Creswell, 2022). The initial stage of analysis involved condensing the data by identifying key themes that recurred in the literature, particularly those related to structural barriers to financial inclusion, behavioral factors, and trust in financial decision-making, as well as the role of formal financial institutions. These themes were then analyzed comparatively to identify patterns, interrelationships, and differences in findings across studies. The results of the thematic analysis were then integrated through narrative synthesis to construct a coherent argument and explain the role of gold pawning as a transitional and complementary mechanism in the financial inclusion process.

This research's analytical framework is based on the concept of the financial inclusion cycle, which views financial inclusion as a gradual and dynamic process. Within this framework, gold pawning is positioned as an asset and trust-based instrument that can bridge the gap between formal access and effective use of financial services, particularly for households with unstable incomes and informal sector actors. The results of the analysis are presented thematically and narratively to support conceptual conclusions and relevant policy implications.

3. Results and Discussion

3.1 Financial inclusion as a process, not a binary state

The results of the literature synthesis show that contemporary financial inclusion consistently rejects the understanding of financial inclusion as a binary condition between included and excluded individuals or households. Rather than being treated as a static status, financial inclusion is understood as a gradual process that reflects the journey of households in establishing, maintaining, and utilizing relationships with the formal financial system. The binary approach that has dominated the measurement of financial inclusion, primarily through the indicator of account ownership as the main benchmark, is considered incapable of capturing the complexity of household financial experiences, particularly in the context of developing countries with high levels of economic informality (Ha et al., 2025; Aracil et al., 2025).

Account ownership is often positioned as evidence of the success of financial inclusion policies. However, this indicator represents only the initial stage of a much longer process. Formal access to an account does not necessarily reflect the intensity of use, the quality of engagement, or the economic benefits a household derives from the formal financial system. Many households are administratively “included” in the financial system but remain functionally marginalized because they do not actively or sustainably use these services (Ha et al., 2025). Therefore, financial inclusion should be analyzed as a spectrum encompassing different levels of engagement, rather than a one-time achievement that is completed upon successfully opening an account.

Conceptually, there are at least three main dimensions in the financial inclusion process: access, usage, and effective financial inclusion. The first dimension, access, refers to the ability of individuals or households to open and own formal financial products, such as bank accounts or mobile money accounts. This dimension reflects the minimal institutional connection to the formal financial system. However, access does not provide information on whether these services are actually used, let alone whether their use provides tangible economic benefits. Therefore, access is understood as a prerequisite for inclusion, not as inclusion itself (Ha et al., 2025; Aracil et al., 2025).

The second dimension is usage, which reflects the extent to which formal financial services are actually used in a household's daily life. This use can include payment transactions, savings activities, fund transfers, or managing daily finances. However, the use of financial services is often limited and partial. Many households only use accounts for specific functions, such as receiving salaries, social assistance, or transfers, without integrating them into a broader financial management strategy. At this stage, financial inclusion remains fragile and not necessarily sustainable (Aracil et al., 2025). The third dimension, effective financial inclusion, refers to the condition when the use of financial services is consistent, sustainable, and aligned with the household's economic needs, while providing tangible benefits that improve well-being and financial resilience. Effective inclusion is characterized not only by the frequency of use but also by the ability of financial services to help households manage risk, cope with economic shocks, and plan for long-term needs. However, in developing countries, many households stop at the access and usage stage only, and only a small proportion of households succeed in reaching the effective financial inclusion stage (Ha et al., 2025; Aracil et al., 2025).

Global Findex data serve strong empirical evidence of the gap between access and use of formal financial services. Although global account ownership increased significantly, from 62% of the adult population in 2014 to 69% in 2017, approximately 20% of account holders globally are classified as inactive, having made no deposits or withdrawals in the past twelve months. This inactivity rate is even higher in developing countries, such as India, where nearly half of account holders are inactive. This suggests that the expansion of formal access has not translated into meaningful financial engagement for most low-income households. Furthermore, the use of digital financial services is also highly unequal between high-income and developing countries. While most account holders have made at least one digital payment, the proportion of active users is much lower in developing countries. Many households still receive income, agricultural produce, or remittances in cash and use cash for routine payments such as utility bills. This condition places them at a stage of partial inclusion, where formal access is available, but the use of services has not been integrated into everyday economic practices (Demirgüç-Kunt et al., 2020).

Households can also occupy very different positions on the financial inclusion trajectory. Some are at the stage of formal access without usage, others at the stage of partial usage, and only a small proportion achieve effective inclusion. Household movement along this spectrum is neither linear nor automatically progressive. Individuals with formal access may stagnate or even exit the formal financial system due to high transaction costs, negative experiences with financial institutions, or weakened trust. Therefore, financial inclusion is understood as a process vulnerable to re-exclusion, not a permanent state (Aracil et al., 2025). In this context, the role of financial technology and digitalization warrants more critical examination. FinTech and digital financial services have indeed contributed significantly to expanding initial access to financial services, especially for previously underserved groups. However, expanding access through technology does not automatically guarantee intensive use or effective inclusion. Structural factors such as financial literacy, income stability, transaction costs, product design, and the level of trust in financial institutions remain key determinants of the successful transition from access to sustained use (Care et al., 2025).

3.2 The architecture of gold pawn financing

Gold pawn financing is an asset-based financing mechanism that places gold as the primary determinant in the lending process. Within this architecture, disbursement decisions are not based on the customer's income profile, job stability, business capacity, or credit history, but rely more entirely on the appraised value of the gold used as collateral. The gold pawn process begins with the customer handing over the physical gold to the pawnshop, followed by a series of appraisal stages to ensure the gold's grade, weight, authenticity, and economic value. The appraisal is conducted based on specific standards aligned with gold market prices, ensuring that the financing value provided reflects the liquid value of the collateralized asset (Pegadaian, 2024; Masruroh & Aini, 2017).

Determining the financing value for gold pawning is carried out technically and standardized, including physical inspection of the gold, chemical testing, and specific gravity measurements to ensure its content and authenticity. Based on these assessments, pawnshops can set a financing ceiling, which generally ranges from around 80% of the appraised value for gold jewelry and can reach up to 95% for gold bullion. This proportion indicated that gold is treated as an asset with high liquidity and relatively low credit risk, thus serving as a substitute for income information in the financing process (Kadim & Ismail, 2021).

The simple, collateral-based structure of gold pawning financing allows for fast and efficient disbursement. Gold pawning serves as a short-term financing instrument designed to meet urgent liquidity needs, allowing customers to receive funds immediately after the appraisal process is complete. In practice, gold custody and maintenance fees are calculated daily and paid upon repayment, ensuring that customers receive no upfront loan

deductions. These characteristics emphasize that speed of service and cost transparency are essential elements of the gold pawning operational architecture (Slamet et al., 2024).

This operational architecture directly contributes to low barriers to entry in gold pawn financing. Gold pawn services do not require income documentation, business financial reports, or complex creditworthiness assessments. Access to financing is simply determined by gold ownership and the customer's willingness to pledge it, along with personal identification as the primary administrative requirement. This opens up opportunities for formal financing access for groups with irregular incomes, informal sector workers, and households vulnerable to economic fluctuations. The high number of active pawn accounts reflects that the ease of procedures and simple operational standards are key factors driving widespread public participation in this financing scheme (Pegadaian, 2024; Kadim & Ismail, 2021).

The low barriers to entry in gold pawning do not arise from its informal nature or weak regulation, but rather are the result of an institutional design that consciously replaces income information with asset value as the basis for financing. In this context, gold serves as a risk mitigation instrument, enabling financial institutions to maintain the stability of their financing portfolios while expanding service reach to groups previously underserved by the formal banking system. The short disbursement process and standardized procedures make gold pawning a more practical financing alternative compared to income-based loans, which typically require lengthy verification processes and complex documentation (Kadim & Ismail, 2021).

In addition to ease of access, gold pawn financing also builds a competitive advantage through a cost structure and financing value that customers perceive as fair. In terms of costs, gold pawn financing offers relatively lower and more affordable interest rates and service fees, especially for short-term financing. Determining the loan value commensurate with the value of the gold pledged provides a sense of security and increases customer trust, as financing is not determined unilaterally but based on the market value of the collateral. A fast application process, simple forms, and efficient financing approvals overall reduce administrative burdens and increase customer convenience in accessing gold pawn services (Slamet et al., 2024).

Compared to income-based credit instruments, gold pawn financing offers significant structural advantages, particularly in terms of risk management and financing flexibility. The risk of default in gold pawn financing is primarily managed through a collateral auction mechanism credit risk is independent of income instability. This scheme does not create long-term debt obligations and does not bind customers to ongoing installments, thus providing them with temporary liquidity without the risk of debt traps. The primary risk in gold pawn financing is related to gold price fluctuations rather than customer payment behavior (Pegadaian, 2024; Kadim & Ismail, 2021).

Payment flexibility is also a key distinguishing characteristic of gold pawning compared to income-based loans. Customers are given the flexibility to determine the repayment period according to their financial capabilities, without the pressure of regular installment obligations. This flexibility, combined with the speed of processing and clarity of financing value, makes gold pawning an adaptive financing instrument to household economic dynamics, particularly in addressing short-term liquidity needs (Slamet et al., 2024). In addition to operational and risk aspects, customer perceptions of gold's value also strengthen gold pawning's position in the financing system. Interview results reported by Masrurah & Aini (2017) indicate that gold is perceived as an asset capable of maintaining wealth value, especially during inflationary conditions. Informants assessed that gold's value is relatively stable and does not experience a decline in real value like cash, which is eroded by inflation. This perception makes gold pawning not only a source of emergency funds but also a mechanism for utilizing safe and valuable assets, which strengthens public interest in gold pawning products.

The sustainability and growth of gold pawn products are also reflected in the increasing transaction volume and customer interest over time. Interviews conducted in previous research indicated that the advantage of reasonable prices and the acceptance of

various forms of gold, both bullion and jewelry, as collateral are important factors in expanding the customer base. This flexibility strengthens the appeal of gold pawning as an inclusive and adaptive financing instrument, particularly in comparison to other, more selective and income-based financing products (Masruroh & Aini, 2017).

From a policy perspective, gold pawn financing has also gained institutional legitimacy as part of the formal non-bank financial system. Financial Services Authority/*Otoritas Jasa Keuangan* (OJK) (2025) emphasized that the pawn industry is designed to reach unbanked and underbanked communities by providing simple, fast, and easily accessible collateral-based financing. Within this framework, gold pawning is positioned as a financing instrument structurally distinct from bank financing, as it relies not on income analysis or business feasibility, but rather on the value of liquid, movable assets such as gold.

Strengthening the pawn industry is not achieved by increasing entry barriers to pawn products, but rather by strengthening governance, risk management, and regulatory compliance. This demonstrates that low entry barriers to gold pawn financing are not a systemic weakness, but rather part of a consciously maintained policy architecture to expand financial inclusion (Financial Services Authority, 2025). In this context, pawnshops are positioned as a complement to the banking system, particularly in providing short-term, asset-based financing for communities not covered by income-based credit.

3.3 Gold pawn as an entry mechanism in the financial inclusion cycle

In the financial inclusion cycle, an entry mechanism refers to the initial interaction that enables previously unbanked or underbanked individuals or households to connect with the formal financial system. This mechanism does not always involve bank account ownership or access to conventional credit, but often begins with financial instruments that have low barriers to entry, a simple structure, and are relevant to the economic conditions of vulnerable groups. In this context, gold pawning has emerged as one of the most consistent instruments serving as an initial entry point into the formal financial system, both in developing countries and within state-regulated non-bank financial ecosystems.

Several studies have shown that gold pawning is often the first point of contact for low-income individuals with contract-based financial institutions. Sharma et al. (2017), based on a survey of 1,000 households in rural and peri-urban India, found that the majority of respondents had low and unstable incomes and faced significant limitations in accessing conventional institutional credit. These barriers stemmed primarily from complex administrative requirements, the need for income verification, and inadequate credit history. Under these circumstances, gold pawning became the most accessible instrument because it only required ownership of a physical asset that the household had long held, eliminating the need for an income-based eligibility evaluation.

Compared to other gold-based financial products, such as gold savings or gold investments, gold-backed loans are the most widely used. Gold pawning is primarily used for urgent financial needs, such as healthcare, short-term debt repayment, and household cash flow adjustments (Sharma et al., 2017). This usage pattern indicates that initial interactions with financial institutions are not always driven by asset accumulation or long-term financial planning, but rather by immediate liquidity needs. Within the framework of financial inclusion, this situation actually strengthens the role of gold pawning as a first point of contact, as it occurs at a time when households most need financial access and are most likely to be willing to interact with formal institutions.

The relatively quick and simple gold pawning process makes this experience a first interaction with formal financial procedures. Through the pawning transaction, individuals begin to understand basic concepts such as loan value, interest, maturity, and repayment obligations. In other words, gold pawning introduces them to the formal financial system through practical experience, rather than abstract financial literacy. This makes gold pawning an effective entry mechanism, especially for groups who have previously had no interaction with formal financial institutions.

Besides serving as a first point of contact, gold pawning also serves as a platform for experiential financial learning. In the Pakistani context, microfinance institutions strategically use gold, particularly gold owned by women, which socially serves as a household reserve asset, as collateral for credit to expand access to financing for the poor. Through this scheme, individuals previously unconnected to formal financial institutions gain an understanding of the operational mechanisms of formal credit firsthand. Operationally, gold pawning is designed to resemble a pawnshop model, with minimal administrative requirements, a fast disbursement process, and a primary reliance on asset value instead of income-based valuation.

Repeated interactions through loan disbursement, extension, and repayment create a gradual financial learning environment. Borrowers begin to understand the logic of interest, the risk of default, and the economic consequences of late payments or loss of the pawned asset (Zulfiqar, 2018). This learning occurs not through formal education, but through direct experience with financial institutions. The short-term nature and relatively small value of gold pawning also limit financial risk for borrowers, so that mistakes or failures within a single loan cycle do not immediately result in significant structural losses. Thus, gold pawning is a learning-by-doing mechanism that builds basic financial literacy before individuals interact with more complex formal financial products.

The role of gold pawning as an entry mechanism is also reflected in its ability to establish initial institutional relationships between low-income communities and formal financial institutions. There are differences in the sources of gold pawning based on the level of financial inclusion in a region. In areas with higher financial inclusion, gold pawning tends to be accessed through formal institutions such as banks and non-banking financial companies (NBFCs), while in areas with lower inclusion, communities rely more on informal providers (Sharma et al., 2017). This pattern suggests that gold pawning can function as an institutional bridge, enabling a gradual transition from informal interactions to relationships with formal institutions.

Empirical data from the 2024 Financing Companies, Venture Capital Companies, Microfinance Institutions, and Other Financial Services Institutions/*Perusahaan Pembiayaan, Perusahaan Modal Ventura, dan Lembaga Keuangan Mikro serta Lembaga Jasa Keuangan Lainnya* (PVML) Sector Development Report in Indonesia supports this argument. OJK (2024), noted that financing disbursement in the pawnshop industry reached IDR 88.19 trillion in December 2024, representing significant growth compared to the previous year. The large scale of disbursement and consistent asset growth demonstrate that public interaction with pawnshop institutions is massive and recurring. This creates a continuous, rather than episodic, institutional relationship between customers and formal non-bank financial institutions supervised by regulators. Furthermore, the increase in the number of pawnshop industry players to 190 companies expands the geographic reach and accessibility of services. This intensity of interaction is crucial in the financial inclusion cycle because it introduces customers to formal procedures such as collateral valuation, transaction recording, and repayment obligations within a clear legal framework.

A broader conceptual framework for the role of gold pawning as an entry mechanism can be explained by Levitin (2024), who argues that underbanked groups are not entirely marginalized due to the lack of bank accounts, but rather due to limited access to fair and affordable credit products. In this context, pawn loans, including gold pawning, serve as a first point of contact for individuals excluded from mainstream banking services. Gold pawning can also be understood as an entry-level product that is not necessarily self-profitable but serves a strategic role in building long-term relationships between consumers and financial institutions. Repeated interactions through gold pawning create familiarity, trust, and commitment, which in turn open up opportunities for access to other, more complex financial products

3.4 Financial inclusion transition trajectory from gold pawning to broader financial engagement

Contemporary financial inclusion literature emphasizes that the success of inclusion cannot be measured solely by increasing formal access, but rather by the extent to which individuals can sustainably use financial services and derive tangible economic benefits. Agboola (2025) suggests that the failure of many financial inclusion policies stems from simplifying inclusion as achieving account ownership, without considering the dynamics of user behavior, beliefs, and socioeconomic context. The Global Findex findings reinforce this argument by showing that increasing account ownership in many developing countries is not accompanied by active use of formal financial products such as savings, productive financing, and risk management (Demirgüç-Kunt et al., 2020). The gap between initial access and deeper financial engagement reflects structural and behavioral limitations that have not yet been fully addressed.

Within this framework, gold pawning occupies a relatively unique position as a real asset-based financing instrument. It enables low-income households and informal sector workers to access liquidity without the complex administrative requirements or default risks associated with income-based credit. Empirical evidence from Malaysia suggests that Sharia-compliant pawnbroking services significantly contribute to expanding the inclusion of underbanked groups into the formal financial system at an early stage of institutional interaction (Razak & Asutay, 2021). However, the study also confirms that gold pawning plays a stronger role as an initial access mechanism than as an automatic driver of broader financial inclusion. Therefore, understanding the transition trajectory of gold pawning is crucial in assessing its contribution to sustainable financial inclusion.

3.4.1 Gold pawning and the early dynamics of integration into the formal financial system

Initial experiences interacting with formal financial institutions have a long-term impact on individuals' perceptions and trust in the financial system. In this context, gold pawning serves as a relatively secure initial point of contact because it relies on real assets whose value is widely understood. Razak & Asutay (2021) show that users of ar-rahn services tend to have a higher level of institutional trust in pawnshops than in conventional banks or credit unions, primarily due to the transparency of collateral value and certainty of asset ownership.

Financial inclusion literature emphasizes that institutional trust is a crucial prerequisite for the adoption of more complex and long-term financial services. Ozili (2025) emphasized that effective financial inclusion depends on the alignment of product design with users' socioeconomic experiences. In this context, gold pawning provides a concrete and understandable financial experience, thereby reducing psychological barriers to formal interaction. However, this experience does not automatically encourage the adoption of other financial products such as savings or productive credit, as reflected in the low diversification of financial service use in many developing countries (Demirgüç-Kunt et al., 2020).

3.4.2 Gold pawning and transformation of savings behavior

The transition from gold pawning to formal savings is often assumed to be a natural pathway in financial inclusion strategies, but empirical evidence suggests that this relationship is complex and non-linear. Sharma (2025), using a financial diaries approach, found that poor households often avoid formal savings not because of a lack of access, but because of limited withdrawal flexibility, implicit costs, and the incompatibility of product design with unstable income patterns. Global Findex findings also indicate that increasing account ownership is not accompanied by an increase in the frequency of formal savings, particularly among low-income households and informal workers (Demirgüç-Kunt et al., 2020).

In the context of gold pawning, gold is often positioned as a store of value that is considered safe, liquid, and socially reliable. The literature suggests that gold ownership

allows households to obtain liquidity without permanent asset loss, thus serving as an adaptive risk management mechanism (Razak & Asutay, 2021). Ozili (2025) emphasized that without innovations in more flexible and low-cost savings designs, gold pawning tends to function as a substitute for formal savings, rather than a bridge to formal financial accumulation.

3.4.3 Gold pawning and the path to productive microfinance

Another often-anticipated transition path is a shift from asset-based financing to income-based productive credit. However, empirical evidence suggests that formal credit in many developing countries is more often used for consumption stabilization and mitigating economic shocks than for productive investment (Dupas et al., 2018). This pattern is relevant to the nature of gold pawning, which is inherently designed to meet short-term liquidity needs.

While the experience of pawning gold can enhance transactional literacy and institutional familiarity, fundamental differences between asset-based financing and productive credit create transition barriers. Productive credit requires business planning, risk management, and income stability, which gold pawners often lack. Adam et al. (2025) show that innovations in credit assessment and business mentoring play a crucial role in expanding productive inclusion, but without such support, users tend to remain reliant on short-term financing instruments.

3.4.4 Social, behavioral, and institutional prerequisites for deepening financial inclusion

The literature consistently demonstrates that deepening financial inclusion is the result of a complex interaction between structural, behavioral, and institutional factors. Demirgüç-Kunt et al. (2020) assert that without repeated use and an understanding of long-term benefits, formal access tends to be superficial. From a behavioral perspective, the preference for physical assets such as gold reflects a long-established trust mechanism that has been internalized in household economic practices, particularly in the face of income uncertainty. This trust is difficult to transfer to more abstract financial products without consistent positive experiences (Ozili, 2025).

Institutional factors then determine whether these initial experiences can develop into deeper engagement. Studies on the adoption of digital financial services show that technology has the potential to expand reach and lower transaction costs, but also risks creating new exclusions if not balanced with digital literacy and trust-building (Pradana, 2024; Khan, 2025). In this context, pawnshops have the opportunity to serve as gateways to inclusion, connecting users to other formal financial services in a gradual and contextual manner.

Ultimately, deepening financial inclusion depends on a long-term financial learning process. Agboola (2025) asserts that sustainable inclusion only occurs when individuals transition from simple transactional interactions to meaningful financial engagement. Similarly, Sharma (2025) shows that repeated positive experiences in managing liquidity and risk are more influential in changing financial behavior than one-way education. These findings strengthen the argument that gold pawning, while effective as an entry point for financial inclusion, requires integration with follow-up products and appropriate mentoring to foster broader and more sustainable financial engagement.

3.5 Complementarity, not competition: Gold pawning in the financial inclusion ecosystem

Recent financial inclusion literature emphasizes that expanding financial access is neither homogeneous nor linear. Financial instruments have distinct risk architectures, access prerequisites, and social functions, making the relationship between them more appropriately understood as complementary rather than competitive (Allen et al., 2016).

Within this framework, gold pawning occupies a relatively unique position, yet is often marginalized in discourses that overemphasize digital services and income-based credit.

Fintech lending, particularly peer-to-peer lending, is seen as an innovation that lowers barriers to credit access through digital technology, alternative risk assessment algorithms, and rapid processing (Claessens et al., 2018; Frost et al., 2019). Cross-country studies demonstrate its potential to expand financing to individuals and small businesses underserved by formal banking. However, its effectiveness is highly dependent on digital literacy, device ownership, and income stability. In low-income households and the informal sector, these limitations risk creating new exclusions, where digital access does not always lead to safe and sustainable use (Ozili, 2018; Dupas et al., 2018).

Meanwhile, microfinance literature shows that formal microcredit can improve the economic resilience and productivity of small businesses, although the impacts are heterogeneous and context-dependent. Studies in Brazil show increased income, profits, and reinvestment capacity, particularly in businesses led by women and less experienced entrepreneurs (Bettoni et al., 2023). However, administrative requirements, business stability, and procedural compliance remain obstacles for extremely poor households and informal workers with fluctuating incomes.

Amidst this structural gap, gold pawning serves as a real asset-based financing option that cannot be fully replaced by fintech lending or formal microcredit. Unlike income- or reputation-based credit, gold pawning relies on gold ownership, which is easily convertible, has a stable value, and is recognized socially. This characteristic makes it relatively more inclusive for groups with administrative limitations and income volatility.

Literature on pawn-based finance and Rahn-based financing confirms the high social acceptance and trust of gold pawning among low-income communities. Hassan et al. (2021) show that pawn-based financing enables formal financial integration without excessively increasing the risk of default, as the risk is mitigated through collateral from the outset. This distinguishes gold pawning from fintech lending, which generally does not rely on physical collateral and is more sensitive to income volatility. The social trust dimension further explains the complementary nature of gold pawning. Bongomin et al. (2018) show that social networks and trust mediate the relationship between financial intermediation and financial inclusion in poor households. In this context, gold serves not only as economic security but also as a long-internalized symbol of social security, making gold pawning an initial option before adopting more abstract and digital financial instruments.

Empirical evidence also shows that low-income households tend to use a combination of formal and informal instruments simultaneously to maintain liquidity and cope with income shocks. Within this portfolio, asset-based instruments remain crucial for meeting emergency funding needs (Li & Hiwatari, 2025). These findings confirm that gold pawning does not replace other instruments, but rather complements financing functions not yet fully met by digital or formal microcredit. The relationship between these instruments is sequential, not substitutional. As experience and financial literacy increase, gold pawn users have the potential to transition to other financial services such as formal savings, microcredit, or digital financing. However, this process is not automatic and is heavily influenced by income stability, ownership of additional assets, and social network support (Allen et al., 2016; Ghosh & Vinod, 2017).

From a behavioral financial perspective, early experiences with formal financial services play a crucial role in shaping literacy, trust in institutions, and future financial behavior. Studies show that literacy and interaction experiences enhance household capacity to manage liquidity risk and respond to financial shocks (Liu et al., 2024). In this regard, gold pawning serves as a simple, real-asset-based formal point of contact, enabling basic learning about financial obligations, fees, maturities, and repayment without the complexity of credit contracts or the risk of over-indebtedness. Involvement in the fintech ecosystem is also not exclusive. Kodongo (2024) demonstrates that individuals engaging actively with fintech platforms are significantly more likely to utilize conventional financial products as well. This finding reinforces the view that different financial instruments function synergistically rather than competitively within the financial inclusion process. It

also highlights how gold pawning can act as a critical entry point, facilitating users' progression toward broader engagement with formal financial services. Recent literature also highlights the mutually reinforcing relationship between financial inclusion and financial system stability. Jima & Makoni (2024) found a bidirectional causality between the two in Sub-Saharan Africa, suggesting that instrument diversification and user base expansion strengthen stability through increased savings and productive asset utilization. In the context of microcredit, Ghimire et al. (2025) emphasize the importance of design sensitivity to local socioeconomic conditions, because administrative limitations and income volatility remain major barriers. Pawn-based financing, such as gold pawning, lowers initial barriers because it does not rely on estimated future cash flows or credit history, thus encouraging financial participation from an early stage.

Finally, the behavioral and social capital dimensions further strengthen the complementary role of gold pawning. Social trust has been shown to influence the use of financial services (Khongwir & Sharmiladevi, 2023); moreover, gold's cultural resonance as a symbol of security makes gold pawning a credible entry point into the formal financial system, especially for groups skeptical of technology-based instruments. Overall, the relationship between gold pawning, fintech lending, and microcredit suggests that financial inclusion is a gradual process that requires a diversity of instruments. Within this ecosystem, gold pawning plays a crucial role, not as a competitor, but as a bridge between total exclusion and deeper, more sustainable financial participation.

3.6 Policy implications: Designing inclusion that fits people

The policy implications of the findings on the role of gold pawning as a transitional instrument for financial inclusion require an approach that goes beyond simply expanding formal access. Data and literature show that traditional financial inclusion policies, which largely focus on increasing bank account ownership or access to credit, often fail to accommodate the complex social and economic realities of low-income households, particularly those reliant on the informal sector. This presents an urgent need for regulators and policymakers to design inclusion strategies that address the real needs of communities, rather than simply meeting statistical targets for formal access.

First, for regulators, the literature emphasizes the importance of inclusion policies that focus not only on access but also on effective use and perceived socio-economic benefits. The World Bank (2025) explains that financial inclusion means individuals and businesses not only have access to formal financial products but also use those products affordably and responsibly, according to their needs. Access alone is insufficient if the products are not relevant to the unstable income conditions or are not tailored to the risk context of the target population. Regulators need to implement a policy framework that measures usage and effectiveness (effective inclusion) as indicators of success. This means broadening the definition of inclusion beyond account ownership to include measures that encompass sustained service use, tangible economic benefits, and contributions to household financial resilience. The literature shows that many initiatives only improve basic access without enhancing people's ability to manage financial risk, save, or grow their businesses (Sethi et al., 2025). Policies also need to address increased inclusion within the framework of Sustainable Development Goals (SDGs). Research by Guo & Naseer (2025) shows that increased financial inclusion is positively associated with ESG (environmental, social, and governance) readiness in low- to middle-income countries, demonstrating that robust inclusion can strengthen communities' capabilities in addressing structural challenges and improving their quality of life.

Second, for Pegadaian as financial institutions operating on the front lines, these findings highlight the need for product and service design based on the social realities of the community. Instruments such as gold pawning have a strong appeal because they offer low barriers to entry, do not require the burdensome formal documentation required for bank loans, and are culturally understood as a symbol of security and a store of value. This makes gold pawning a highly trusted "entry point" for households previously excluded from the

formal system. Therefore, Pegadaian's product strategy must integrate this understanding into the development of more inclusive and progressive services, for example, incorporating relevant financial education services and automatic transitions from pawning to savings or other supervised and secure financing services. Relevant literature supports that instruments designed with sensitivity to social realities and community financial behavior will promote broader and more sustainable service use. For example, research on financial literacy shows that public understanding of financial products significantly influences the success of inclusion, with a lack of literacy often being the biggest barrier even when access is available (Hasan & Hoque, 2021). Therefore, Pegadaian and similar institutions need to incorporate contextual financial education into their services, so beneficiaries understand the risks, benefits, and how best to utilize financial instruments. Furthermore, Pegadaian needs to expand collaboration with local agents and community partners to reach remote areas or low-income groups with little interaction with formal financial institutions. Initiatives such as Pegadaian agents using digital technology to serve communities outside of their main offices demonstrate the potential to enrich inclusive networks that are responsive to community needs (Natasia et al., 2024).

Third, within the national inclusion strategy, policymakers should develop a framework that combines formal and informal financial instruments that are valid and appropriate to the local context. This includes recognizing the role of gold pawning not only as an emergency instrument but as part of a financial inclusion trajectory that can serve as a bridge to broader engagement with financial services. This strategy requires synergy between regulators, Bank Indonesia/the Financial Services Authority, state institutions such as Bappenas, and financial industry players to ensure that the products developed provide added value and are safe for end users. National inclusion policies need to incorporate three key pillars: (1) physical and digital access, (2) financial literacy and capacity, and (3) robust consumer protection. Digital access cannot be seen as a single solution if communities lack the capacity to utilize it effectively. Literacy content must also be contextualized to the needs of specific communities, particularly those with unstable incomes and those dependent on the informal economy (Ha et al., 2025). Furthermore, this range of strategies needs to consider consumer protection and ethics in product design. Regulators must clearly define Know Your Customer (KYC) requirements, fee transparency, and prevent service abuse, so that inclusion does not lead to detrimental credit dependency or predatory practices. Numerous studies on inclusion regulation emphasize that a balance between innovation and protection is key to success, particularly when digital technology is used to expand service access to vulnerable segments (Nutassey et al., 2023).

Overall, the policy implications of this study are that effective financial inclusion design must be holistic, sensitive to social behavior, and adaptive to the economic realities of low-income communities. Policies that simply expand access without considering meaningful use, literacy, and social context may fail to address the hidden exclusion often hidden behind formal access figures. An approach that combines asset- and trust-based instruments, such as gold pawning, with safe and educational formal financial services can create a smoother transition path for households to move towards true and sustainable financial inclusion.

4. Conclusions

This The synthesis of literature and empirical data reveals that gold pawning is not simply a means of financial access, but rather a transitional mechanism that enables marginalized communities to build meaningful financial inclusion. For low-income households and informal sector workers, gold serves not only as an asset but also as a symbol of security and trust, essential foundations for sustainable growth of inclusion. These findings emphasize that access alone does not reflect inclusion, and successful financial instruments must align with the socio-economic realities of their users.

More than simply providing quick liquidity, gold pawning acts as an educational bridge, teaching financial literacy through real-life experiences. Interaction with pawnshops builds

an understanding of asset value, risks, liabilities, and financial management, while also fostering trust that becomes social and financial capital. Thus, gold pawning serves as a starting point for strengthening individual capacity and opening up opportunities for a sustainable transition to other formal financial services.

These conclusions confirm that gold pawning is a unique and irreplaceable foundation for financial inclusion, combining social security, flexibility, and accessibility in one mechanism. From a policy perspective, recognizing the strategic role of gold pawning not only expands the reach of financial services but also teaches us that meaningful inclusion arises from instruments that understand and respect people's real lives. Further research could explore how early experiences through gold pawning shape more mature financial behaviors, promote well-being, and foster trust, which lay the foundation for inclusive economic growth.

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