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MORALITY BEFORE KNOWLEDGE

Reconstructing the implementation of sharia principles in Islamic gold pawn practices through *rahn* and *ijārah*

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ABSTRACT

Background: Islamic gold pawning in Indonesia provides short-term financing intended to comply with Sharia principles. However, gaps persist between formal compliance and substantive adherence to *fiqh mu'āmalah* and *maqāṣid al-sharī'ah*. This study examines the implementation of *rahn* and *ijārah* and proposes a model that better reflects substantive compliance. **Methods:** This study employed a normative-empirical (socio-legal) approach, analyzing *fiqh mu'āmalah* literature, DSN-MUI fatwas, Financial Services Authority regulations, contract documents, fee-setting policies, and institutional practices. Qualitative analysis identified discrepancies between normative principles and empirical practices through the *maqāṣid al-sharī'ah* framework. **Findings:** Islamic gold pawning remains predominantly formalistic, with *ijārah* potentially functioning as a revenue-generating mechanism. Linking fees to loan values or gold appraisals rather than actual service costs blurs the distinction between service charges and additional benefits from *qardh*, potentially undermining justice, asset protection *(ḥifẓ al-māl)*, and social welfare. **Conclusion:** Substantive Sharia compliance requires separating social and commercial contracts, basing *ijārah* fees on actual service costs, and integrating *maqāṣid al-sharī'ah* into institutional policies and operations. **Novelty/Originality of this article:** This study proposes a reconstructed implementation model linking contractual separation, cost-based *ijārah* pricing, and *maqāṣid al-sharī'ah* to strengthen substantive Sharia compliance in Indonesian Islamic gold pawning.

KEYWORDS: *ijārah*; Islamic gold pawn; *maqāṣid al-sharī'ah*; *rahn*; reconstruction.

1. Introduction

Islamic gold pawn *(rahn emas)* is one of the Islamic financial products that plays a strategic role in providing fast and liquid financing for the public, particularly for groups with limited access to conventional banking services. In Indonesia, this product has been developed by various Islamic financial institutions, including Islamic banks and Islamic pawnshops, as a short-term financing alternative that claims to comply with sharia principles (Rahmah et al., 2025; Arifin & Hatoli, 2021; Abubakar & Handayani, 2017). In practice, Islamic gold pawn transactions are generally based on the rahn contract as the principal agreement, supported by the *ijārah* contract to cover the costs of maintaining and safeguarding the pledged collateral. Normatively, *rahn* in *fiqh mu'āmalah* is classified as a *tabarru'* contract, which aims to provide security for a debt without being intended to generate profit for the creditor *(murtahin)*. The contract is designed as an instrument of protection and social solidarity and therefore must be safeguarded from elements of exploitation and injustice. Meanwhile, the application of the *ijārah* contract in the context of gold pawn transactions is permissible only insofar as it is limited to the reimbursement

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of actual costs incurred in maintaining the pledged asset *(marhūn)*, rather than functioning as a mechanism for deriving profit from the debt itself.

Nevertheless, in practice, Islamic gold pawn operations in Indonesia have frequently generated debates regarding their level of compliance with sharia principles. Several studies indicate a tendency toward the formalization of contracts, whereby contractual structures adopt sharia terminology while the substance and objectives of the agreements do not fully reflect the values of justice and public welfare that constitute the spirit of Islamic finance (Nouman et al., 2021; Rahman & Kassim, 2017). For instance, the imposition of standardized and profit-oriented *ijārah* fees may blur the boundary between sharia-compliant financing and disguised usury, particularly when such fees no longer correspond to the actual costs of maintaining the collateral. These issues demonstrate that the evaluation of sharia compliance cannot be confined to a purely legal-formal level, but must instead be oriented toward achieving the substantive objectives of sharia (*maqāṣid al-sharī'ah*). From a maqāṣid perspective, Islamic gold pawn practices should contribute to the protection of property (*ḥifẓ al-māl*), transactional justice, and the prevention of exploitation of parties in weaker bargaining positions (Auda, 2008). When gold pawn practices are driven more by commercial logic than by their intended social function, there is a significant risk of deviation from the foundational objectives of the rahn contract itself.

Based on the foregoing discussion, this study aims to analyze the implementation of sharia principles in Islamic gold pawn practices in Indonesia and to reconstruct an implementation model that is more closely aligned with *maqāṣid al-sharī'ah*. This reconstruction is directed not only at the normative aspects of contractual structures, but also at the operational design and policy orientation of Islamic financial institutions. Accordingly, this study is expected to contribute theoretically to the development of contemporary *fiqh mu'āmalah* scholarship, while also offering practical insights for strengthening Islamic financial practices that are just and oriented toward the public good. While existing scholarship has identified the tension between formal and substantive compliance in *rahn emas*, there remains a lack of operational models that bridge high-level maqāṣid theory with institutional pricing and governance mechanisms. This study fills this gap by formulating an integrated, operational reconstruction model tailored to the Indonesian regulatory context.

1.1 Sharia compliance debates in Islamic gold pawn practice

The tension between formal contractual validity and substantive sharia compliance in Islamic gold pawn (*rahn emas*) products is well documented in Islamic finance literature. Prior studies generally fall into two main categories: empirical evaluations of market practice and doctrinal critiques of contract combinations. As highlighted in broader literature surveys of Islamic financial services (Zaher & Hassan, 2017), products such as *rahn emas* have played a pivotal role in expanding access to liquidity. Recent consumer research further shows strong market acceptance of gold-backed financing schemes across diverse demographic segments in Southeast Asia (Amin & Hassan, 2022; Razak & Asutay, 2022). However, scholars consistently point to operational distortions, particularly in determining *ijārah* charges. Studies by Nouman et al. (2016) and Rahman & Kassim (2017) showed that Islamic pawnshops often use standardized fee structures tied to collateral appraisal values rather than actual storage costs. Recent findings by Fathoni et al. (2024) and Wahyuni (2022) further confirm that this practice persists in Indonesian Islamic financial institutions, creating cumulative financial burdens through repeated contract roll-overs.

From a doctrinal perspective, critics argue that structuring *ijārah* fees in direct proportion to collateral values or loan sizes functions as a legal stratagem (*ḥīlah*) to secure loan returns, closely echoing broader critiques of contemporary Islamic banking convergence toward conventional interest structures (Saeed, 2016; Warde, 2016). In the Indonesian context, this commercialization of social contracts creates an ongoing debate between formal legal compliance and substantive sharia ideals (Huda & Nasution, 2019).

This practice directly violates the foundational legal maxim *kullu qardin jarra naf'an fahuwa ribā* (Hamour et al., 2019; Hanif, 2016). While fatwas issued by bodies such as the National Sharia Council/*Dewan Syariah Nasional - Majelis Ulama Indonesia* (DSN-MUI) permit *ijārah* for safekeeping costs, the lack of explicit pricing guidelines has allowed commercial imperatives to overshadow the gratuitous (*tabarru'*) nature of *rahn* and *qardh* (Nafik & Wahyudi, 2020).

1.2 Maqāṣid al-sharī'ah and existing reconstruction models

To address these operational distortions, scholars emphasize aligning multi-contract financial engineering with higher ethical objectives rather than relying on legalistic arbitrage (Abdullah & Dusuki, 2018; Mohammed & Taib, 2015). Within the broader architecture of Islamic financial services, applying a *maqāṣid* framework is essential to preserve the social safety-net function of pawn structures and safeguard vulnerable borrowers from economic exploitation (Obaidullah, 2016). Building on these insights, several scholars have advocated applying the *maqāṣid al-sharī'ah* framework to realign Islamic finance with its higher purpose (Auda, 2008; Chapra, 2016; Laldin & Furqani, 2016). In the context of pawnbroking, Abdullah & Oseni (2017) proposed a *maqāṣid*-based development model emphasizing social welfare, debt alleviation, and property protection (*ḥifẓ al-māl*), while Sakti & Qoyum (2018) emphasized shifting sharia governance from rule-based checklists to outcome-based evaluations.

1.3 Research gap and study novelty

While existing literature thoroughly diagnoses the gap between formal compliance and ethical substance, a clear research gap remains: prior studies offer macro-level conceptual critiques or normative calls for reform, but rarely provide a concrete, operational blueprint for implementation. This study fills that specific gap. The novelty of this paper lies not in diagnosing the compliance deficit itself, but in translating the *maqāṣid al-sharī'ah* framework into an actionable operational model. Unlike earlier studies that focus solely on contractual re-engineering, this paper proposes an integrated reconstruction encompassing four explicit elements: a) A cost-reflective pricing methodology (cost-based *ijārah*) decoupled from loan values; b) A corrected multi-contract operational sequence separating social and commercial logic; c) Maqāṣid-based institutional performance indicators (KPIs) prioritizing customer wealth protection over fee income; and d) A digital governance framework utilizing financial technology for real-time cost transparency and regulatory oversight.

2. Methods

2.1 Research design

This study uses a normative-empirical (socio-legal) research approach to examine how sharia principles are operationalized in Islamic gold pawn (*rahn* emas) practices in Indonesia during 2020–2024. This design is selected because evaluating sharia compliance requires comparing normative standards established in fiqh literature and regulatory fatwas against actual institutional pricing mechanisms and contractual practices.

2.2 Data sources and sampling framework

The study relies on a multi-layered qualitative dataset comprising normative benchmarks and empirical/operational primary documentation: a) Normative Dataset: Encompasses classical and contemporary *fiqh mu'āmalah* literature, key fatwas issued by the National Sharia Council of the Indonesian Council of Ulama, specifically Fatwa DSN-MUI No. 25/DSN-MUI/III/2002 (*Rahn*), No. 26/DSN-MUI/III/2002 (*Rahn emas*), and No.

92/DSN-MUI/IV/2014 (Financing Accompanied by *Rahn*), and statutory regulations issued by the Financial Services Authority/Otoritas Jasa Keuangan (OJK), including *Peraturan Otoritas Jasa Keuangan*/Indonesia Financial Services Authority (POJK) No. 31/POJK.05/2016 and *Surat Edaran Otoritas Jasa Keuangan*/Financial Services Authority Circular Letter SEOJK No. 30/SEOJK.05/2017 on Pawnshop Operations. b) Empirical Operational Dataset: To examine operational realities across different institutional types, the empirical sample focuses on published operational guidelines, standard master contract templates (*qardh, rahn,* and *ijārah*), official fee matrices (*tarif mu'nah*), roll-over policies, and default execution SOPs from representative Indonesian Islamic Financial Institutions (IFIs) operating between 2020 and 2024. These institutions include: Non-bank Islamic pawnshops: PT Pegadaian (Persero) – Syariah Division (e.g., *Rahn* product schedules). Full-fledged Islamic commercial banks: PT Bank Syariah Indonesia Tbk (BSI) (e.g., *Gadai Emas* BSI product documentation). Islamic community banks: Selected *Bank Pembiayaan Rakyat Syariah* (BPRS) operating gold financing schemes.

2.3 Analytical framework and 3-step gap analysis

The data were analyzed qualitatively using a three-stage gap analysis procedure integrated with the *maqāṣid al-sharī'ah* framework. The first stage involved constructing a normative baseline by establishing ideal sharia-compliance benchmarks through analysis of fiqh principles and fatwas. This stage focused on the fundamental *tabarru'* (gratuitous) nature of *qardh* and *rahn*, the requirement that *ijārah* fees reflect actual and verifiable safekeeping costs (cost-recovery), and the broader imperatives of customer protection.

The second stage involved empirical operational mapping, in which operational data from IFI contract templates, tariff structures, and roll-over mechanisms were systematically coded and analyzed. Particular attention was given to fee calculation methods, including whether *ijārah* charges varied according to the loan amount, gold appraisal value, or storage duration calculated in 10-day cycles.

The third stage involved triangulation and *maqāṣid* synthesis by comparing the established normative baselines with empirical operational practices to identify functional gaps. Data were triangulated across secondary case studies, regulatory reports, and institutional disclosures to strengthen the consistency of the findings. The identified gaps were subsequently evaluated through the core principles of *maqāṣid al-sharī'ah*, particularly the protection of wealth (*ḥifẓ al-māl*), transactional justice (*'adl*), and the removal of hardship (*raf' al-ḥaraj*).

3. Results and Discussion

3.1 Islamic gold pawn practices in Indonesia

Beyond variations in *ijārah* fee determination, Islamic gold pawn practices in Indonesia also differ significantly in operational design across Islamic financial institutions. These differences include gold appraisal mechanisms (*taksiran marhūn*), contract renewal structures, and policies on executing collateral in cases of default. This variation indicates that Islamic gold pawn products have not yet been fully standardized, despite operating under the same regulatory and fatwa framework (Financial Services Authority, 2020). Within Islamic banking institutions, gold pawn products are generally positioned as ancillary products intended to attract third-party funds and enhance customer loyalty. However, in several cases, these products have evolved into significant sources of non-margin income through the optimization of *ijārah* fees. This tendency is evident in automatic roll-over policies that impose repeated *ijārah* charges, even though there is no substantial increase in the actual physical storage costs of the gold collateral. In practice, standard rahn contracts operate on a 120-day (4-month) maximum tenure. However, market mechanisms frequently facilitate repeated contract renewals or roll-overs up to 1–2 years. With each 120-day renewal cycle, a new *ijārah* fee cycle is triggered without re-

evaluating the incremental maintenance expenses incurred by the institution (Arifin & Hatoli, 2021; Abubakar & Handayani, 2017; Yuniarti et al., 2018). Furthermore, in cases of customer default, execution procedures under institutional standard operating procedure often involve administrative deductions and auction fees prior to settling the principal *qardh*, which limits transparency regarding the exact surplus returned to the *rāhin* (Rahman & Kassim, 2017). Such practices reinforce the indication that the *ijārah* contract no longer functions as a complementary mechanism, but rather as a primary driver of product profitability.

Meanwhile, in Islamic pawnshop institutions, gold pawn practices tend to be more extensive and primarily target lower- and middle-income segments of society that require rapid liquidity. Although the contractual structure employed is formally similar, the transaction intensity and institutional dependence on *ijārah*-based income are relatively higher. In this context, operational pressures and revenue targets often encourage the imposition of standardized and uniform *ijārah* tariffs, without individualized calculations of actual service costs. Consequently, the service fees charged may become regressive, whereby customers with smaller loans bear a relatively heavier cost burden compared to the actual benefits received. The execution of collateral also presents distinct challenges. Normatively, gold as marhūn may only be sold to settle the principal *qardh* when the customer is genuinely in default, and any surplus from the sale must be returned to the customer. However, in practice, execution procedures are often characterized by a lack of transparency, particularly regarding the timing of the sale and additional charges imposed prior to execution. This condition further weakens the customer's bargaining position and increases the potential for injustice within the contractual relationship.

From the perspective of sharia governance, Islamic gold pawn practices in Indonesia continue to exhibit a tendency toward rule-based compliance, focusing primarily on the formal alignment of contract wording with fatwas, rather than on a substantive evaluation of the economic substance of transactions. Sharia Supervisory Boards generally ensure the formal presence of *qardh*, *rahn*, and *ijārah* contracts, yet they have not consistently assessed whether fee structures and operational mechanisms genuinely reflect cost-based pricing principles and substantive justice. The implication of these conditions is the emergence of a paradox in Islamic gold pawn practices. On the one hand, these products are promoted as sharia-compliant financing solutions that are rapid and free from *ribā*. On the other hand, their cost structures and operational patterns may generate economic burdens that are not substantially different from those of conventional pawn practices, particularly for customers who repeatedly extend their contracts. This paradox indicates that the differentiation between Islamic and conventional gold pawn products has not yet been fully realized at the operational level, despite clear normative distinctions in terminology and contractual structure.

Accordingly, contemporary Islamic gold pawn practices in Indonesia may be understood as an arena of tension between the demands of sharia compliance, the commercial pressures faced by financial institutions, and the liquidity needs of society. Unless these factors are managed through operational designs grounded in the *maqāṣid al-sharī'ah*, Islamic gold pawn practices will continue to oscillate between their intended social function and excessive profit orientation. These findings provide an essential foundation for the subsequent analysis of sharia compliance and the reconstruction of implementation models discussed in the following subsection. The observed diversity in operational practices is further corroborated by regulatory and institutional reports, which indicate that Islamic gold pawn products are implemented with varying degrees of internal policy discretion. The Financial Services Authority/*Otoritas Jasa Keuangan* (OJK) notes that while regulatory guidelines provide general parameters for rahn-based products, detailed operational matters, such as appraisal margins, renewal cycles, and fee calculation methods, are largely delegated to individual institutions (Financial Services Authority, 2020). This regulatory flexibility, while intended to accommodate institutional heterogeneity, inadvertently contributes to inconsistent customer experiences and uneven cost structures across the industry.

Empirical studies on Islamic banking products in Indonesia also demonstrate that non-margin-based income, including fees derived from *ijārah* contracts, has become an increasingly important component of institutional revenue streams, reflecting strategic efforts to diversify income sources beyond profit-sharing mechanisms. In this context, gold pawn products represent a relatively low-risk and liquid instrument, reinforcing institutional incentives to optimize *ijārah* fee structures through repeated contract renewals. The tendency toward automatic roll-over mechanisms must therefore be understood not merely as a technical convenience, but as part of a broader income stabilization strategy. Contract renewal frequency in *rahn emas* products significantly affects the effective cost borne by customers, particularly when renewals are conducted without renegotiation of service fees. This finding supports the argument that repeated *ijārah* charges, when decoupled from actual service cost increments, may function as quasi-fixed charges that accumulate over time, thereby increasing the effective financial burden on customers.

In Islamic pawnshop institutions, transaction volume and customer turnover further intensify these dynamics, as gold pawn transactions constitute a dominant share of financing portfolios, particularly in urban and semi-urban areas where demand for short-term liquidity is high (Arifin & Hatoli, 2021; Abubakar & Handayani, 2017). Under such conditions, standardized tariff systems are often justified on efficiency grounds. However, efficiency-driven standardization may obscure distributive inequities, especially when uniform fees are applied across heterogeneous customer profiles. From a socio-economic perspective, the regressive impact of uniform *ijārah* tariffs aligns with broader critiques of fee-based financial services targeting lower-income populations. Empirical research in Islamic microfinance contexts suggests that flat service fees disproportionately affect small-scale borrowers, reducing the net welfare benefits of ostensibly inclusive financial products (Haneef et al., 2015). This evidence reinforces the concern that Islamic gold pawn practices, when driven by revenue targets rather than cost-reflective pricing, risk undermining their own social justification.

Issues surrounding collateral execution further compound these challenges. Comparative analyses of pawn execution procedures indicate that transparency deficits are not unique to Islamic institutions, but their ethical implications are more pronounced given the normative claims of Islamic finance. The lack of clear disclosure regarding auction timing, valuation benchmarks, and pre-execution deductions has been identified as a recurring governance gap in several case studies of rahn implementation in Southeast Asia (Rahman & Kassim, 2017). Such practices heighten information asymmetry and weaken procedural justice, particularly for customers with limited financial literacy. From the standpoint of sharia governance, this pattern reflects a broader reliance on formalistic compliance models, in which sharia supervision in Islamic financial institutions often prioritizes ex ante contract validation over ex post outcome evaluation. While the formal presence of *qardh, rahn,* and *ijārah* contracts satisfies fatwa requirements, it does not necessarily guarantee that pricing mechanisms and operational practices align with the ethical objectives of Islamic law. This gap between form and substance has been widely recognized as a structural limitation of contemporary sharia governance frameworks (Yasardin et al., 2025; Dasopang & Siregar, 2026).

The paradox identified in Islamic gold pawn practices thus resonates with a recurring theme in Islamic economics literature: the tension between legal formality and ethical substance. Without explicit integration of *maqāṣid al-sharī'ah* into operational decision-making, Islamic financial products risk converging functionally with their conventional counterparts (Chapra, 2016). In the case of gold pawn practices, this convergence is manifested in cumulative cost structures that may approximate interest-based charges, particularly for customers engaged in repeated renewals. Accordingly, the differentiation between Islamic and conventional pawn products cannot be assessed solely on the basis of contractual nomenclature or fatwa compliance. Rather, it requires a holistic evaluation of pricing logic, transparency standards, and distributive outcomes. Empirical evidence

suggests that when these dimensions are neglected, the promise of Islamic finance as a more equitable alternative remains largely rhetorical.

In this respect, positioning Islamic gold pawn practices as an arena of tension between sharia compliance, commercial imperatives, and societal liquidity needs is both analytically and empirically justified. The persistence of this tension indicates that existing governance and regulatory mechanisms have yet to fully internalize *maqāṣid*-based evaluation as an operational benchmark. Unless such an evaluative shift occurs, Islamic gold pawn practices will continue to fluctuate between their declared social mission and institutional profit optimization.

Table 1. Gap analysis between normative *rahn* principles and contemporary practices

Aspect	Normative sharia standard	Current practice	Identified
Function of *qardh*	Benevolent loan (*tabarru'*) without profit orientation	Supports operational revenue through associated fees	Commercialization of social contract
Function of *rahn*	Collateral security for debt repayment	Instrument integrated into revenue-generating structure	Functional distortion of *rahn*
Ijarah fee determination	Based on actual storage and maintenance costs	Frequently linked to loan amount or gold value	Potential resemblance to hidden *riba*
Contract renewal	Administrative necessity only	Repeated fee imposition through roll-over mechanisms	Accumulation of customer burden
Customer position	Protected contractual subject	Limited bargaining power and information asymmetry	Risk of substantive injustice
Sharia governance	Substantive maqasid-based evaluation	Predominantly formal compliance assessment	Gap between form and substance

3.2 Analysis of sharia compliance

From the perspective of *fiqh mu'āmalah*, the *rahn* contract is fundamentally categorized as a *tabarru'* contract, namely a non-commercial agreement intended to assist parties in need of liquidity without any profit orientation for the lender. In classical *fiqh, rahn* functions as a security contract to ensure repayment of the principal loan (*qardh*), rather than as a mechanism for commercializing collateral assets or a source of income for the *murtahin*. Consequently, any additional benefit attached to the *qardh* contract, whether direct or indirect, must be subject to strict scrutiny to ensure compliance with the prohibition of *ribā*. In the practice of Islamic gold pawn in Indonesia, the legitimacy of charging fees to customers is generally grounded in the *ijārah* contract for gold storage and maintenance services. Normatively, the application of *ijārah* is permitted, provided that the fees represent actual services rendered and are not linked to the principal amount of the loan. Problems arise, however, when *ijārah* ceases to function as an ancillary service contract and instead becomes the primary instrument for generating profits for Islamic financial institutions.

Empirical studies indicate that *ijārah* fees in Islamic gold pawn practices are often determined proportionally to the loan amount or the appraised value of the gold, rather than based on actual storage and security costs. For instance, in the operational schedules of major non-bank pawnshops such as PT Pegadaian (Persero) Syariah (*Rahn* product), the *ijārah* fee (*mu'nah*) is calculated per 10-day period based on a percentage multiplier tied directly to the appraised gold value (*taksiran marhūn*), typically ranging between IDR 80 (approximately USD 0.0048) and IDR 125 (approximately USD 0.0076) per IDR 10,000 (approximately USD 0.61) of appraised value, rather than a flat fee reflecting actual physical

storage costs (Fathoni et al., 2024; Wahyuni, 2022). Similarly, in full-fledged Islamic commercial banks such as PT Bank Syariah Indonesia Tbk (BSI), the Gadai Emas (gold pawn) product structures storage fees across pricing tiers aligned with estimated gold value or loan limit rather than actual vault maintenance expenses (Nafik & Wahyudi, 2020). Because a piece of gold worth IDR 10,000,000 (approximately USD 606.06) occupies the same physical vault space as gold worth IDR 100,000,000 (approximately USD 6,060.61), linking *mu'nah* directly to appraisal values reflects a shift from cost recovery to value-proportional profit extraction. In reality, the physical cost of storing gold is relatively stable and does not increase significantly in proportion to the gold's value or the loan size. When *ijārah* fees rise in tandem with loan values, the function shifts from service cost recovery to an implicit increment on the *qardh*. Under such circumstances, *ijārah* risks functioning as a *ḥīlah* (legal stratagem) to legitimize profit-taking from a loan contract, which substantively approximates *ribā*.

In *fiqh mu'āmalah*, a foundational principle to be upheld is *kullu qardin jarra naf'an fahuwa ribā*, every loan that yields benefit to the lender potentially constitutes *ribā*. Although this maxim is not applied textually without exception, scholars broadly agree that any benefit arising from a loan contract must not be exploitative or structurally designed to secure systematic gain for the lender. Therefore, when *ijārah* within Islamic gold pawn products systematically generates income that is directly correlated with loan size, the principle of shariah prudence (*iḥtiyāṭ shar'ī*) necessitates a critical reassessment of its compliance. The dominance of *ijārah* in the revenue structure of Islamic gold pawn products also raises another concern: the blurring of boundaries between service contracts and commercial contracts. In an ideal product design, *rahn* serves as a security mechanism, *qardh* provides liquidity, and *ijārah* functions as a minor complementary contract. In practice, however, Islamic financial institutions often rely almost entirely on *ijārah* for revenue generation, rendering it a de facto substitute for margin or interest. This condition is problematic not only from a fiqh perspective but also in terms of public perception, as it obscures the substantive differentiation between Islamic and conventional pawn practices.

From the standpoint of justice (*'adl*), such practices potentially place customers in an unequal position. Customers, as *rāhin*, are typically in urgent need of liquidity and possess limited bargaining power. When fee structures lack transparency and are determined based on loan value, customers bear an economic burden that is substantively heavier, even though it is not formally labeled as interest. This imbalance contradicts the shariah principle that requires equilibrium between the rights and obligations of contracting parties in *mu'āmalah* transactions. Furthermore, from the *maqāṣid al-sharī'ah* perspective, Islamic gold pawn practices should be oriented toward the protection of wealth (*ḥifẓ al-māl*) and the prevention of economic exploitation. Historically, gold pawn served as an emergency mechanism enabling individuals to obtain liquidity without permanently selling valuable assets (Chapra, 2016; Auda, 2008). However, when *ijārah* fees become excessive and repetitive, this protective function may be reversed, transforming the instrument into an economic burden that erodes the customer's wealth. In this context, Islamic gold pawn products risk losing their social function and devolving into purely commercial instruments.

Critiques of such practices are also evident in contemporary Islamic finance literature, which distinguishes between shariah-compliant and shariah-based products. Products that satisfy only the formal aspects of contractual compliance without embodying the objectives and values of shariah may be deemed shariah-compliant but not necessarily shariah-based (Auda, 2008). In the context of Islamic gold pawn, formal compliance with fatwas does not automatically ensure substantive compliance if cost structures and power relations within contracts continue to reflect exploitative economic patterns. Accordingly, the analysis of shariah compliance in Islamic gold pawn practices in Indonesia reveals structural issues rather than merely technical shortcomings. These issues include the functional shift of the rahn contract, the dominance of *ijārah* as a profit-generating mechanism, and the insufficient protection of customer interests. Without reconstruction efforts that clearly separate social contracts from commercial contracts, Islamic gold pawn practices risk deviating from the foundational principles of *fiqh mu'āmalah* and the objectives of *maqāṣid*

al-sharī'ah. Therefore, shariah compliance evaluation of Islamic gold pawn products cannot be confined to checking contractual conformity with fatwas. It must encompass a comprehensive analysis of fee structures, risk distribution, and the broader social impact of the product. This approach aligns with the imperative to develop Islamic finance that is not only formally free from *ribā* but also substantively just, transparent, and oriented toward public welfare (*maṣlaḥah*).

Beyond the doctrinal and empirical issues discussed above, the persistence of structural problems in Islamic gold pawn practices reflects broader challenges in the institutionalization of Islamic finance. The translation of *fiqh mu'āmalah* principles into standardized financial products often takes place within market-driven and regulatory environments that prioritize efficiency, scalability, and profitability. As a result, Islamic gold pawn products are frequently designed to compete directly with conventional pawn services, leading to convergence in economic outcomes despite differences in contractual form. This convergence can be explained through institutional isomorphism, whereby Islamic financial institutions adopt operational models similar to conventional institutions in order to remain competitive. While such adaptation may enhance financial sustainability, it risks eroding the ethical distinctiveness of Islamic finance. In gold pawn products, the heavy reliance on *ijārah* as a revenue source closely resembles interest-based income structures in conventional pawnshops, albeit under different contractual terminology. Consequently, the normative promise of Islamic finance as a justice-oriented alternative becomes increasingly difficult to substantiate in practice.

Institutional justifications for proportional *ijārah* fees often rest on administrative convenience and risk considerations. However, from a fiqh perspective, such arguments are insufficient unless proportionality can be demonstrably linked to actual and incremental costs. In the absence of transparent cost accounting, fee structures based on loan value remain problematic, as they blur the line between service remuneration and profit extraction from a *qardh* contract. This ambiguity reinforces concerns that *ijārah* may function as a disguised mechanism for deriving benefit from loans. Information asymmetry further exacerbates these concerns. Customers engaging in gold pawn transactions are typically motivated by urgent liquidity needs and possess limited bargaining power. This condition heightens their vulnerability to opaque fee structures and repeated contract extensions. From an ethical standpoint, such asymmetry strengthens the obligation of Islamic financial institutions to uphold substantive fairness rather than relying solely on formal contractual compliance.

The role of shariah governance is therefore critical. In practice, however, shariah supervisory oversight often emphasizes document conformity with fatwas rather than evaluating the substantive economic effects of products. This procedural approach limits the ability of supervisory bodies to address systemic deviations, including the over-commercialization of *ijārah*. Strengthening the mandate of shariah supervision to include substantive economic assessment is essential to restoring alignment with shariah objectives. The *maqāṣid al-sharī'ah* framework provides a comprehensive lens through which these issues can be evaluated. By focusing on outcomes rather than form, *maqāṣid* analysis reveals how excessive and repetitive *ijārah* fees may undermine the protection of wealth (*ḥifẓ al-māl*) and exacerbate economic vulnerability. Historically, gold pawn functioned as an emergency mechanism to alleviate hardship; when transformed into a source of recurring financial burden, this function is fundamentally compromised.

Moreover, repeated rollovers of gold pawn contracts, while offering short-term relief, often entrench long-term dependency and fee accumulation. From a *maqāṣid* perspective, such outcomes contradict the objective of hardship alleviation (*raf' al-ḥaraj*) and challenge the claim that gold pawn products serve a genuine social function. These dynamics underscore the distinction between shariah-compliant and shariah-based finance. Formal compliance with contractual requirements does not guarantee alignment with the ethical and social objectives of shariah. Bridging this gap requires a deliberate shift in product design, governance orientation, and regulatory oversight toward cost-based pricing, transparency, and customer protection. In sum, Islamic gold pawn practices illustrate the

broader tension within Islamic finance between market pressures and normative commitments. Addressing the structural issues identified in this analysis is essential not only for improving gold pawn products, but also for safeguarding the moral credibility and social relevance of Islamic finance more broadly.

Taken together, the analysis demonstrates that the core challenges of Islamic gold pawn practices in Indonesia are not merely technical deviations, but structural distortions embedded in product design and revenue orientation. The functional shift of *ijārah* from an ancillary service contract into a dominant profit-generating mechanism has blurred the normative boundaries between *qardh*, *rahn*, and commercial financing. As a result, formal compliance with shariah contracts and fatwas has not consistently translated into substantive adherence to the principles of *fiqh mu'āmalah* and *maqāṣid al-sharī'ah*. When fee structures are systematically linked to loan value rather than actual service costs, the risk of disguised benefit-taking from loans becomes unavoidable, undermining both justice and the protective function of gold pawn transactions. This condition underscores the necessity of moving beyond checklist-based shariah compliance toward a deeper evaluation of economic substance, risk distribution, and customer protection. Consequently, addressing these structural shortcomings requires not incremental adjustments, but a comprehensive reconstruction of the operational model of Islamic gold pawn products, which is elaborated in the following section.

3.3 Reconstruction of the implementation of sharia principles in Islamic gold pawn practices

The reconstruction of shariah principle implementation in Islamic gold pawn practices in Indonesia must begin with a correction of the product's operational design, rather than merely revising contractual wording or adjusting terminological formulations. As demonstrated in the preceding discussion, the core problem of Islamic gold pawn practices does not lie in the absence of normative foundations, but in the distortion of contractual functions caused by the dominance of commercial orientation in operational practices. Accordingly, the reconstruction proposed in this study is directed toward establishing an operational model of Islamic gold pawn that is consistent with *fiqh mu'āmalah*, compliant with the national regulatory framework, and aligned with the objectives of *maqāṣid al-sharī'ah*.

Table 2. Reconstruction framework for Islamic gold pawn practices

Component	Existing model	Reconstructed model
Qardh	Supporting commercial structure	Pure *tabarru'* financing
Rahn	Security instrument with indirect commercial function	Pure collateral mechanism
Ijarah	Revenue-generating mechanism	Cost-recovery mechanism
Pricing basis	Loan value/gold appraisal	Actual operational cost
Contract extension	Additional repetitive charges	Limited and transparent charges
Customer position	Financing user	Protected legal subject
Governance orientation	Rule-based compliance	Maqasid-based governance
Performance indicator	Fee income and volume	Welfare and customer protection

This reconstructive approach is grounded in the assumption that shariah compliance cannot be adequately assessed solely on the basis of formal contractual legality (shariah-compliant), but must instead be evaluated through its economic impact, risk distribution, and the degree of protection afforded to weaker parties (shariah-based) (Auda, 2008). Consequently, the reconstruction focuses on structural and operational dimensions, which have thus far constituted the primary sources of substantive non-compliance identified in the preceding analysis.

3.3.1 Fundamental principles of reconstruction

The proposed reconstruction model is built upon three fundamental principles. First, a strict separation between social contracts and commercial contracts must be firmly established: the *qardh* and rahn contracts must be consistently positioned as *tabarru'* (benevolent) contracts oriented toward liquidity assistance and protection, rather than as sources of institutional revenue, a principle that accords with the classical construction of *fiqh mu'āmalah*, which conceptualizes *rahn* as a security instrument rather than a tool for commercialization. Second, the function of the *ijārah* contract must be strictly limited to a mechanism for reimbursing the actual costs of safekeeping and maintaining the pledged gold; the *ijārah* contract must not operate as a profit center or as a substitute for financing margins, as such a function would potentially transform it into a means of extracting benefit from a *qardh* contract, which is fundamentally prohibited under Islamic law. Third, customers must be repositioned as protected contractual subjects rather than as objects of liquidity commercialization, a principle that directly derives from the objectives of *maqāṣid al-sharī'ah*, particularly the principles of justice (*'adl*) and the prevention of hardship (*raf' al-ḥaraj*) in economic transactions (Chapra, 2016). Without adherence to these three principles, Islamic gold pawn practices will remain confined to formal compliance and will fail to achieve substantive shariah compliance.

3.3.2 Reconstruction of the contractual scheme

The proposed reconstruction model retains the multi-contract structure commonly found in existing practices; however, it introduces fundamental corrections to the functions and orientations of each contract, resulting in a corrected multi-contract structure comprising three components. The *qardh* contract, as the primary contract, functions as a short-term liquidity facility provided to customers. It is *tabarru'* in nature and non-commercial, and therefore must not generate any additional benefit for the institution, whether directly or indirectly; any scheme that links the amount or duration of *qardh* to institutional revenue must be eliminated. The *rahn* contract, as the security contract, serves as a security mechanism to ensure the repayment of the *qardh* principal; the pledged gold (*marhūn*) must not be exploited economically by the institution, either through direct use or through indirect mechanisms that generate financial gain. The *ijārah* contract, as the safekeeping service contract, is strictly limited to the reimbursement of actual costs associated with the physical storage, security, and administrative handling of the pledged gold; its nature is cost recovery rather than profit generation, and within this reconstructed model, *ijārah* is positioned as a secondary and ancillary contract, not as the primary source of product income.

3.3.3 Reconstruction of the cost structure (cost-based model)

Figure 1 illustrates the proposed *maqāṣid*-based operational model of Islamic gold pawn, which traces the transaction flow from the customer (*rāhin*) through the *qardh* contract for liquidity assistance, the rahn contract for collateral security, gold storage, and the *ijārah* contract for actual cost recovery, culminating in transparent cost disclosure that is directed toward the realization of *maqāṣid al-sharī'ah* outcomes, namely justice (*'adl*), wealth protection (*ḥifẓ al-māl*), the removal of hardship (*raf' al-ḥaraj*), and public welfare (*maṣlaḥah*).

The reconstruction of the cost structure requires a paradigm shift from loan-based pricing to cost-based pricing. The *ijārah* fee must be calculated based on actual and verifiable cost components, including physical storage costs, security expenses (such as insurance and security systems), and operational administrative costs, an approach that is consistent with the principles of justice and transparency in mu'āmalah transactions (Chapra, 2016). Since these costs are relatively fixed in nature, there is neither a shariah-

based nor an economic justification for increasing *ijārah* fees in proportion to the loan amount or the value of the pledged gold.

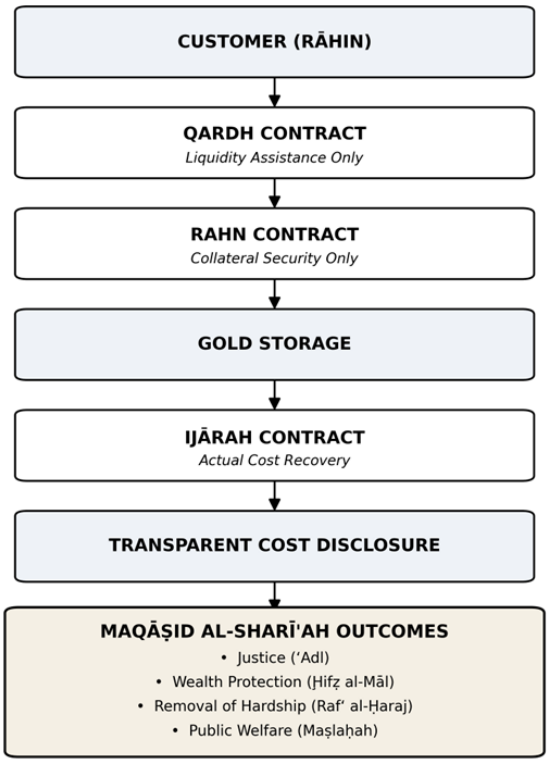


Fig. 1. Proposed *maqāṣid*-based operational model of Islamic gold pawn

Under the reconstructed model, the cost flow is structured such that the customer first receives *qardh* funds without any loan-based charges; the institution then calculates the total actual safekeeping costs per period; the *ijārah* fee is subsequently charged as a transparent flat fee; and no additional charges are imposed for tenure extensions that may lead to exploitative practices. This scheme ensures that *ijārah* fees remain predictable, limited, and equitable, while simultaneously closing the loopholes that have allowed hidden forms of *ribā* to emerge in practice.

3.3.4 Reconstruction of the customer's position in the contract

This reconstruction explicitly repositions the customer from a commercial object to a protected legal subject of the contract, rather than a mere object of liquidity commercialization. Customers are entitled to receive detailed cost information from the outset, are not required to bear the institution's business risks, and must not be subjected to repetitive and disproportionate charges. This repositioning is consistent with the principles of *'adl* (justice) and *raf' al-ḥaraj* (removal of hardship) within the framework of *maqāṣid al-sharī'ah* (Auda, 2008). Relatedly, cost transparency must be treated as a Sharia obligation rather than merely an administrative requirement. Each component of the *ijārah* fee must be explainable, auditable, and defensible from a fiqh perspective. A lack of transparency in cost determination may constitute gharar, potentially undermining the contract's validity and ethical legitimacy.

Effectively implementing these protections also requires strong institutional and regulatory support. The Financial Services Authority/*Otoritas Jasa Keuangan* (OJK) should develop clear technical guidelines for calculating *ijārah* fees based on actual and verifiable costs. At the institutional level, Sharia Supervisory Boards should be granted a stronger mandate to assess the economic substance of contracts, rather than limiting their oversight to contractual wording and formal compliance. Accordingly, the supervisory approach must

shift from a compliance-checklist model toward a framework of substantive Sharia governance that evaluates actual economic outcomes and social impacts.

3.3.5 Strengthening maqasid-based governance in Islamic gold pawn operations

Beyond regulatory reform and enhanced supervisory functions, the reconstruction of Islamic gold pawn practices requires the institutionalization of *maqasid al-shariah* as a practical governance framework. Contemporary Islamic financial institutions frequently employ maqasid discourse at the level of vision statements and corporate values, yet operational decisions continue to be guided primarily by efficiency, profitability, and market competitiveness. Consequently, there is often a disconnect between the normative aspirations of Islamic finance and the actual outcomes experienced by customers (Auda, 2008; Yasardin et al., 2025; Dasopang & Siregar, 2026). A maqasid-based governance framework requires institutions to evaluate not only whether a transaction is contractually valid, but also whether it contributes to the realization of justice, transparency, and public welfare. In the context of Islamic gold pawn practices, such an approach shifts the focus of compliance assessment from contractual form to substantive outcomes; the central question is no longer whether the product contains *qardh*, *rahn,* and *ijarah* contracts, but whether the implementation of those contracts genuinely protects customers and prevents exploitation (Laldin & Furqani, 2016).

The protection of wealth (*hifz al-mal*) constitutes one of the most relevant maqasid objectives in gold pawn transactions. Historically, rahn was intended to preserve ownership rights while enabling temporary access to liquidity; customers were not required to sell their valuable assets permanently, nor were they expected to bear excessive financial burdens in exchange for emergency financing. Therefore, the contemporary implementation of gold pawn products should preserve this protective function by ensuring that service charges remain reasonable, transparent, and proportionate to actual operational costs (Chapra, 2016; Abdullah & Oseni, 2017). A maqasid-oriented governance model would also require periodic evaluations of customer outcomes. Institutions should assess whether customers repeatedly rely on contract renewals, whether fee accumulation creates long-term financial pressure, and whether gold pawn products contribute to financial resilience or financial dependency- evaluations that are essential because compliance cannot be measured exclusively through legal documentation; the social consequences of a financial product must also be taken into account as part of a comprehensive shariah assessment (Auda, 2008).

3.3.6 Reconstruction of performance indicators

Another important aspect of reconstruction concerns the indicators used to evaluate the success of Islamic gold pawn products. Existing institutional performance measurements tend to emphasize financial indicators such as transaction volume, portfolio growth, fee-based income, and profitability; while these indicators are important for institutional sustainability, they do not adequately reflect the social objectives embedded within Islamic finance (Laldin & Furqani, 2016; Dusuki & Bouheraoua, 2018). Under the reconstructed model, financial performance indicators should be complemented by maqasid-oriented indicators. Examples include the proportion of customers successfully redeeming their gold without repeated contract extensions, the transparency level of fee disclosures, customer satisfaction regarding fairness, and the contribution of gold pawn products to financial inclusion among underserved communities (Ascarya & Yumanita, 2019; Haneef et al., 2015).

The incorporation of such indicators would encourage institutions to balance commercial objectives with social responsibilities; rather than maximizing income from repeated renewals, institutions would be incentivized to design products that facilitate timely repayment and asset recovery, a shift that would strengthen the substantive distinction between Islamic and conventional financial services (Sakti & Qoyum, 2018;

Bakar, 2018). Furthermore, maqasid-based performance indicators could become an important component of shariah audits conducted by regulators and Shariah Supervisory Boards; by assessing both financial outcomes and social impacts, supervisory mechanisms would be better positioned to identify practices that formally comply with contractual requirements but undermine the ethical foundations of Islamic finance (Yasardin et al., 2025; Dasopang & Siregar, 2026; Lahsasna, 2016).

3.3.7 Digitalization and the future of Islamic gold pawn services

The rapid development of financial technology also presents opportunities for reconstructing Islamic gold pawn practices. Digital platforms can significantly improve transparency, efficiency, and customer protection when designed in accordance with shariah principles (Yasardin et al., 2025; Dasopang & Siregar, 2026; Lahsasna, 2016). Through digital systems, customers can receive detailed information regarding appraisal methods, storage costs, fee calculations, contract durations, and collateral status in real time; such transparency reduces information asymmetry and strengthens informed consent, which is an important element of valid contractual relationships in Islamic law (Kamali, 2017; Al-Amine, 2016). Digitalization can also facilitate more accurate cost-based pricing models: instead of relying on generalized fee structures, institutions can calculate actual operational costs more precisely and allocate them proportionately among customers, a capability that strengthens the legitimacy of *ijarah* fees and reduces the risk of hidden profit-taking through service contracts (Rosly, 2015; El-Gamal, 2016).

In addition, digital monitoring systems can help regulators and Shariah Supervisory Boards conduct continuous supervision rather than relying solely on periodic audits; transaction patterns, fee structures, contract renewal frequencies, and collateral execution procedures can be monitored more effectively, thereby enhancing accountability and compliance (Lahsasna, 2016; Yasardin et al., 2025; Dasopang & Siregar, 2026). However, digital transformation must not be viewed merely as a technological solution: technology can improve efficiency, but it cannot substitute for ethical commitment, and if profit maximization remains the dominant institutional objective, digital systems may simply accelerate existing problematic practices. Therefore, technological innovation must be accompanied by a strong commitment to maqasid al-shariah and substantive justice (Auda, 2008; Dusuki & Bouheraoua, 2018).

3.3.8 Long-term implications for Islamic financial development

The reconstruction proposed in this study has implications that extend beyond Islamic gold pawn products. The issues identified in *rahn emas* practices reflect broader challenges faced by contemporary Islamic finance, namely the tendency to prioritize formal contractual compliance over substantive ethical objectives (Sakti & Qoyum, 2018; Auda, 2008). If Islamic financial institutions continue to focus primarily on legal structures while neglecting distributive justice and social welfare, public confidence in Islamic finance may gradually weaken. Customers increasingly evaluate financial products based on practical outcomes rather than contractual terminology; consequently, the credibility of Islamic finance depends not only on legal legitimacy but also on its ability to provide demonstrably fair and beneficial alternatives to conventional finance (Chapra, 2016; Yasardin et al., 2025; Dasopang & Siregar, 2026).

The reconstructed model therefore offers a broader framework for the future development of Islamic financial products. It emphasizes that compliance should be evaluated through three interconnected dimensions: contractual validity, economic substance, and social impact (Dusuki & Bouheraoua, 2018; Laldin & Furqani, 2016); a product can only be regarded as fully shariah-based when all three dimensions operate harmoniously. In this respect, Islamic gold pawn practices can serve as an important case study for the wider Islamic finance industry. The lessons derived from rahn implementation demonstrate that sustainable differentiation from conventional finance cannot be achieved

through contractual innovation alone; it requires institutional commitment to justice, transparency, accountability, and public welfare as integral components of financial practice (Bakar, 2018; Abdullah & Oseni, 2017).

Ultimately, the success of Islamic finance should not be measured solely by asset growth, market share, or profitability, but by its contribution to human well-being, economic fairness, and the realization of *maqasid al-shariah* (Chapra, 2016; Auda, 2008). Through this orientation, Islamic gold pawn products can reclaim their original function as instruments of protection and social assistance while maintaining financial sustainability in a modern economic environment.

3.4 Implications of the reconstruction model

The proposed reconstruction model generates three major implications. First, it creates a clear and substantive differentiation between shariah-compliant gold pawn services and their conventional counterparts. Second, it strengthens the moral legitimacy of Islamic finance in the eyes of the public by aligning operational practices with ethical commitments. Third, it safeguards the objectives of *maqāṣid al-sharī'ah*, particularly the protection of wealth (*ḥifẓ al-māl*) and the realization of economic justice. Without such reconstruction, shariah-based gold pawn products risk becoming institutions that are shariah in name but conventional in substance.

4. Conclusions

This study concludes that Islamic gold pawn (*rahn emas*) practices in Indonesia suffer from structural distortions rather than minor technical shortcomings. While formally compliant with DSN-MUI fatwas and OJK regulations, operational practices frequently distort the gratuitous (*tabarru'*) nature of *qardh* and rahn by positioning *ijārah* as a dominant revenue-generating mechanism. Linking *ijārah* fees to collateral appraisal values rather than actual storage costs blurs the boundary between service remuneration and disguised interest, compromising the substantive principles of transactional justice (*'adl*) and property protection (*ḥifẓ al-māl*).

To resolve these distortions, this study proposes an operational reconstruction based on three core pillars: (1) a strict separation between social (*tabarru'*) and commercial contracts, (2) the adoption of a cost-based pricing methodology for *ijārah* fees, and (3) the repositioning of customers as protected legal subjects rather than commercial targets. By integrating maqāṣid-based performance indicators and digital transparency, this model ensures that products are not only formally valid but also substantively fair.

Theoretically, this research advances the application of *maqāṣid al-sharī'ah* in contemporary financial engineering by operationalizing the distinction between sharia-compliant and sharia-based products. Practically, it offers actionable guidelines for regulators and Sharia Supervisory Boards to shift oversight toward substantive economic outcomes. Ultimately, the long-term credibility of Islamic gold pawn practices depends on realigning product design from profit maximization toward genuine social protection, preventing them from becoming sharia in name but conventional in substance.

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Author Contribution

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The data supporting this study's findings, including the fatwas, regulations, and institutional documents analyzed, are publicly available and cited in the article. No additional dataset was generated for this study.

Conflicts of Interest
The author declares no conflict of interest.

Declaration of Generative AI Use
During preparation of this work, the author used Grammarly to improve the grammar, clarity, and academic tone of the manuscript. After using this tool, the author reviewed and edited the content as needed and took full responsibility for the publication's content.

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