JEMBAR
Journal of Economic, Business & Accounting Research
JEMBAR 4(1): 90–107
ISSN 3024-9813

Institute for Advanced Science, Social and Sustainable Future
MORALITY BEFORE KNOWLEDGE

The potential role of Pegadaian in supporting MSMEs: Perspectives from MSMEs entrepreneurs

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Received Date: February 12, 2026 Revised Date: June 25, 2026 Accepted Date: July 23, 2026

ABSTRACT

Background: Micro, small, and medium enterprises (MSMEs) constitute the backbone of Indonesia's people-centered economy; however, limited access to formal financing remains a significant structural constraint on their business sustainability. Existing literature on the role of Pegadaian (the Indonesian state-owned pawnshop institution) is predominantly characterized by quantitative and institutional approaches, leaving the subjective perspectives and lived experiences of MSME actors, the primary agents of the people's economy largely underexplored. **Methods:** This study adopts a qualitative approach using a single case study design to obtain an in-depth understanding within a real-life context. Data were collected through in-depth interviews with a micro-entrepreneur operating a canteen business in Surabaya and analyzed using thematic analysis to identify patterns and meanings related to financing dynamics and institutional perceptions. **Findings:** The findings indicate that MSME actors tend to rely on self-financing to minimize financial risk and avoid social stigma associated with debt. A major operational challenge identified is seasonal income fluctuation, which threatens daily cash flow stability. Although Pegadaian is perceived as highly accessible with fast procedures, its utilization is constrained by low financial literacy and fears related to interest burdens and collection risks. Nevertheless, a form of latent trust emerges, as the informant acknowledges Pegadaian's substantial potential as a liquidity provider for fellow MSME actors. **Conclusion:** Pegadaian holds strategic potential as a financial buffer that is crucial for MSME resilience in coping with short-term economic shocks. The success of financial inclusion depends not only on physical access to financial services but also on strengthening financial literacy and building trust through empathetic communication. **Novelty/Originality of this article:** The originality of this study lies in addressing an academic gap by presenting a qualitative perspective that highlights the psychosocial and cognitive dimensions of micro-entrepreneurs, offering a more contextualized and nuanced understanding of financial inclusion barriers that have been overlooked in conventional studies.

KEYWORDS: economic populism; financial buffer; financial inclusion; MSMEs; Pegadaian.

1. Introduction

Micro, small, and medium enterprises (MSMEs) constitute the backbone of the national economy due to their significant contributions to job creation, unemployment reduction, and income distribution. Numerous studies affirm that MSMEs play a strategic role in improving societal welfare and strengthening the national economic structure (Kholifah & Andini, 2024; Organisation for Economic Co-operation and Development [OECD], 2019). These contributions position MSMEs as the primary foundation of the people-centered economy, which emphasizes empowering lower-income communities and enhancing

Cite This Article:
Binaraesa, N. N. P. C., Ikayanti, & Nuryadi. (2026). The potential role of Pegadaian in supporting MSMEs: Perspectives from MSMEs entrepreneurs. *Journal of Economic, Business & Accounting Research, 4*(1), 90-107. https://doi.org/10.61511/jembar.v4i1.2026.3551

domestic economic resilience. In the global context, the World Bank (2020) highlights that MSMEs play a crucial role in promoting inclusive economic growth, particularly in developing countries. In Indonesia, MSMEs not only serve as key drivers of local economic activity but also function as economic buffers for households during periods of macroeconomic shocks (OECD, 2019). Therefore, MSME sustainability represents a strategic issue in long-term economic development.

Nevertheless, MSMEs continue to face various structural constraints in business development, particularly related to limited access to financing. MSMEs actors frequently encounter difficulties in obtaining capital due to insufficient collateral, administrative eligibility constraints, and the complexity of formal banking procedures (Beck et al., 2007). In addition, limited market access, low product exposure, and inadequate financial literacy further exacerbate the position of MSMEs within the formal financial ecosystem (Otoritas Jasa Keuangan [OJK], 2021; Prasetyo & Adiwati, 2025).

These conditions drive many MSMEs actors to rely on personal capital or informal financing sources, which often involve higher risks and may hinder business growth. In this context, non-bank financial institutions play a strategic role in expanding financial inclusion. Pegadaian, as a state-owned non-bank financial institution, offers financing characteristics based on simple collateral with relatively fast procedures, thereby holding the potential to reach micro-scale MSME actors who are considered unbankable (OECD, 2019; World Bank, 2020). However, academic studies examining the role of Pegadaian in supporting MSMEs and the people-centered economy remain relatively limited. Bibliometric analysis using the VOSviewer application (Figure 1) indicates that research related to Micro, Small, and Medium Enterprises (MSMEs) is predominantly associated with sustainability and sustainable development issues, while linkages with non-bank financial institutions such as Pegadaian are still minimal. Moreover, existing studies tend to be dominated by quantitative and institutional approaches, resulting in limited exploration of MSMEs actors' direct perspectives as the primary agents of the people-centered economy (Creswell & Plano Clark, 2017; Yin, 2018).

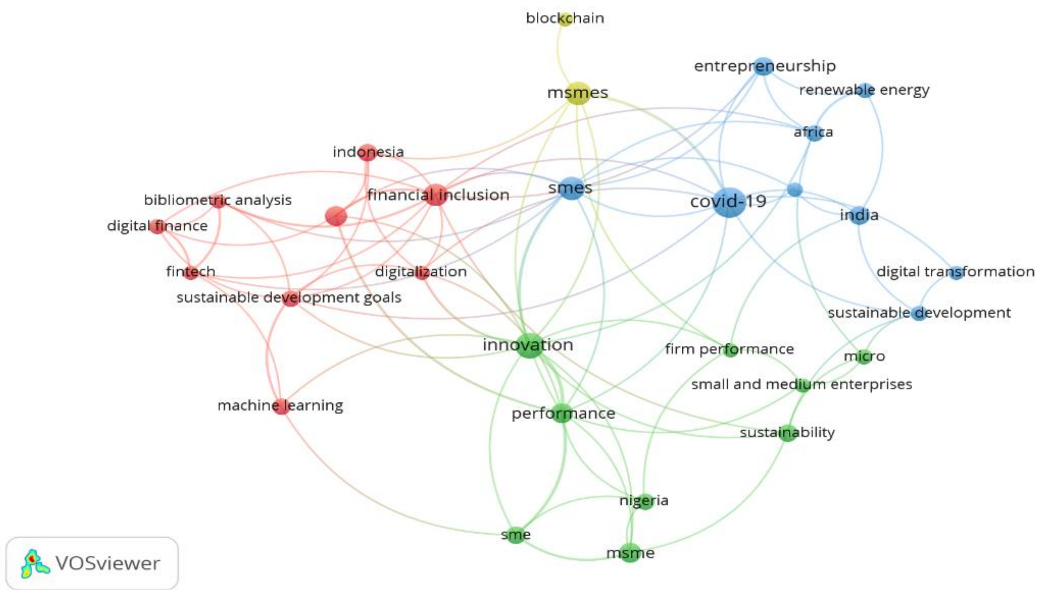

Fig. 1. Results of a Scopus-based bibliometric analysis using the keywords "MSMEs" and "financial institutions."

Although previous studies have extensively discussed MSMEs financing, financial inclusion, and the institutional performance of Pegadaian, most have employed quantitative or institution-centered approaches. Consequently, limited attention has been given to the lived experiences, perceptions, and psychosocial considerations that influence financing decisions among MSME actors themselves. This gap is important because financial inclusion depends not only on service availability but also on how potential users perceive, trust, and evaluate financing institutions. Therefore, this study adopts a qualitative case study approach to explore the potential role of Pegadaian in supporting MSMEs and the people-centered economy from the perspective of MSMEs actors.

1.1 MSMEs and the people-centered economy

The people-centered economy is an economic development model grounded in the values of community participation, social solidarity, and economic justice, with the primary objective of improving public welfare in an equitable manner. This concept emphasizes the active involvement of society in all economic processes from production and distribution to the consumption of goods and services, so that economic growth is not concentrated among specific groups (Akbar et al., 2024). The core principles of the people-centered economy include equal opportunities for entrepreneurship, fair distribution of development outcomes, and the empowerment of communities as the main actors in economic activities.

Within the framework of the people-centered economy, micro, small, and medium enterprises (MSMEs) occupy a highly strategic position. MSMEs function as bottom-up economic drivers capable of absorbing large numbers of workers, expanding entrepreneurial opportunities, and strengthening local economic resilience (OECD, 2019; World Bank, 2020). In Indonesia, MSMEs contribute approximately 60.5% of national Gross Domestic Product (GDP) and employ more than 97% of the workforce, making them the backbone of the national economy as well as the foundation of the people-centered economy (Hidayat, 2024).

MSMEs also play a critical role in promoting income equality and reducing regional economic disparities. Empirical studies indicate that MSMEs are able to stimulate local economic growth through the utilization of local resources and the creation of community-based value added (Sarfiah et al., 2019; Tambunan, 2021)(Sarfiah et al., 2019; Tambunan, 2021). In addition, MSMEs contribute to strengthening national competitiveness through sectoral diversification, encompassing agriculture, manufacturing, trade, and services. Despite their strategic role, MSMEs actors continue to face various structural challenges that hinder the optimization of their contribution to the people-centered economy. One of the primary issues is limited access to capital. Many MSMEs are unable to meet the administrative requirements and collateral standards imposed by formal banking institutions, resulting in reliance on personal capital or informal financing sources with high costs (Beck et al., 2007; Hidayat, 2024). This condition may undermine business sustainability and increase MSMEs' vulnerability to economic shocks.

Based on asset and income criteria, MSMEs in Indonesia are classified into micro, small, and medium enterprises, each with distinct characteristics and financing needs (Tambunan, 2021). Therefore, strengthening the people-centered economy requires supportive policies and an inclusive financial ecosystem, particularly through the role of non-bank financial institutions that are able to reach micro-scale MSME actors in a more flexible and contextual manner. In this context, discussion of Pegadaian's potential becomes highly relevant as part of efforts to strengthen the role of MSMEs within the people-centered economy.

1.2 Financial inclusion and MSME financing

Financial inclusion is a strategic economic development agenda aimed at ensuring that all segments of society, including micro, small, and medium enterprises (MSMEs), have access to affordable, safe, and appropriate formal financial services (World Bank, 2020). Financial inclusion is widely regarded as a key instrument for reducing economic inequality, improving social welfare, and strengthening the economic resilience of households and small businesses (Demirgüç-Kunt et al., 2018).

In practice, formal financial institutions are not limited to banks. Non-bank financial institutions play an important role in reaching segments of society that are not adequately served by the banking sector, particularly non-bankable micro MSMEs (Organisation for Economic Co-operation and Development [OECD], 2019). One of the most strategic non-bank financial institutions in Indonesia is Pegadaian, a state-owned enterprise (SOE) with a social mandate to support financial inclusion and the people-centered economy. Pegadaian provides financing services based on simple collateral with relatively fast procedures, making it more adaptive to the characteristics of micro-scale MSMEs.

Along with technological advancements, Pegadaian has continued to innovate through digital transformation and the expansion of agency-based service access. The digitalization of Pegadaian's services, such as Pegadaian Digital Service and the strengthening of its agency system, enables MSMEs actors to access financing and financial services without having to visit physical branch offices. These innovations significantly improve transaction efficiency and expand outreach to communities in remote areas (Rambu et al., 2024). Such digital transformation not only enhances financial inclusion but also contributes to improved institutional performance through operational efficiency and easier access to digital-based financial services.

For MSMEs actors, the presence of non-bank financial technology is not merely an innovation, but a tangible solution for maintaining business cash flow sustainability. Studies indicate that fast and flexible access to financing is crucial for MSMEs in coping with income fluctuations and economic shocks (OECD, 2019; World Bank, 2020). Supported by increasingly robust digital infrastructure, Pegadaian positions itself as a strategic partner in sustaining the smallest economic units in Indonesia. Nevertheless, various studies show that increased access to formal financial services is not always accompanied by higher utilization, particularly among micro MSMEs. Low levels of financial literacy make it difficult for MSMEs actors to understand the characteristics of financing products, cost structures, and the risks inherent in formal financial services (OJK, 2021). In addition, risk perceptions such as fear of interest charges, concerns over default, and social stigma further reinforce MSMEs' reluctance to utilize formal financing. Financial literacy is also an important dimension in determining how MSME actors evaluate and respond to financial opportunities. A systematic literature review by Graña-Álvarez et al. (2022) shows that financial literacy among SMEs is influenced by educational, cultural, and contextual factors and is associated with financial attitudes, financial behavior, organizational capabilities, and SME performance. Therefore, limited financial literacy may affect not only whether entrepreneurs are aware of available financial services, but also how they interpret financing costs, risks, repayment obligations, and potential business benefits. In the context of MSMEs, strengthening financial inclusion should consequently be accompanied by efforts to improve entrepreneurs' capacity to understand and evaluate financing alternatives.

These conditions underscore that the challenges of MSME financial inclusion are not solely structural, but also cognitive and psychosocial in nature. Therefore, strengthening financial inclusion requires a comprehensive approach that goes beyond expanding access to services to include improving financial literacy, building trust, and fostering more empathetic and educational communication with MSME actors (Lusardi & Mitchell, 2023; OJK, 2021). In this context, Pegadaian's role becomes particularly relevant as a non-bank financial institution that not only provides financing but also has the potential to serve as a bridge for literacy and trust within the MSME financial inclusion ecosystem.

Financial inclusion among MSMEs should not be understood solely in terms of the physical availability of financial services. The ability of MSME actors to access and utilize financial services is influenced by demand-side, supply-side, and institutional factors. Thathsarani et al. (2023) demonstrate that SME financial inclusion is associated with factors such as the ability of entrepreneurs to manage economic changes, willingness to expand the business, collateral requirements, application procedures, ownership characteristics, and business-sector conditions. This perspective suggests that expanding access to financial services alone may not automatically lead to greater utilization among MSMEs. Instead, financial inclusion requires financial services that are accessible, appropriate to the characteristics of small businesses, and supported by institutional mechanisms that reduce barriers to utilization.

The importance of financial inclusion is not limited to improving access to financial services but also extends to the ability of MSMEs to sustain and develop their businesses. Evidence from Uganda indicates that the business environment and access to finance are associated with differences in firm growth across MSME categories (Lakuma et al., 2019). This reinforces the argument that financing constraints should be considered not merely as an administrative issue but as a factor that may influence the capacity of small businesses to maintain operations and pursue growth opportunities. Accordingly, improving access to suitable financing mechanisms is relevant to strengthening MSME resilience, particularly for businesses characterized by limited capital reserves and fluctuating income.

1.3 The role of Pegadaian in microfinance

Microfinance is a crucial instrument in supporting the sustainability and growth of micro, small, and medium enterprises (MSMEs), particularly micro-entrepreneurs who face limited access to formal banking institutions. In this context, non-bank financial institutions play a strategic role in expanding financial inclusion and providing financing alternatives that are more adaptive to the characteristics of micro-scale MSMEs (World Bank, 2020). One non-bank financial institution that holds a strategic position in Indonesia is Pegadaian.

The relevance of non-bank financial institutions for MSMEs can also be understood from the structure of financial systems in developing economies. Beck et al. (2013) find that low-end financial institutions and specialized lenders can be particularly relevant in improving firms' access to financial services in low-income countries. Such institutions may provide financing mechanisms that are more closely aligned with the characteristics and financing constraints of smaller enterprises. This perspective provides an important conceptual basis for examining the potential role of Pegadaian as a non-bank financial institution serving micro-scale entrepreneurs who may face difficulties in meeting conventional banking requirements.

Pegadaian offers financing schemes based on simple collateral with relatively fast and flexible procedures, enabling it to reach micro MSME actors who are classified as non-bankable. Collateral-based pawn financing allows entrepreneurs to obtain funds without having to meet complex administrative requirements, such as formal financial statements or a banking credit history (OJK, 2021). This characteristic represents Pegadaian's primary advantage over other formal financial institutions, particularly for micro MSMEs with daily operating scales and fluctuating income.

As a state-owned enterprise (SOE), PT Pegadaian (Persero) also carries a social mandate to support the people-centered economy. Pegadaian's financial performance, which consistently remained in the "Healthy" (A) category during the 2019–2021 period, reflects strong institutional stability and high liquidity capacity, thereby enhancing public trust in the financing services it provides (Yunianto et al., 2023). Amid economic challenges, Pegadaian has emerged as a financing solution for approximately 64.19 million MSME actors in Indonesia, particularly within the micro segment that requires fast and affordable access to capital.

Empirical literature indicates that non-bank financial institutions with simple financing mechanisms play a significant role in expanding financial inclusion among small business groups. The World Bank (2020) emphasizes that financing based on simple collateral and fast procedures can reduce entry barriers for MSMEs to formal financial services. Similarly, the OECD (2023) notes that rapid access to short-term financing is critical for MSMEs in maintaining cash flow and business sustainability, especially in the micro-enterprise sector, which is highly vulnerable to demand fluctuations and seasonal income variability. Pegadaian's role in microfinance extends beyond the provision of funds; it also functions as a financial buffer for MSME actors when facing short-term economic pressures. A study by Rambu et al. (2024) demonstrates that Pegadaian's digital transformation and service innovations such as Pegadaian Digital Service and its agency system have expanded the reach of microfinance while simultaneously improving service efficiency. This digitalization enables MSME actors to access financing services without having to visit branch offices, making it particularly relevant for MSMEs in remote areas.

In addition to accessibility, MSME actors' trust in Pegadaian is a critical factor influencing the utilization of microfinance services. This trust is fostered by Pegadaian's institutional stability, its status as a state-owned enterprise, and clear regulatory oversight by the Financial Services Authority (OJK, 2022). Research by Yunianto et al. (2023) shows that Pegadaian's increasing asset efficiency and liquidity strengthen perceptions of the institution as a reliable financing partner for MSMEs in sustaining business continuity.

Nevertheless, several studies emphasize that optimizing Pegadaian's role in microfinance still requires strengthening financial literacy and product understanding among MSME actors. The OECD (2019) and OJK (2022) highlight that low levels of financial literacy may hinder the utilization of financing services, even when access is available. Therefore, Pegadaian's future role should extend beyond that of an alternative financing provider to include acting as a financial education agent capable of enhancing MSME actors' understanding and trust. With its simple financing characteristics, rapid access, and strong institutional support, Pegadaian has substantial potential to accelerate MSME capital transformation, enabling enterprises to scale up and strengthen national economic self-reliance. Within the framework of the people-centered economy, Pegadaian occupies a strategic position as an alternative financing provider that supports the resilience, sustainability, and empowerment of the smallest economic units in Indonesia.

1.4 Behavioral perspective on MSME financing decisions

Financial decisions among micro-entrepreneurs are not always based on rational economic calculations. Behavioral economics suggests that individuals frequently rely on subjective perceptions, emotions, and social influences when evaluating financial opportunities and risks (Kahneman, 2011). Risk aversion, fear of indebtedness, social stigma, and trust toward institutions significantly affect financing decisions among MSME actors. Therefore, understanding financing behavior requires attention not only to financial accessibility but also to cognitive and psychosocial dimensions.

2. Methods

2.1 Research design

This study employed a qualitative research approach using a single-case study design to obtain an in-depth understanding of MSME financing behavior and perceptions of Pegadaian within a real-life business context. A case study design is appropriate when a contemporary phenomenon needs to be examined within its contextual setting and when the boundaries between the phenomenon and its context cannot be clearly separated. The case in this study was bounded by the financing experience and perceptions of a micro-entrepreneur operating an office canteen business in Surabaya. The qualitative design was selected because the study aimed to explore subjective experiences, perceptions, concerns, and meanings underlying financing decisions rather than to statistically generalize the findings.

2.2 Research setting and informant

The study was conducted in Surabaya, East Java, Indonesia, with a micro-entrepreneur operating an office canteen as the research informant. The informant had operated the business for more than two years and was directly involved in managing business capital, daily operations, revenue fluctuations, and financing decisions. This contextual experience was considered relevant to the research objective because the study focused on how micro-entrepreneurs perceive formal and non-bank financing institutions, particularly Pegadaian.

The study used one key informant because the research focused on obtaining an information-rich account of a specific MSME financing experience rather than achieving statistical representation. The informant provided direct and contextual information concerning personal financing practices, perceptions of Pegadaian, barriers to financing utilization, and the potential role of Pegadaian in supporting business continuity.

2.3 Sampling technique

The informant was selected using purposive sampling. Purposive sampling enables researchers to deliberately select participants who possess characteristics and experiences that are directly relevant to the research objectives. Campbell et al. (2020) emphasize that purposive sampling allows researchers to match participants with the aims of the study and strengthen the rigor and trustworthiness of qualitative research. More recently, Ahmad & Wilkins (2025) highlight the importance of coherence between research objectives, participant characteristics, and the information required throughout the qualitative research process. The inclusion criteria were: (1) the participant had to be an active micro-entrepreneur; (2) the participant had direct responsibility for business financing and operational decisions; (3) the business had been operating for at least two years; and (4) the participant was able to provide detailed information regarding financing experiences and perceptions of Pegadaian. These criteria were applied to ensure that the selected informant represented an information-rich case relevant to the research questions.

2.4 Data collection

Primary data were collected through a face-to-face semi-structured interview conducted in March 2026. The interview lasted approximately 60 minutes. A semi-structured interview format was employed to provide sufficient structure around the research questions while allowing the informant to elaborate on personal experiences, perceptions, and concerns that emerged during the interview. The interview guide covered four main areas: (1) business financing experiences and sources of capital; (2) perceptions and knowledge of Pegadaian; (3) barriers and concerns associated with formal and non-bank financing; and (4) financial decision-making in response to changes in business income and operational conditions. The interview questions were designed to explore both explicit experiences and underlying cognitive and psychosocial considerations affecting financing decisions.

2.5 Data analysis

The interview data were analyzed using thematic analysis. The analysis followed a systematic process involving familiarization with the interview material, generation of initial codes, identification of potential themes, review and refinement of themes, definition and naming of themes, and interpretation of the final thematic structure. The analysis began with repeated reading of the interview material to obtain an overall understanding of the informant's experiences. Relevant statements were then coded according to their substantive meaning. Related codes were subsequently grouped into broader categories and potential themes. The emerging themes were reviewed against the interview material to ensure that they accurately represented the informant's account. The final themes were defined and interpreted in relation to the research objective and relevant literature on MSME financing, financial inclusion, financial literacy, trust, and the role of non-bank financial institutions. The thematic analysis generated several central themes, including reliance on personal capital, seasonal income fluctuations, perceptions of financing risk, limited financial literacy, perceptions of Pegadaian's accessibility, latent trust, and the potential role of Pegadaian as a financial buffer for MSMEs.

2.6 Trustworthiness of the study

Several procedures were employed to enhance the trustworthiness of the findings. Credibility was strengthened through member checking by returning key interpretations to the informant and confirming whether they accurately represented the participant's experiences. Member checking is recognized as a technique for examining the credibility and resonance of qualitative interpretations with participants' experiences (Birt et al., 2016). Dependability was supported through systematic documentation of the research process, including interview procedures, coding decisions, theme development, and analytical interpretations. Reflexive notes were maintained throughout the research process to encourage awareness of the researcher's assumptions and potential influence on interpretation. The study also provided contextual descriptions of the informant and business setting to enable readers to assess the applicability of the findings to comparable MSME contexts.

2.7 Ethical considerations

Before the interview was conducted, the informant was informed about the purpose of the study, the voluntary nature of participation, and the intended use of the information provided. Informed consent was obtained from the participant prior to data collection. The participant's identity and personal information were treated confidentially, and the findings were presented for academic purposes without revealing personally identifying information.

3. Results and Discussion

The thematic analysis generated five interconnected dimensions that characterize the financing perceptions of the MSME actor: self-financing, seasonal income fluctuations, financing risk and psychosocial barriers, accessibility and product perception, and latent trust and financial buffer potential. Figure 2 presents the thematic map developed from the interview data and illustrates how these themes converge toward Pegadaian's potential role in supporting MSME resilience.

Fig. 2. Thematic Map of MSME Financing Perceptions

3.1 Reliance on personal capital as a survival strategy for MSMEs

The findings indicate that the informant relies entirely on personal capital as the sole source of business financing. Business capital was obtained from personal savings accumulated from previous employment, without involving any formal financial institutions. This is reflected in the informant's statement: "I use my personal savings from the remaining funds after resigning from my previous job." This finding reflects a common phenomenon among micro MSMEs in Indonesia, where self-financing is predominantly adopted as the main strategy for sustaining business operations. Reliance on personal capital is chosen as a means of minimizing financial risk, particularly the risk of default and interest burdens often associated with formal financing institutions.

The self-financing strategy among micro MSMEs has been widely discussed in the literature as a rational response to limited access to formal financing. Beck et al. (2007) explain that micro-entrepreneurs tend to avoid external financing due to insufficient collateral, stringent administrative requirements, and income uncertainty. Although this reference is relatively classical, more recent studies demonstrate that this pattern remains highly relevant. The OECD (2019) emphasizes that the majority of micro MSMEs in developing countries continue to depend on internal capital due to limited access to, and low trust in, formal financial institutions.

However, the findings of this study indicate that the decision to rely on personal capital is not driven solely by structural constraints but is also influenced by psychological and social factors. The informant expressed feelings of fear, embarrassment, and concern about social stigma in the event of being unable to meet loan repayment obligations. These non-economic factors reinforce the argument that MSME financing decisions are strongly shaped by risk perceptions rather than by access availability alone. This is consistent with findings by the Financial Services Authority (OJK, 2022), which identify low financial literacy and negative perceptions of formal financing institutions as major barriers to financial inclusion among micro MSMEs.

While reliance on personal capital provides psychological security for MSME actors by eliminating short-term financial obligations, this strategy has implications for business growth capacity. The World Bank (2020) notes that MSMEs that rely solely on internal capital tend to experience limited business expansion, low levels of productive investment, and greater vulnerability to income shocks. This condition is particularly evident among daily-scale businesses, where sales fluctuations can directly threaten business continuity in the absence of external capital buffers. Lusardi & Mitchell (2023) emphasize that low financial literacy reinforces entrepreneurs' preferences for self-financing, as MSME actors tend to avoid financial products that they do not fully understand. In the context of this study, the informant's decision not to utilize formal financing despite being aware of Pegadaian's existence indicates that access to information does not necessarily translate into the utilization of financial services. In other words, financial inclusion cannot be understood merely as the expansion of physical access but must also encompass cognitive and psychosocial dimensions.

These findings strengthen the view that micro MSME financing challenges are multidimensional in nature. Demirgüç-Kunt et al. (2018) assert that expanding access to formal financial services must be accompanied by efforts to build trust and enhance entrepreneurs' understanding of the risks and benefits of financing. Without interventions targeting perceptions and financial literacy, MSME actors are likely to continue relying on personal-capital-based survival strategies, even though such strategies constrain long-term growth potential.

Thus, the reliance on personal capital among micro MSMEs observed in this study should not be viewed solely as a rational economic choice, but also as a reflection of limited financial literacy, social fears, and low levels of trust in financial institutions. These findings imply that efforts to strengthen the role of non-bank financial institutions, such as Pegadaian, must be complemented by educational and empathetic approaches aimed at addressing MSME actors' perceptual barriers. Without such approaches, the provision of financing products alone will be insufficient to encourage MSMEs to transition from survival-oriented strategies toward sustainable growth strategies.

3.2 Financing challenges

The interview results indicate that one of the main challenges faced by MSME actors is seasonal sales fluctuations, particularly during the Ramadan period and the post–Eid al-Fitr season. These fluctuations have a direct impact on business income stability as well as on the psychological condition of MSME actors. The informant revealed that sales performance strongly influences levels of fatigue and motivation in running the business, as expressed in the following statement: "When sales are slow, it feels exhausting, but when sales are good, the work does not feel tiring." This statement reflects the economic and psychological pressure experienced by micro MSME actors when facing income uncertainty. This finding is consistent with the OECD (2019), which notes that MSMEs are highly vulnerable to seasonal demand changes due to their small business scale, limited capital reserves, and strong dependence on daily cash flow.

Sales fluctuations lead to cash flow instability, which constitutes a major challenge in the financial management of micro MSMEs. When revenue declines, MSME actors often struggle to meet daily operational needs, such as purchasing raw materials and covering labor costs. The World Bank (2020) emphasizes that micro-scale MSMEs face higher vulnerability to income shocks because they lack access to flexible short-term financing. This condition is further exacerbated by limited access to formal financial institutions capable of providing rapid financing with simple requirements. Beyond structural factors, MSME financing challenges are also closely related to psychological and behavioral factors. Revenue pressure not only affects financial conditions but also influences entrepreneurs' motivation and productivity. Research by Lusardi & Mitchell (2023) demonstrates that financial uncertainty and low financial literacy can increase financial stress, which ultimately affects business decision-making. In the context of this study, recurring sales fluctuations may encourage MSME actors to become increasingly cautious and to avoid external financing, even when such financing is needed to sustain business operations.

Limited access to flexible financing represents a critical challenge in coping with income fluctuations. The Financial Services Authority (OJK, 2022) reports that most micro MSMEs in Indonesia continue to face difficulties in accessing formal financing due to complex administrative requirements, insufficient collateral, and limited understanding of financial products. As a result, MSME actors lack adequate financial mechanisms to absorb short-term income shocks, making their businesses more vulnerable to the risk of failure.

These findings underscore that MSME financing challenges are not solely related to capital availability, but also to the suitability of financing schemes for the specific characteristics of micro enterprises. The OECD (2023) emphasizes that MSMEs require fast and adaptive access to short-term financing to maintain cash flow, particularly during periods of seasonal demand decline. Without flexible financing support, micro MSMEs tend to rely on survival strategies such as downsizing operations or using personal savings, which in the long run may hinder business growth.

In conclusion, this study demonstrates that MSME financing challenges are multidimensional, encompassing economic, psychological, and institutional aspects. Seasonal sales fluctuations, limited access to flexible financing, and the accompanying psychological pressure constitute major obstacles to the sustainability of micro MSMEs. These findings reinforce the urgency of strengthening the role of non-bank financial institutions, such as Pegadaian, in providing short-term financing with simple and rapid procedures to support MSME resilience in responding to dynamic market demand.

The findings indicate that the informant perceives Pegadaian primarily as a pawn-based financing institution that operates with interest charges and collateral requirements. This understanding shapes a relatively narrow initial perception of Pegadaian's function, viewing it merely as a conventional pawnshop rather than as a strategic financing partner for MSMEs. This perception is reflected in the informant's statement: "As far as I know, Pegadaian is similar to pawning a vehicle registration certificate, and if you borrow money, there is still interest.” This finding suggests that although Pegadaian is widely recognized by the public, MSME actors’ understanding of its range of products, financing schemes, and financial inclusion objectives remains limited. This condition is consistent with the results of the Financial Literacy and Inclusion National Survey conducted by the Financial Services Authority (OJK, 2021), which indicates that the level of financial literacy in Indonesia is still relatively low, particularly with regard to non-bank financing products.

In addition to perceptions related to interest and collateral, this study also finds that social risk factors constitute a primary reason why the informant has not utilized Pegadaian’s services. The informant expressed fear and embarrassment in the event of being unable to meet repayment obligations, as well as concerns about collection processes that might become known within the surrounding social environment. This concern was explicitly stated as follows: “I’m afraid that if I can’t repay it, they will come to my house to collect it, and I would feel embarrassed if my neighbors found out.” This statement demonstrates that micro MSME financing decisions are influenced not only by rational economic considerations but also by psychological and social factors. Social risk perceptions such as stigma, feelings of shame, and concerns about reputation within the community play a significant role in shaping MSME actors’ attitudes toward both formal and non-bank financing institutions.

These findings align with the OECD (2019), which notes that the low utilization of formal financial services by micro MSMEs is often driven by perceptions of non-financial risk, including social stigma and fear of the consequences of default. Demirgüç-Kunt et al. (2018) likewise emphasize that access to finance does not automatically translate into the use of financial services in the absence of sufficient trust and understanding among users. In other words, financial inclusion involves not only the availability of financial products but also their social and psychological acceptance by MSME actors.

The negative perceptions of Pegadaian identified in this study do not fully reflect the institution’s current service characteristics, which have undergone significant transformation. However, limited financial literacy leads MSME actors to simplify their understanding of Pegadaian by focusing primarily on interest and collateral, without considering product flexibility, service speed, or the digital innovations that have been introduced. Lusardi & Mitchell (2023) highlight that low financial literacy contributes to defensive financial decision-making, including a tendency to avoid external financing even when it is needed to sustain business operations.

Interestingly, although the informant has not personally utilized Pegadaian’s services, there is an implicit acknowledgment of Pegadaian’s potential to assist other MSME actors. The informant noted that several fellow entrepreneurs have used Pegadaian to support their business capital needs. This indicates the presence of latent trust an underlying level of confidence that has not yet been converted into a direct usage decision. The World Bank (2020) identifies such conditions as strategic opportunities for inclusive financial institutions to build trust through more educational and empathetic communication approaches.

In conclusion, MSME actors’ perceptions of Pegadaian in this study reveal a gap between service availability and actual utilization. Low financial literacy, social risk perceptions, and psychological factors emerge as key barriers to financial inclusion among micro MSMEs. These findings underscore that efforts to strengthen Pegadaian’s role in supporting MSMEs and the people-centered economy cannot rely solely on the development of financing products. Instead, they must also incorporate education, mentoring, and communication strategies that are sensitive to the social conditions of MSME actors. Without such approaches, Pegadaian’s potential as an inclusive financial institution risks remaining underutilized by the very groups that need it most.

 https://doi.org/10.61511/jembar.v4i1.2026.3551

3.3 Perceptions of Pegadaian: Between accessibility and social fear

The interview findings indicate that the informant perceives Pegadaian as a financial institution that is relatively easy and quick to access compared to banking institutions. Simple procedures and the widespread availability of services across regions lead Pegadaian to be viewed as more closely aligned with the needs of lower-income communities. However, behind this perception of accessibility, Pegadaian remains associated with an interest-based system and social risks that generate concern among micro-UMSM actors. This perception is consistent with the findings of OJK (2021), which suggest that low levels of financial literacy cause MSME actors to simplify their understanding of financial institutions, focusing primarily on interest rates and collateral requirements while overlooking product flexibility and the broader objectives of financial inclusion. In this context, Pegadaian is still perceived as an "emergency" institution, used primarily when financial conditions are pressing, rather than as a strategic partner in business capital management.

Beyond cognitive factors, this study also highlights the strong influence of social and psychological dimensions in shaping MSME actors' perceptions of Pegadaian. Fear of social stigma, feelings of embarrassment if financial difficulties become known within the surrounding community, and concerns about the debt collection process emerge as major barriers to financing decisions. These findings reinforce the argument that access to finance is influenced not only by structural factors but also by social norms and perceptions of non-economic risk (OECD, 2019). Interestingly, although the informant has not personally used Pegadaian's services, there is an acknowledgment that fellow MSME actors have utilized Pegadaian to support their business capital needs. This fact indicates the presence of latent trust an implicit level of confidence in Pegadaian that has not yet been fully converted into actual usage. This phenomenon suggests that Pegadaian has attained a degree of social legitimacy within MSME communities, even though it has not been accompanied by widespread individual adoption.

The World Bank (2020) notes that conditions of latent trust represent a strategic opportunity for inclusive financial institutions to increase service utilization through more educational and empathetic communication approaches. Without appropriate intervention, such latent trust risks remaining stagnant and failing to translate into improved financial inclusion for micro-MSMEs. Therefore, Pegadaian's challenge lies not only in expanding physical and digital access, but also in building a sense of security, trust, and understanding among MSME actors regarding the risks and benefits of financing. In summary, perceptions of Pegadaian in this study lie at the intersection of accessibility and social fear. Pegadaian is viewed as an easily accessible institution, yet it remains overshadowed by negative perceptions related to interest charges, default risk, and social stigma. These findings underscore the importance of a holistic financial inclusion strategy that goes beyond products and services to incorporate social, educational, and trust-based approaches in order to encourage greater MSME participation in the formal financial system.

3.4 Latent trust and potential role of Pegadaian

Although the informant has never directly utilized Pegadaian's financing services, the interview revealed a positive perception regarding the institution's potential role in supporting MSMEs, particularly during periods of declining business income. The informant acknowledged that Pegadaian could serve as an alternative source of capital when financial difficulties arise and recognized that several fellow entrepreneurs had previously benefited from Pegadaian services. This perception is reflected in the following statement: "Pegadaian has great potential for MSMEs. Some people around me have used it to support their business capital." This finding suggests the existence of what may be referred to as latent trust, namely a condition in which trust toward a financial institution has been socially established but has not yet been transformed into actual utilization. Although the informant does not currently use Pegadaian, the institution is perceived as legitimate, accessible, and capable of providing financial support when needed. Such trust is not necessarily based on personal experience but is constructed through observations of other entrepreneurs' experiences and Pegadaian's image as a state-owned enterprise.

From the perspective of institutional trust, this finding indicates that social legitimacy plays an important role in shaping financing perceptions among MSME actors. Putri & Setiawan (2021) argue that trust in financial institutions significantly influences the willingness of micro-entrepreneurs to participate in formal financial systems. Likewise, the (World Bank, 2020) emphasizes that financial inclusion depends not only on physical accessibility but also on the existence of trust and confidence among potential users. In this regard, Pegadaian possesses substantial social capital due to its long-standing presence and institutional reputation.

Interestingly, the existence of latent trust coexists with psychological barriers that prevent actual service utilization. Fear of indebtedness, concerns regarding repayment obligations, and worries about social stigma remain dominant considerations influencing financial decisions. These findings support the argument of Beck et al. (2007), who state that access to finance does not automatically guarantee the use of financial services. Behavioral factors, perceptions of risk, and emotional considerations frequently shape financial decisions among small entrepreneurs.

From a behavioral economics perspective, this phenomenon can be explained through the concept of risk aversion. Individuals tend to avoid decisions perceived as potentially generating losses, even when the expected benefits are substantial (Kahneman, 2011). Consequently, MSME actors may recognize the usefulness of Pegadaian while simultaneously postponing or avoiding its utilization due to concerns over financial obligations and reputational risks. This finding demonstrates that financing decisions are influenced not solely by economic calculations but also by cognitive and psychosocial considerations.

The existence of latent trust represents a strategic opportunity for Pegadaian to strengthen its role within the MSME ecosystem. The Organisation for Economic Co-operation and Development (OECD, 2023) highlights that enhancing financial inclusion requires not only expanding service access but also fostering trust and improving users' financial understanding. In this context, Pegadaian has the potential to position itself not merely as an emergency financing provider but as a long-term partner supporting MSME development through financial education, advisory services, and empathetic communication.

Overall, the findings indicate that Pegadaian already enjoys considerable social legitimacy among MSME actors, even among those who have never used its services. This latent trust constitutes valuable social capital that may facilitate greater financial inclusion in the future. Therefore, transforming latent trust into actual utilization requires strategies aimed at reducing psychological barriers, strengthening financial literacy, and promoting a more positive understanding of financing as a tool for business sustainability rather than merely as a last-resort solution.

3.5 Pegadaian as a financial buffer in the people's economy

One of the key findings of this study is the informant's acknowledgment of Pegadaian's potential role in helping MSMEs cope with seasonal declines in revenue, particularly during the fasting month and the post-Eid period. These seasonal conditions lead to a significant decrease in demand for office canteen businesses, directly affecting daily cash flow. This finding reinforces the concept of a *financial buffer*, defined as the function of financial institutions in helping small enterprises maintain operational continuity when facing temporary income shocks (Organisation for Economic Co-operation and Development/OECD, 2019).

In the context of micro-MSMEs, income volatility is not incidental but an inherent part of business dynamics. The informant emphasized that during certain periods especially when office activity declines business turnover is also adversely affected. This is reflected in the following statement: "During the fasting month or after Eid, sales decline because employees rarely eat at the office (Informant)." This statement indicates that the vulnerability of micro-MSMEs stems not only from limited production capacity but also from dependence on seasonal consumption patterns. In such situations, the availability of a financial buffer becomes essential to maintaining business continuity and household economic stability.

Within the framework of the people's economy, Pegadaian serves not only as a provider of short-term funds but also as a microeconomic stabilization instrument. Non-bank financial institutions such as Pegadaian possess structural advantages in reaching daily-income business actors who are often excluded from formal banking systems. The World Bank (2020) affirms that non-bank financial institutions play a strategic role in expanding financial inclusion, particularly for microenterprises characterized by irregular income and administrative constraints. Pegadaian's role as a financial buffer becomes increasingly relevant when linked to the characteristics of its services. Lestari (2025) identifies several advantages of Pegadaian that support this function, including simple and rapid procedures, flexibility in loan amounts, and the ability to serve non-bankable communities. These characteristics enable micro-MSME actors to access funds within a relatively short period without complex administrative processes, making Pegadaian well suited to addressing urgent liquidity needs arising from revenue declines.

Moreover, Pegadaian offers financing schemes that do not require the physical surrender of productive assets, such as vehicles, allowing business actors to continue their operational activities. This flexibility is a critical factor in sustaining micro-MSME operations, as emphasized by the OECD (2019), which notes that access to adaptive short-term financing is a key determinant of small business resilience amid economic uncertainty.

As a state-owned enterprise (SOE), Pegadaian also possesses institutional capital in the form of relatively high public trust. This trust functions as social capital that strengthens Pegadaian's position within the people's economy ecosystem. Putri & Setiawan (2021) argue that trust in financial institutions is a critical factor in encouraging microenterprise actors to utilize financial services. In the context of this study, although the informant has not directly used Pegadaian's services, recognition of its potential role indicates strong social legitimacy.

Furthermore, Pegadaian's role as a financial buffer affects not only the stability of individual businesses but also broader community economic resilience. MSMEs constitute the primary foundation of the people's economy, supporting the livelihoods of lower-income communities. When MSMEs are able to withstand income shocks, local economic stability can be maintained. Rahayu & Hartono (2020) emphasize that adaptive microfinance institutions contribute significantly to local economic resilience by providing liquidity support to small enterprises.

The findings affirm that Pegadaian has strategic potential as a financial buffer within the people's economy. Through fast, flexible, and micro-MSME-oriented financing schemes, Pegadaian can function as a microeconomic stabilization instrument. However, optimizing this role requires strengthening financial literacy and adopting educational approaches so that MSME actors view Pegadaian not merely as an emergency solution but as a strategic partner in business risk management. Overall, Pegadaian has the potential to become a crucial pillar in enhancing the resilience of the people's economy by helping MSMEs withstand seasonal income shocks. This role positions Pegadaian not only as a financing institution but also as an actor in inclusive economic development that supports small business sustainability and community economic independence.

Figure 3 synthesizes the findings by illustrating the relationships among business conditions, financing behavior, cognitive and psychosocial considerations, institutional perceptions, latent trust, and the potential role of Pegadaian. The synthesis indicates that MSME financing decisions are shaped by the interaction between business conditions and behavioral considerations. Seasonal income fluctuations and limited capital buffers create financing needs, while self-financing preferences and risk avoidance influence the response to these needs. At the institutional level, Pegadaian is perceived as accessible and potentially supportive, yet limited product understanding and psychosocial concerns constrain actual utilization. The resulting latent trust represents an intermediate condition in which positive institutional perceptions have not yet been translated into direct financing behavior.

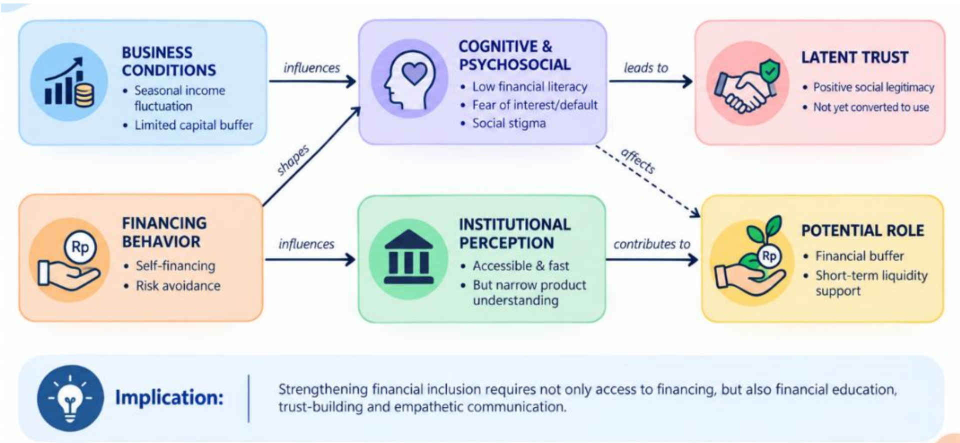

Fig. 3. Conceptual Synthesis of the Findings

4. Conclusions

Based on the analysis of the reviewed sources, it can be concluded that MSMEs occupy a strategic position as key drivers of the people's economy, with the capacity to strengthen both local and national economic resilience. Contributing 60.5% to national GDP, the sustainability of MSMEs represents a critical issue in long-term economic development. However, this strategic role is frequently constrained by a persistent structural problem limited access to formal capital which forces many business actors to rely on restricted personal funds or high-risk informal financing sources. Pegadaian, as a state-owned non-bank financial institution, emerges as a potential solution that is well aligned with the characteristics of micro-MSMEs, which are often classified as non-bankable. Pegadaian's features such as rapid procedures, simple collateral requirements, and flexible financing schemes position it as a relevant partner in advancing financial inclusion. Moreover, its digital transformation through mobile applications and agency-based systems has expanded service coverage to remote areas, offering new prospects for improving transaction efficiency among small business actors.

Despite the availability of both physical and digital access, this study reveals a gap between service availability and actual utilization by MSMEs. The decision to continue relying on self-financing is driven not only by administrative barriers but also by cognitive and psychosocial factors. MSME actors experience fear related to interest charges, the risk of default, and social stigma or embarrassment associated with debt collection within their residential communities. These findings indicate that low financial literacy constitutes a major barrier, preventing formal financial products from being fully understood. As a result, Pegadaian is often perceived merely as an emergency solution in times of financial distress rather than as a strategic partner for business development. One of the most significant findings concerns Pegadaian's role as a financial buffer in addressing seasonal income fluctuations. Micro-MSMEs are highly vulnerable to revenue declines during specific periods, such as the fasting month and the post-Eid season, which directly affect daily operational continuity. In such circumstances, Pegadaian has substantial potential to stabilize household and business finances through the provision of rapid liquidity. MSME actors' acknowledgment of this potential gives rise to what can be described as *latent trust* is trust that already exists at the community level but has not yet been fully translated into active service utilization.

In conclusion, strengthening the people's economy through Pegadaian's role cannot rely solely on product innovation or ease of access. A more holistic approach is required, encompassing contextual financial education and empathetic communication to reduce negative perceptions and social fears within the community. Pegadaian possesses strong social capital as a state-owned enterprise with a high level of institutional trust. If this potential is effectively leveraged through appropriate guidance and support, Pegadaian can evolve into a central pillar that not only provides financing but also empowers MSMEs to scale up and reinforces national economic self-reliance from the bottom up. Accordingly, Pegadaian's presence within the financial inclusion ecosystem constitutes a crucial instrument for promoting equitable income distribution and inclusive public welfare. From a policy perspective, the findings suggest that financial inclusion initiatives should focus not only on expanding access but also on addressing psychological and social barriers. Pegadaian and policymakers may consider implementing contextual financial literacy programs, trust-building campaigns, and community-based financial education initiatives to increase the utilization of formal financing services among MSMEs.

Acknowledgement

The author would like to thank Pegadaian for the support and opportunity given to participate in the Call for Paper event with Pegadaian with the theme Bullion Business and the Pegadaian Industry.

Author Contribution

All authors have contributed equally to the conception, writing, and revision of this article, thereby ensuring its accuracy and integrity.

Funding

PT Pegadaian acts as a funder in the publication of the article.

Ethical Review Board Statement

Not available.

Informed Consent Statement

Informed consent was obtained from all subjects involved in the study.

Data Availability Statement

Not available.

Conflicts of Interest

The authors declare no conflict of interest.

Declaration of Generative AI Use

During the preparation of this work, the authors used ChatGPT to assist in transleting, improving grammar, clarity, and academic tone of the manuscript. After using this tool, the authors reviewed and edited the content as needed and took full responsibility for the content of the publication.

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