



Strengthening Islamic pawning (*Rahn*): Sharia compliance, contemporary riba, social inclusivity, and governance challenges

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ABSTRACT

Background: The rapid expansion of Islamic pawn (*rahn*) institutions over the past two decades has raised questions about whether their practices genuinely reflect the justice-oriented principles underlying *rahn*. This study critically examines the gap between the normative foundations of *rahn* and its contemporary institutional implementation. **Methods:** This research employs a qualitative socio-legal approach supported by document analysis. It evaluates Shariah compliance, cost structures, inclusivity patterns, and governance characteristics shaping Islamic pawn operations. Regulatory frameworks, fatwas, and institutional practices are systematically analyzed to assess the alignment between normative ideals and operational realities. **Findings:** The findings indicate that Islamic pawn services demonstrate formal compliance with existing fatwas and regulations; however, such adherence remains largely procedural. Core ethical values—justice, transparency, and social protection—are insufficiently internalized. The study identifies the emergence of “implicit riba” embedded in cost structures that resemble interest-based mechanisms, raising conceptual and ethical concerns. Access to financing remains limited due to asset-based requirements and administrative barriers, leading to hidden exclusion of vulnerable groups. Institutional dualism also encourages isomorphic convergence with conventional pawn models, gradually weakening the normative distinctiveness of *rahn*. **Conclusion:** While institutionally compliant, Islamic pawn practices require substantive reform to better embody the ethical objectives of *rahn*. Strengthening governance, transparency, and social inclusivity is essential to ensure authentic Shariah-based implementation. **Novelty/Originality of this article:** This study advances the discourse on Shariah governance by linking normative Islamic legal principles with institutional realities. It proposes an integrated conceptual model encompassing normative, operational, social, and institutional dimensions, offering strategic guidance for developing a more authentic and socially responsive *rahn* framework.

KEYWORDS: governance; Islamic pawn; *rahn*; shariah compliance.

1. Introduction

The development of Islamic finance in Indonesia over the past two decades has demonstrated a consistent and significant upward trend in terms of institutional expansion, asset growth, and product innovation (Ali et al., 2020; Demirdöğen, 2021; Purwidiyanti et al., 2024; Robbani, 2022). The increasing number of Islamic banks, Islamic windows, and Sharia-compliant non-bank financial institutions has broadened the range of financial services available to the public that align with Islamic values (Sudarmi et al., 2024). The diversification of financing products—ranging from trade-based and profit-sharing

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contracts to collateral-based arrangements—reflects the growing complexity of the Islamic finance ecosystem in meeting the needs of a modern society that demands financial services that are fast, flexible, and secure (Suryanto & Nasrulloh, 2016).

Within this landscape, Islamic pawning (*rahn*) has emerged as an instrument well-suited to meeting short-term liquidity needs (Sapitri & Nuraswin, 2024). According to data from the Financial Services Authority (OJK) (2024), the development of Islamic pawn institutions in Indonesia remains in its early expansion phase, characterized by a relatively small yet steadily growing industry. Four private Islamic pawn companies are currently operating, indicating increasing market interest in *rahn*-based financial services. These institutions collectively manage assets amounting to IDR 82 billion, comprising liabilities of IDR 27 billion and equity of IDR 55 billion. This composition illustrates a developing business profile with a continuing need for capital strengthening and operational capacity building to scale up service delivery. In terms of outreach, Islamic pawn services have served approximately 11,215 customers. Although still limited, this figure reflects the emergence of a market for Sharia-compliant collateralized financing, which is expected to expand as Islamic financial literacy improves and public trust in Sharia-based financing increases. *Rahn* products are widely promoted as accessible, quick-disbursement, and relatively low-risk solutions for both providers and recipients of financing (Rizal et al., 2025).

Conceptually, *rahn* is designed as a debt-collateral mechanism grounded in principles of mutual assistance (*ta'āwun*), protection of property rights, and transparency in collateral management. These principles position *rahn* as an ethical alternative to conventional pawning—which is often associated with exploitative practices (Alexander et al., 2023). Normatively, *rahn* is oriented toward ensuring justice and balance in contractual relations between creditors and debtors. Central to this model is the avoidance of *riba*, excessive uncertainty (*garār*), and unjust practices, as well as the promotion of social welfare by facilitating access to financing for those in need (Novayanti et al., 2025). Under this framework, Islamic pawning is not merely a financial instrument, but part of the moral economy of Islam aimed at fostering a more just, inclusive, and sustainable financial system.

Despite the institutional and operational growth of Islamic pawning in Indonesia, several fundamental issues persist regarding the substantive implementation of Sharia principles. The primary challenge does not stem from the absence of normative guidelines, but rather from the recurring gap between Sharia's substantive values and the operational practices of institutions. In several cases, Sharia compliance is reduced to the formal fulfillment of contract structures without the internalization of ethical values such as justice, transparency, and protection of economically vulnerable clients (Zuhra et al., 2025). This suggests a drift from Sharia ethics toward institutional pragmatism, which threatens to erode the moral legitimacy of Islamic pawn products.

These challenges are compounded by reductive interpretations of *riba* within modern financial practice (Chandraningtyas et al., 2025). When *riba* is narrowly understood as the explicit charging of interest, other cost structures—such as administrative fees, storage charges, penalty fees, and similar mechanisms—often escape critical scrutiny. Such structures risk creating forms of “hidden *riba*” that are not formally classified as interest but substantively produce equivalent economic effects, particularly in imposing disproportionate financial burdens on debtors. The absence of a rigorous evaluative framework for these grey areas increases the likelihood of practices that appear legally compliant yet remain ethically problematic.

From a social perspective, Islamic pawn services exhibit patterns of economic exclusivity, particularly in gold-based pawn products, which are more accessible to middle- and upper-income groups (Sapitri & Nuraswin, 2024). The poor and economically vulnerable—who should be the primary beneficiaries of Islamic finance—face structural barriers, including limited asset ownership, low financial literacy, and relatively rigid administrative requirements. This creates a paradox in which an instrument intended to enhance financial justice may inadvertently contribute to deepening social exclusion.

These issues are further complicated by the dualistic institutional structure of Islamic pawn services in Indonesia, where Sharia-based products operate within entities that also manage conventional services (Hamisa et al., 2023). This arrangement generates governance challenges and contributes to public confusion regarding the substantive differences between Sharia and conventional products. As a result, Sharia practices risk being perceived as merely cosmetic variations of existing conventional systems. Without stronger substantive differentiation, this ambiguity may weaken public trust in the authenticity of Islamic financial services.

Given the conceptual, operational, social, and institutional complexities described above, a comprehensive academic inquiry is needed—one that is not only descriptive but also reflective and evaluative of current Islamic pawn practices in Indonesia. Such an inquiry is critical not merely for strengthening Sharia compliance, but also for addressing the structural consequences that could arise if rahn practices continue to develop without adequate conceptual grounding. When Sharia compliance is reduced to symbols and administrative procedures, the system risks falling into institutional isomorphism, whereby Sharia practices increasingly resemble conventional ones that are simply reframed with Islamic terminology and contract labels. This could trigger a crisis of public trust, diminish the substantive distinction between Sharia and conventional financial systems, and hinder the potential of Islamic finance to contribute to social justice and economic empowerment.

Furthermore, rigorous examination is essential because Islamic pawning functions as a microfinance instrument that directly serves the economic needs of low-income populations. Failure to ensure ethical integrity, inclusivity, and distributive justice in its practice could directly contribute to the reproduction of social inequality and financial exclusion. As a global laboratory for Islamic finance, Indonesia bears an epistemic responsibility to develop a model of rahn practice that is not only legally compliant but also morally and socially credible. Thus, this study is crucial for informing policy frameworks, governance standards, and practice reforms that align more closely with the *maqāṣid al-sharīʿah* and the demands of contemporary financial systems.

In recent years, the issue of Islamic pawning (*rahn*) in Indonesia has gained considerable attention within the broader discourse of Islamic finance, drawing interest among scholars and legal practitioners concerned with its implications, operational frameworks, and levels of compliance with Sharia principles. A growing body of research highlights a number of structural challenges and critical findings related to the legality and operational practices of Islamic pawning. One of the central issues pertains to the legal status of collateral objects, particularly in cases where the pledged asset does not constitute the lawful property of the borrower, as documented by Rizal et al. (2025). Their study, conducted in Sukarapih Village, reveals the complexity of legal dilemmas arising when borrowed goods are used as collateral. These findings raise critical questions regarding the validity of such practices from the standpoint of Islamic law, given that lawful ownership and authorized control over collateral are fundamental requirements in Sharia.

Similarly, Alhafid et al. (2025) examine the mortgaging of assets that remain under credit financing—such as motorcycles—which individuals often pledge due to urgent financial needs. Their case study, grounded in the jurisprudence of *muamalah*, underscores the potential conflict with the rights of the original financing provider. This study emphasizes the need for clearer guidelines for the administration of Islamic pawning so as to avoid violations of principles of justice and rights protection.

Concerns regarding hybrid contract implementation in Islamic pawn practices are highlighted by Syahrir & Amelia (2023), who identify discrepancies between cost calculations used in practice and those stipulated in relevant fatwas, particularly the regulations of the National Sharia Council (DSN) on *rahn*. Their findings point to a substantive gap between normative prescriptions and real-world application, indicating a need for reformulating operational mechanisms to prevent exploitative practices and reduce customer misunderstanding. Additional operational challenges are outlined in Khotimah's (2024) mapping of various DSN fatwas on pawning. Although these fatwas were

designed to standardize pawn practices across Islamic financial institutions, inconsistencies in implementation across regions and institutions persist, potentially resulting in disparities in service quality and Sharia compliance.

Customer literacy and understanding of Sharia principles also emerge as key concerns in the study by Arianto et al. (2025). Their findings reveal persistent gaps in customers' comprehension of contract content and implications within Islamic microfinance institutions. Such gaps may lead to inadvertent violations of Sharia compliance if not addressed systematically. Thus, they advocate for stronger Sharia financial education as part of a broader strategy to enhance transparency and accountability in financing practices. An additional concern involves the risk of economic speculation within Islamic pawning, as discussed by Candra (2019). Their study highlights how fluctuations in gold prices—the most common collateral in pawn transactions—may pose significant risks for both customers and institutions, necessitating strict adherence to Sharia principles to minimize speculative behavior.

A critical review of the existing literature indicates significant conceptual and empirical gaps in current studies on Islamic pawning in Indonesia. Existing research tends to focus on the formal legality of collateral objects, compliance with fatwas, and operational challenges such as risk management, customer literacy, and collateral value fluctuations. However, these studies remain fragmented and fall short of constructing a comprehensive analytical framework capable of explaining the interplay between Sharia norms, institutional practices, and the socio-economic impacts of Islamic pawning. More specifically, few studies systematically differentiate between procedural and substantive Sharia compliance, or connect classical concepts of *riba* with contemporary cost structures, penalty mechanisms, and financing schemes. In addition, the social inclusivity dimension and the implications of institutional dualism for social legitimacy remain understudied.

Therefore, there is a pressing need for research that integrates normative, operational, social, and institutional dimensions into a coherent analytical framework, thereby providing deeper insight and policy-relevant recommendations aligned with empirical realities and foundational Sharia principles. Against this backdrop, the present study aims to: (1) examine the depth of Sharia implementation in Islamic pawn practices, particularly the distinction between procedural and substantive compliance; (2) explore the dynamics of *riba* within product design and cost structures of contemporary Islamic pawning; (3) assess the inclusivity of access to Islamic pawn services across socio-economic groups; and (4) analyze the implications of dualistic institutional governance for public perception, social legitimacy, and community trust. Furthermore, this study seeks to (5) formulate strategic, evidence-based recommendations to strengthen the quality of Islamic pawn implementation in Indonesia. These recommendations are expected to serve as a reference for regulators, practitioners, and other stakeholders in designing models of Islamic pawning that are more authentic, inclusive, and aligned with the principles of social justice and the governance demands of modern finance.

The main novelty of this research lies in its development of an integrative analytical framework that systematically connects four dimensions that have previously been examined separately in the literature on Islamic pawning: substantive Sharia compliance, conceptual reconstruction of *riba* in modern financial practice, service access inclusivity, and institutional governance. Unlike previous studies that largely focus on legal-formal aspects or procedural compliance, this study offers a substantive approach centered on Sharia ethical values as key analytical variables for evaluating the quality of rahn implementation. In addition, the study introduces a new evaluative model that assesses the authenticity of Islamic pawn practices through non-formal indicators such as distributive justice, cost transparency, contractual balance, and perceived social legitimacy.

Theoretically, this research expands the discourse of Islamic economics and finance by shifting the analytical focus from formal compliance to a more substantive understanding of Sharia principles within contemporary financial practice. The findings are expected to enrich academic discussions on the relationship between *maqāṣid al-sharī'ah*, social justice,

and institutional design in Islamic financial products, while contributing to the relatively limited literature on rahn, which has thus far been dominated by normative-descriptive approaches. From a practical standpoint, the research holds strategic relevance for regulators, policymakers, and industry practitioners in developing governance frameworks that are more responsive to principles of social justice and inclusivity. The recommendations derived from this study aim to support the development of operational standards that are more transparent, equitable, and accountable, while strengthening substantive differentiation between Islamic and conventional pawn services. Additionally, the study has the potential to enhance public literacy and reinforce community trust in the Islamic finance industry as a system that is not only legally compliant but also ethically and socially credible.

2. Methods

2.1 Research design

This study employs a critical qualitative approach using a socio-legal research design combined with policy analysis to generate an in-depth understanding of the interrelations between Sharia norms, formal regulatory frameworks, and institutional practices in the implementation of Islamic pawning (*rahn*) in Indonesia. The research design is exploratory-interpretative, focusing on the examination of gaps between normative constructions—such as fatwas, regulations, and the principles of Islamic jurisprudence on financial transactions (*fiqh mu‘amalah*)—and the practical realities observed in Islamic pawn institutions. This approach enables an analysis that moves beyond mere description toward a critical interrogation of the structures, discourses, and power relations that shape contemporary rahn practices.

2.2 Data sources

The data used in this study are entirely qualitative and derived from documents (document-based qualitative research). Data sources include normative documents such as the fatwas of the National Sharia Council–Indonesian Council of Ulama (DSN–MUI) pertaining to rahn contracts, regulatory instruments issued by the Financial Services Authority (OJK), and the policies and standard operating procedures published by pawn institutions. The study also draws on institutional documents including annual reports, governance reports, and official publications of Islamic financial institutions, as well as academic literature from reputable journals, dissertations, and research reports relevant to Islamic pawning, contemporary conceptualizations of *riba*, and Sharia financial governance.

2.3 Data collection

Data collection is carried out through systematic document analysis and library research involving processes of identification, selection, classification, and critical examination of relevant documents. This process aims to extract underlying meanings, normative arguments, and institutional discourses related to Islamic pawn practices. Additionally, comparative analysis is conducted on contract design, fee structures, and standard operating procedures between Islamic and conventional pawn models, without employing quantitative measurement techniques.

2.4 Data analysis

Data analysis is performed using thematic analysis through stages of open coding, axial coding, and selective coding. The interpretation of data applies the concepts of substantive compliance and formal compliance within Sharia governance frameworks. To analyse

institutional dimensions, this study employs institutional theory, particularly the concepts of institutional dualism and institutional isomorphism, to explain tendencies toward convergence between Sharia-based and conventional models.

2.5 Validity and ethical considerations

The validity of findings is maintained through source triangulation and conceptual triangulation by cross-examining normative documents, institutional documents, and academic literature. This approach strengthens the credibility and consistency of the interpretive analysis presented in the study. As the study does not involve human subjects, formal ethical approval is not required; nonetheless, it adheres to principles of academic integrity, objectivity, and rigour in the citation and interpretation of sources.

3. Results and Discussion

From this signal, the system can detect glucose levels in saliva, which are then displayed via an app. The app not only provides glucose levels but also offers various other features, such as an "Education" feature on diabetes and a "Statistics" feature for daily glucose measurements. Through this breakthrough, BioSENS is expected to optimize diabetes prevention efforts to be more effective and sustainable (Fig. 1).

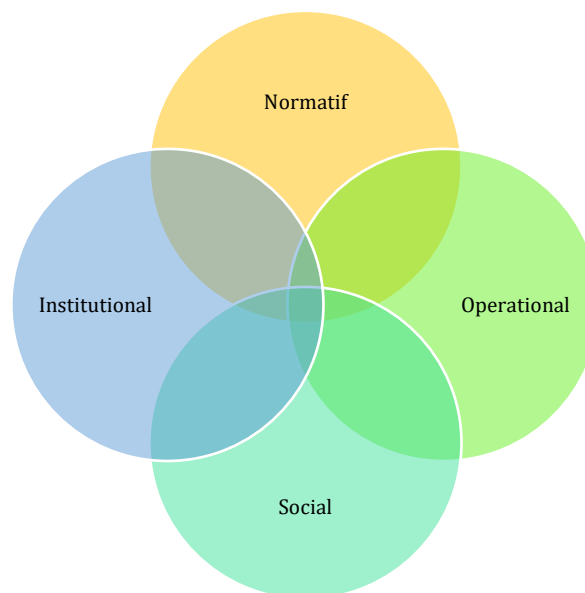


Fig 1. Conceptual model of sharia pawn framework: Integration of four core dimensions

3.1 Depth of sharia compliance in the implementation of Islamic pawn (*Gadai Syariah*)

In classical Islamic jurisprudence, the *rahn* contract is positioned primarily as a protective instrument intended to safeguard the rights of contracting parties, rather than as a mechanism for extracting economic gain. The four major Sunni schools concur that the pledged asset (*marhūn*) must not serve as a source of economic benefit for the lender beyond the recovery of actual, verifiable maintenance costs (Arianto et al., 2025). This doctrinal principle reflects the ethical orientation of Shari'ah, which seeks to prevent *ribā* and unjust enrichment while ensuring fairness and balance in financial relationships.

In the Indonesian context, these normative principles have been codified through a series of fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) and national regulations governing Islamic pawnshop operations (Farid & Fahreza, 2023). Relevant fatwas include DSN-MUI Fatwa No. 25/DSN-MUI/III/2002 on

rahn, Fatwa No. 26/DSN-MUI/III/2002 on gold pawn, and Fatwa No. 68/DSN-MUI/III/2008 on *rahn tasjīlī*. This codification bridges classical jurisprudential doctrine with modern institutional practice through concepts such as *ujrah* (service fee) and safekeeping charges.

Textually, the regulatory framework emphasizes the prohibition of deriving benefits from loans and restricts revenues to proportionate service fees (Setyo, 2010). However, the institutionalization process has also simultaneously shifted *rahn* into a bureaucratic and commercial logic oriented toward efficiency and standardization. Analysis of operational documents from PT Pegadaian indicates a predominance of procedural–textual compliance over substantive compliance. While contracts and standard operating procedures (SOPs) have been aligned with Shari‘ah terminology and fatwa provisions, the actual determination of fees is often based on loan tenor and estimated collateral value—rather than actual operational costs.

Although *rahn*, *qard*, and *ujrah* are formally articulated in written contracts that comply with approved fatwas, their implementation tends to be mechanical and administrative. Ethical relational principles—such as fairness, equitable risk-sharing, and the protection of vulnerable parties—are not fully internalized within institutional–client interactions. As a result, Shari‘ah compliance is reduced to an administrative checklist that prioritizes procedural conformity (e.g., use of standardized Shari‘ah contracts and product labels). Under pressures related to performance targets and business sustainability, the ethical orientation of *maqāṣid al-shari‘ah* becomes subordinated to institutional efficiency and risk mitigation.

A notable gap between formal design and ethical objectives appears in the fee structure, which is formally categorized as *ujrah* for safekeeping services but, in substance, functions as a time-based compensation mechanism. This pattern reproduces the logic of the time value of money in a concealed manner and illustrates a tendency toward *symbolic Islamization*, wherein Shari‘ah serves predominantly as a normative symbol rather than a deeply internalized ethical framework. The default procedures for handling defaulted contracts also tend to privilege institutional interests over balanced protection of contracting parties, reflecting a form of *decoupling* between normative principles and operational reality—where Shari‘ah norms are adopted symbolically but executed within the logic of conventional finance.

Empirical studies reinforce these observations. Multiple case studies in Indonesian Islamic pawnshop units report that safekeeping fees (*ujrah*) are frequently calculated based on the assessed value of the pledged asset and the duration of the loan, rather than on actual storage costs. Academic works—such as Anggraini (2018) and Sakirah et al. (2025)—consistently document fee calculations that integrate collateral value and contract duration as core variables. Field research by Harahap (2022) further reveals that late-payment penalties are imposed routinely alongside *ujrah*. These patterns suggest that institutional priorities lean more toward revenue preservation than toward fulfilling the protective, non-commercial nature of the *rahn* contract. Conceptual analyses by Sari et al. (2023) and Bardi (2021) emphasize that although DSN-MUI fatwas permit maintenance fees, their calculation must not be tied to loan size or collateral value—elements that are characteristic of interest-based mechanisms in conventional finance.

Collectively, these findings align with broader critiques of contemporary Islamic pawn practices. When *ujrah* is computed based on collateral value and time duration, the fee functions economically as a proxy for the time value of money, generating what may be termed “implicit *ribā*.” Hence, although the fee is labeled as *ujrah*, its functional characteristics resemble interest. This blurs the conceptual boundary between *rahn*—which should reflect a *tabarru‘* (benevolent) orientation—and profit-seeking financial instruments. This pattern typifies *symbolic Islamization*, where Shari‘ah terminology is appropriated without substantial ethical internalization. The routine application of fees and penalties displaces the product’s protective orientation—especially for economically vulnerable clients—by institutional revenue considerations. This reflects persistent decoupling between Shari‘ah norms and operational practice.

The situation is compounded by weak substantive oversight. Although the Sharia Supervisory Board (DPS) is intended to ensure alignment with Shari'ah principles, its limited integration in strategic decision-making diminishes the normative force of its recommendations (Sauri, 2023). Within PT Pegadaian's managerial structure, the role of DPS is further diluted because Shari'ah pawn services remain positioned as an alternative product line rather than as an autonomous institutional entity. Consequently, the existing codified framework has not fully steered practice toward the substantive justice envisioned in classical jurisprudence.

Theoretically, these findings underscore that authentic Shari'ah compliance requires integrating legal structures, operational practices, and moral objectives. Practically, strengthening Islamic pawnship necessitates a transition from rule-based compliance to value-based governance, where substantive justice becomes a central institutional performance metric. The authenticity of Islamic pawn practice should be measured by the degree of alignment between normative principles and institutional behaviors—indicated by commitments to *ta'awun*, transparency of fees and risks, absence of concealed time-based compensation, and equitable risk distribution.

The analysis reveals that although formal frameworks satisfy basic jurisprudential requirements, ethical internalization remains limited within operational logic. A pattern of commodification of Shari'ah principles is evident, wherein religious values become instruments of market differentiation. Labels such as “interest-free” and “fatwa-compliant” function largely as branding tools rather than as binding ethical frameworks. This shift transforms Shari'ah from a transformative normative system into a commercial legitimacy mechanism.

These dynamics manifest in transactional justice outcomes. Information asymmetry and power imbalances persist, particularly for clients from vulnerable socio-economic groups with low contract literacy. Limited fee transparency renders transactional fairness more declarative than real. From a *maqāṣid al-shari'ah* perspective, this trend risks shifting the objective of wealth protection toward an orientation dominated by institutional financial performance.

Table 1. Depth of sharia principle implementation in sharia pawn practices

Aspect	Summary of findings
Normative framework of <i>rahn</i>	Classical fiqh conceptualizes <i>rahn</i> as a protective mechanism rather than a profit-generating instrument; the lender may not derive any economic benefit beyond actual costs.
Codification in Indonesia	DSN–MUI fatwas and national regulations reinforce the prohibition of lender benefits and restrict fees to actual service costs (<i>ujrah</i>). However, implementation remains dominated by procedural rather than substantive compliance.
Operational practices	Although Sharia contracts and SOPs are in place, fees are often determined by loan value and tenure rather than actual storage costs, resulting in implicit time-value-of-money elements.
Administrative compliance	Sharia compliance functions largely as a checklist; ethical orientations—justice, fairness, and protection of the vulnerable—are insufficiently embedded in institutional–client interactions.
Role of the Sharia Supervisory Board (DPS)	The DPS has limited influence on strategic decision-making and occupies a marginal position within Pegadaian's managerial structure. A clear decoupling exists between normative prescriptions and actual practices. A shift from rule-based to value-based governance is
Conclusion	urgently needed.

3.2 The dynamics of the concept of *ribā* in Islamic pawn products

3.2.1 Reconstructing the concept of *ribā* in contemporary discourse

Classical Islamic legal literature conceptualizes *ribā* as any predetermined and guaranteed excess stipulated in a loan contract in the absence of commensurate countervalue (Chandraningtyas et al., 2025). Qur'anic exegesis and the consensus of jurists historically regard *ribā* as a mechanism of economic injustice, exploitation, and asymmetric power relations between creditors and debtors (Kurniawan et al., 2024). Within this framework, the prohibition of *ribā* is not merely technical; it is grounded in a deep ethical foundation aimed at safeguarding human dignity and social equilibrium by preventing the commodification of vulnerability among weaker parties.

Modern Islamic legal scholarship has expanded the analytical scope of *ribā* beyond a narrow textual reading toward a more structural and systemic approach. Contemporary scholars increasingly interpret *ribā* as any financial architecture that generates guaranteed returns without proportional risk-sharing, or that obscures time-based compensation through contractual engineering (Fatimah et al., 2025). This shift reflects a transition from a form-based understanding of *ribā* to one that is substance-based, placing economic justice, risk distribution, and transparency as central normative ideals.

In the context of modern financial institutions, this reconstruction generates fundamental tensions. Islamic finance aspires to avoid *ribā* while simultaneously operating within regulatory environments and competitive markets shaped by interest-based paradigms. As a result, *ribā* is no longer treated as a static doctrinal prohibition but as a concept that is continually debated and renegotiated through product design, contract structuring, and governance mechanisms. This tension becomes particularly salient when *rahn* is positioned as a secondary contract within contemporary financing schemes. In classical jurisprudence, collateralization is not recognized in *murābahah*, yet modern business practices employ collateral as a central risk-management instrument. The attachment of collateral serves as a preventive mechanism (*sadd al-dharī'ah*) to mitigate financing risks and is formally embedded through the *rahn* contract. Conceptually, this model is defensible, but it introduces ambiguity when the social function of *rahn* shifts toward protecting institutional commercial interests.

A more substantive issue emerges in the hybridization of contracts, namely the integration of *rahn* with *qard*, *ijārah*, *muḍārabah*, *bay' muqayyadah*, and *mushārahah al-ʿinān*. The combination of *rahn* with *qard al-ḥasan* and *ijārah* is relatively more consistent with the protective, non-commercial nature of *rahn* as a *tabarru'* contract, as the orientation remains toward safeguarding and permits only actual costs. In contrast, integrating *rahn* with investment-based contracts such as *muḍārabah* and *mushārahah* reveals normative ambiguity, as their operational logic more closely resembles profit-sharing and surplus generation mechanisms.

In empirical practice, this anomaly is evident when *rahn* is attached to *muḍārabah* financing. While the customer is formally positioned as *rāhin* and charged only for safekeeping, their substantive role remains that of *muḍārib*. This indicates that such hybridization represents more of a terminological shift than a substantive transformation of contractual relationships. Consequently, these hybrid models become vulnerable to reproducing practices that are substantively similar to *ribā*, particularly the extraction of economic benefit from loan-based relationships, which explains why such models are rarely adopted widely in the industry.

3.2.2 Risks of *ribā* reproduction in modern *rahn* schemes

Beyond contractual hybridization, the reproduction of *ribā*-like effects in modern *rahn* schemes is most visible in critical pricing structures, such as late-payment penalties, automatic contract rollovers, and tiered fee systems based on loan-to-value ratios. Although

rationalized as components of risk management, these mechanisms introduce guaranteed time-based gains that conceptually align with *ribā* practices.

The dynamics of gold-backed collateral further complicate the ethical landscape. Gold-based *rahn* products are highly sensitive to market price volatility. Institutions often possess structural advantages in determining valuation timing and liquidation procedures, creating substantial information asymmetries. When gold prices rise, contractual protections tend to favor the institution; when prices fall, the burden of risk is frequently transferred to the customer. This pattern conflicts with the principle of equitable risk distribution embedded in *anti-ribā* norms (Chandraningtyas et al., 2025).

Field findings reveal the presence of operational drift, namely a shift in institutional practices toward business pragmatism that exceeds ethical boundaries. Limited fee transparency, automatic contract extensions without substantive renegotiation, and the normalization of penalty-based revenue reflect a broader trend of debt commodification. These observations indicate that challenges in Islamic pawn operations lie not only in formal legal compliance but also in the potential erosion of the moral values at the core of *anti-ribā* ethics.

Thus, contemporary Islamic pawn practices occupy an ethically ambivalent position: they formally adhere to *anti-ribā* doctrine yet structurally generate economic effects akin to interest-based systems. This condition requires a paradigm shift from mere contractual engineering toward the construction of an ethical financial architecture in which Shari‘ah compliance is assessed based on substantive justice, genuine transparency, and symmetrical risk distribution rather than procedural formalities alone.

Table 2. Dynamics of the concept of *riba* in sharia pawn products

Aspect	Summary of Findings
Modern reconceptualization of <i>riba</i>	Riba is increasingly understood in substantive terms: guaranteed profit without risk-sharing or concealed time-value-of-money elements. The Sharia finance industry operates under structural pressure from interest-based systems.
Hybridization of contracts	The <i>rahn-qard/ijarah</i> structure remains coherent with classical doctrine; however, <i>rahn-mudārabah/musyārah</i> models generate normative ambiguity and heighten the risk of reproducing substantive <i>riba</i> .
Risk of <i>riba</i> reproduction	Late-payment penalties, loan rollovers, and tiered pricing schemes often mimic interest-bearing mechanisms.
Gold collateral	Information asymmetry and price volatility in gold-backed collateral increase risk inequities and potential unfairness to clients.
Conclusion	Although formally <i>anti-riba</i> , prevailing fee structures and risk mechanisms closely resemble interest-based systems. Strengthening ethical architecture—not merely contractual engineering—is required to prevent substantive <i>riba</i> .

3.3 Exclusivity of access to sharia pawn services

3.3.1 Segmentation of sharia pawn service users

Literature and operational documents from PT Pegadaian indicate that users of sharia pawn services generally consist of individuals requiring short-term liquidity for both consumptive and productive purposes. Their socio-economic profiles commonly reflect groups with moderate economic vulnerability, such as small traders, informal sector workers, micro-entrepreneurs, and households facing urgent financial pressures. In this context, sharia pawn services occupy a unique position as a relatively flexible financial instrument compared with conventional banking facilities.

However, patterns of service utilization reveal a non-neutral segmentation. Although normatively designed to reach lower-income groups, access is in practice dominated by individuals who possess liquid and high-value assets, particularly gold and motor-vehicle

ownership documents (BPKB). This situation is rooted in the dominance of consumption-oriented sharia pawn products, while productive schemes—such as *Arrum* financing, which explicitly targets micro and small enterprises—remain marginal within the institutional portfolio.

Under the *Arrum* scheme, the pledged object (*marhūn*) typically consists of a motor-vehicle ownership certificate (BPKB). The vehicle itself remains under the customer's possession and may continue to be used for income-generating activities. Conceptually, this mechanism could serve as an alternative financing channel for micro enterprises. Nevertheless, restricting collateral types to specific assets creates structural constraints: ownership of gold, motor vehicles, or electronic goods—commonly used as collateral—remains limited among micro-entrepreneurs and the lowest-income groups. Consequently, entrepreneurs with strong productive potential but lacking eligible assets are excluded from access to financing. This condition demonstrates that inclusiveness in sharia pawn services remains hindered by asset-based legalism and narrow collateral requirements. At this juncture, the institutional commitment to realizing the vision of inclusive Islamic finance must be reconsidered, particularly through the lens of *fath al-ẓarāʿi*, which encourages expanding pathways for broader access to productive financing.

Requirements such as formal identification, documented asset ownership, and specific asset-quality standards create an institutional selection mechanism that, although legally valid, potentially excludes the extreme poor, informal workers without complete documentation, and rural communities whose assets are often undocumented. These barriers are reinforced by regulatory and institutional practices that are fragmented according to the type of collateral. Such fragmentation implicitly positions gold as a “privileged” collateral object. As a result, Islamic financial institutions tend to expand gold ownership financing and gold pawn services, while a regulatory framework enabling micro-entrepreneurs to use productive assets or social collateral remains absent.

Geographical barriers further deepen exclusion. Sharia pawn outlets are concentrated in urban and economically developed areas, while rural, island-based, and remote regions receive relatively limited coverage. This spatial inequality places socioeconomically vulnerable groups at the greatest geographic distance from formal financial access. In addition, an institutional orientation increasingly shaped by prudential logic fosters conservative internal policies regarding collateral acceptance. The conceptual flexibility of *rahn*—originally a *tabarruʿ*-based social contract—is thus reduced to a risk-selection mechanism resembling conventional commercial practices.

Cognitive barriers also play a significant role. Low levels of Islamic financial literacy contribute to the public's limited understanding of the substantive differences between *rahn*, interest-bearing loans, and informal lending practices. This lack of awareness drives segments of the population back toward moneylenders, middlemen, and illegal pawnshops despite the higher risks involved. This phenomenon contradicts the foundational mission of sharia pawn services, which were designed to eliminate such exploitative practices.

3.3.2 Sharia pawn services and the mission of social justice

Normatively, the *rahn* contract embodies a strong vision of social justice. Within the fiqh tradition, *rahn* is understood as a social-protection instrument that enables individuals to navigate economic pressures without falling into exploitative relationships. Its core objective is *tabarruʿ*-oriented and intended to provide capital support for micro and small enterprises. However, the analysis reveals a structural tension between this normative ideal and institutional realities. Contemporary sharia pawn services have shifted toward semi-commercial financial instruments in which operational efficiency and business sustainability often outweigh social mandates. This is reflected in the exclusivity of gold-based products, fragmentation of collateral-based services, and standardized procedures that inadvertently restrict access for vulnerable groups. Such conditions create patterns of hidden exclusion. While formally open to all, sharia pawn services substantively favor

middle-income groups with liquid assets, adequate financial literacy, and physical proximity to service outlets. Gold-pawn products, despite being structured under sharia mechanisms, tend to reflect formal rather than material justice, as they have yet to fully realize the foundational purpose of *rahn* as a social-protection tool.

If this trajectory continues, sharia pawn practices risk being drawn into a liberal economic logic that prioritizes capital owners and market efficiency. This would increase the likelihood that vulnerable groups revert to moneylenders and informal lending arrangements, reproducing the very exploitation that sharia pawn services originally sought to eliminate. Hence, the inclusiveness of current sharia pawn practices remains partial and conditional. Although formally free from *riba*, they have not fully actualized the substantive justice and social empowerment inherent in the foundational philosophy of *rahn*. Accordingly, a paradigm reorientation is necessary—one that shifts from mere risk mitigation to an ethical institutional architecture integrating social protection, distributive justice, and structural empowerment of the micro-enterprise sector as core objectives of sharia pawn services.

Table 3. Exclusivity of Access to Sharia Pawn Services

Aspect	Summary of Findings
User segmentation	Services are predominantly utilized by informal workers, small-scale traders, and households requiring immediate liquidity. However, actual access remains restricted to individuals possessing gold or motor-vehicle ownership documents (BPKB).
Productive financing (Arum)	Holds potential to support micro and small enterprises, yet remains marginal in practice. Restrictions on acceptable collateral types hinder broader financial inclusion.
Structural barriers	Rigid administrative procedures, narrow collateral categories, gold-centric bias, absence of a regulatory framework for social collateral, geographic limitations, and low financial literacy collectively constrain access.
Social impact	Extremely poor households and microenterprises lacking liquid assets are systematically excluded, often reverting to informal moneylenders.
Conclusion	Sharia-based inclusivity remains partial; formal justice has yet to translate into substantive, material justice.

3.4 Dualism in institutional governance

3.4.1 Institutional model of sharia pawn services in Indonesia

The institutional configuration of sharia pawn services in Indonesia has evolved within a dualistic structure, in which sharia-based pawn services (such as those at PT Pegadaian) do not operate as fully autonomous entities but are instead embedded within the national pawn system that simultaneously manages conventional services. Organizationally, sharia units are typically positioned as sub-units or specialized business lines within a larger corporate framework. This arrangement creates an ambivalent relationship: on the one hand, it enables operational efficiency by utilizing shared infrastructure, yet on the other hand, it constrains the normative and strategic autonomy required for developing a distinctly independent sharia institutional identity.

The coexistence of sharia and conventional systems within the same organizational body produces a paradoxical governance structure. Business logic, risk-management standards, and financial performance targets of sharia units are often aligned with the conventional parent framework. Consequently, sharia principles—which normatively require approaches rooted in social justice, balanced risk distribution, and a *tabarru'* orientation—are frequently negotiated to conform to institutional demands for efficiency and profitability. Within this context, sharia pawn services operate in a “semi-autonomous”

position: formally recognized as sharia-compliant services, yet structurally embedded in institutional logics largely shaped by conventional norms.

3.4.2 Institutional isomorphism in pawn practices

The phenomenon of institutional isomorphism, as articulated by Findik and Beduk (2014), provides a critical analytical lens for understanding the convergence between sharia and conventional pawn practices. Within institutional theory, regulatory pressures compel financial institutions to adhere to uniform prudential standards, governance mechanisms, and reporting requirements, regardless of their distinct normative foundations. Sectoral regulations, which are often generalized, do not sharply distinguish the specific operational needs of sharia-based systems, thereby driving sharia units to adopt standardized procedures that mirror their conventional counterparts.

Normative pressures arise from professional standards, industry best practices, and stakeholder expectations that evaluate institutional performance based on quantitative indicators such as operational efficiency, profitability, and portfolio quality. In such an environment, sharia pawn units are incentivized to replicate conventional pricing structures, risk-mitigation mechanisms, and contractual arrangements. Cognitive pressures operate through the collective mental frameworks of institutional managers, wherein conventional practices are perceived as the “rational model” and “industry norm.” As a result, a gradual convergence between sharia and conventional practices occurs. Distinctions become increasingly symbolic—limited to terminological adjustments of contractual forms—while the economic architecture and operational logic exhibit substantial similarity.

3.4.3 Public perception and social legitimacy

Public discourse surrounding sharia pawn services extends beyond the question of normative permissibility to encompass issues of justice, social orientation, and institutional moral integrity. Communities assess sharia compliance not only through labels or fatwas but also through empirical experiences related to fee transparency, equitable treatment, and service accessibility. In this regard, institutional dualism generates ambiguity within public perception. On one hand, the presence of sharia units within a conventional institution conveys stability and professionalism. On the other hand, it provokes skepticism that sharia practices merely represent a “rebranding” of the same system without substantive differences. This ambiguity shapes social trust dynamics: segments of the middle class may consider sharia pawn services as a religiously viable alternative, whereas grassroots communities remain reliant on informal lenders due to perceived social and bureaucratic distance from formal institutions.

Table 4. Dualism in institutional governance

Aspect	Summary of Findings
Institutional model	Sharia units operate within the organizational structure of the conventional Pegadaian, rendering them semi-autonomous and limiting their ability to develop distinctly Sharia-based designs and practices.
Institutional isomorphism	Regulative, normative, and cognitive pressures compel Sharia units to replicate conventional patterns, including tariff structures, risk-mitigation mechanisms, and operational standards.
Conclusion	The Sharia identity becomes absorbed into conventional business logic, making it difficult to operationalize maqāṣid-oriented values.

The result is a gradual erosion of social legitimacy. Formal legitimacy—derived from legal compliance and religious endorsement—does not necessarily translate into substantive legitimacy at the community level. When institutional dualism is not

accompanied by meaningful differentiation in practice, the sharia pawn industry risks forfeiting its moral position as an instrument of equitable finance. Therefore, the long-term sustainability of sharia pawn institutions depends not only on financial performance but also on their ability to establish coherence between normative claims and the operational realities experienced by the public.

3.5 Implications and strategies

3.5.1 Implications

The analysis and findings of this study lead to the formulation of a conceptual model integrating four core dimensions of sharia pawn practices: the normative, operational, social, and institutional dimensions. The normative dimension represents the framework of values and Islamic legal principles derived from classical fiqh, fatwas, and regulatory instruments governing *rahn* as a financial mechanism grounded in justice and social solidarity. The operational dimension reflects the technical practices through which institutions translate these norms into working procedures, contract structures, and financing mechanisms. The social dimension concerns user experience, public perception, and the degree of inclusivity in accessing services. Meanwhile, the institutional dimension refers to the organizational configuration, governance structure, power relations, and regulatory dynamics that shape the entire practice.

The integration of these four dimensions—normative, operational, social, and institutional—demonstrates that sharia pawn practices function within a relational, complex, and non-linear ecosystem. These dimensions do not operate independently; rather, they shape one another through dialectical processes that influence the direction, quality, and character of sharia implementation. The attainment of sharia compliance therefore cannot be reduced to textual conformity between contract clauses, fiqh, and fatwas; instead, it depends heavily on the institution's ability to manage the interactions among these dimensions in a coherent and balanced manner.

Operational capacity serves as the arena in which normative values are translated into concrete mechanisms. However, this capacity is often constrained by institutional pressures such as risk standards, performance targets, and governance structures that mirror conventional institutional logics. At the same time, social needs and users' lived experiences provide real-time feedback on the extent to which sharia pawn services embody justice, accessibility, and protection for vulnerable groups. Imbalances in any of the four dimensions can alter the overall direction of practice. The dominance of institutional rationalities—centred on efficiency, risk, and profitability—has been shown to shift sharia pawn practices away from their normative essence, even when formal compliance remains intact. This reveals a widening gap between “procedural compliance” and “substantive compliance,” where textually valid products and fee structures operate through economic logics resembling interest-based mechanisms.

The conceptual model also highlights the transformative trajectory of the *rahn* contract: originally designed as a *tabarru'*-based instrument for social protection, it has gradually evolved into a semi-commercial tool influenced by modern risk management and industry competition. While such transformation may reflect necessary adaptation to contemporary demands, it carries significant risks if not accompanied by strong ethical safeguards. Accordingly, the model underscores the importance of integrating *maqāsid al-sharī'ah* as a guiding framework to preserve justice, risk symmetry, and support for the economically weaker party—principles that constitute the heart of Islamic finance. This conceptual model thus provides a holistic perspective for understanding and guiding the reform of sharia pawn systems toward more authentic, inclusive, and value-oriented practices.

3.5.2 Strategic recommendations

The findings indicate that effective sharia governance requires not only formal regulatory compliance but also the consistent implementation of ethical and operational principles in daily institutional practices. In addition, collaboration between regulators and sharia pawn institutions plays a crucial role in ensuring transparency, accountability, and public trust in Islamic financial services. Building on these insights, the synthesis of findings leads to several key strategies for regulators and sharia pawn institutions aimed at strengthening substantive sharia compliance:

3.5.2.1 Regulatory strategies: Substantive compliance and social impact oversight

The findings indicate the need for a paradigm shift from formalistic compliance toward a model of substantive, impact-oriented regulatory oversight. This includes developing substantive audit instruments that evaluate not only the textual conformity of contracts but also their social impact, risk symmetry, cost structures, and consumer protection within sharia pawn operations. Furthermore, it involves embedding ethical evaluation within regulatory frameworks so that compliance indicators encompass *maqāṣid al-sharīah* dimensions such as justice, protection of the vulnerable, and prevention of exploitation. In addition, it requires harmonizing fatwas with operational regulations to prevent interpretive gaps that may enable contractual engineering or opportunistic practices that blur the distinction between *riba* and *ujrah*. Finally, it entails instituting standards for fee transparency and pricing structures to ensure that all cost components are justifiable from both sharia and economic perspectives.

3.5.2.2 Institutional strategies: Strengthening Sharia Supervision and Ethical Governance

For sharia pawn institutions, the study highlights the need to reinforce institutional integrity through enhancing the independence and capacity of the Sharia Supervisory Board (DPS) so that its oversight extends beyond verification to include critical evaluation of business direction and product design. Furthermore, it involves integrating *maqāṣid al-sharīah* values throughout the entire product management cycle—from product design and fee determination to financing resolution. In addition, it requires implementing ethics-based governance that emphasizes transparency, risk symmetry, and fair remediation mechanisms that avoid placing disproportionate burdens on customers. Finally, it entails deconstructing operational patterns that mimic interest-based mechanisms, including severing the implicit linkage between collateral value, financing duration, and the amount of *ujrah*.

3.5.2.3 Product and service strategies: Reformulating product design for inclusivity and social sustainability

The findings further indicate the need for deep product and SOP transformation. Operational strategies include reformulating cost structures to reduce dependence on penalties and additional charges as revenue sources, replacing them with proportional and transparent pricing mechanisms. Furthermore, they involve expanding the types of acceptable collateral, particularly assets with limited monetary value but significant social utility, to enhance access for low-income groups. In addition, it is necessary to develop non-asset-based assessment mechanisms—such as reputation scoring or enterprise capacity evaluation—so that vulnerable populations lacking easily liquidated assets can still access financing. Moreover, strengthening the orientation toward productive financing is essential, including *rahn* schemes specifically designed for micro-enterprises to optimize the social function of sharia pawn services. Finally, this transformation entails implementing risk-mitigation strategies grounded in client assistance, such as fair financing restructuring,

financial literacy education, and behaviour-based monitoring rather than penalty-driven control.

4. Conclusions

This study demonstrates that the implementation of Sharia pawnshop (*rahn*) services in Indonesia is characterized by a persistent gap between formal compliance and substantive realization. While operational practices largely conform to established Sharia frameworks—drawing upon classical *fiqh*, fatwas, and regulatory standards—such compliance tends to be procedural rather than value-driven. The findings reveal that core Sharia principles, including justice, social solidarity, and protection of vulnerable groups, are not fully internalized in practice. This condition is further reflected in the transformation of *riba* prohibition into forms of contractual engineering, where cost structures such as *ujrah* and administrative fees often mirror interest-like mechanisms. In addition, the intended inclusivity of Sharia pawn services remains constrained by collateral-based requirements, which structurally limit access for economically vulnerable groups and create patterns of implicit exclusion.

At the institutional level, the coexistence of Sharia and conventional systems within a dualistic framework encourages convergence in operational standards, leading to the gradual dilution of Sharia identity and increasing pragmatic public perceptions. To address these challenges, this study proposes an integrated conceptual model encompassing normative, operational, social, and institutional dimensions, emphasizing that imbalance among these elements—particularly the dominance of efficiency-oriented institutional logic—undermines substantive Sharia compliance. Accordingly, a strategic shift is required from procedural adherence toward value-based implementation, supported by impact-oriented regulation, strengthened governance and Sharia supervision, and the development of more inclusive and empowerment-driven financial products. Such transformation is essential to ensure that Sharia pawn practices genuinely reflect the ethical foundations of justice, protection, and social sustainability.

4.1 Implications, Limitations, and Recommendations for Future Research

The findings of this study carry significant theoretical, policy, and practical implications. Theoretically, this study enriches the discourse on Islamic finance by clarifying the conceptual distinction between procedural and substantive compliance. The results demonstrate that evaluating Islamic financial practices solely through legal-formal criteria is insufficient, as assessments should instead adopt a value-based framework that positions justice, transparency, and the protection of vulnerable actors as key performance indicators. In this regard, the study contributes to strengthening the paradigm of substantive Sharia compliance as a more relevant analytical lens for understanding contemporary financial dynamics. From a policy perspective, the findings highlight the need for regulatory transformation from document-based approaches toward social-impact-based approaches. Existing Sharia supervisory models, which primarily focus on contract and procedural conformity, should be complemented with ethical and social audit instruments capable of measuring whether Sharia pawn services genuinely serve vulnerable groups and avoid unilateral risk transfer. The findings also emphasize the importance of strengthening the role of Sharia Supervisory Boards so that they function not only as internal fatwa authorities but also as institutional ethics actors with evaluative and corrective capacities in business strategy development. Practically, the study encourages Sharia pawn institutions to reorient their business models from purely financial-efficiency-driven approaches toward more balanced social-finance approaches. Reformulating fee structures, enhancing transparency in *ujrah* calculations, and limiting punitive practices are strategic measures to restore *rahn* to its protective rather than exploitative function. Furthermore, the study underscores the need for more accessible product innovation

targeting micro-enterprises and low-income groups, thereby positioning Sharia pawn services as a genuine pathway to financial inclusion.

Despite its significant contributions, this study acknowledges several academic limitations. First, the socio-legal qualitative design limits the generalizability of the findings to the entire Sharia pawn industry. The results reflect structural patterns and institutional tendencies rather than statistical representations. Second, limited access to internal documents and operational financial records constrained the depth of analysis concerning actual cost structures and internal decision-making. Thus, discussions on potential *riba* reproduction rely largely on public documents, interviews, and secondary literature, which, while methodologically sound, still leave room for more granular empirical data. Third, the study's Indonesia-focused analysis restricts comparative generalizability. The dynamics of institutional dualism and isomorphism identified here are deeply embedded within Indonesia's regulatory and historical context, requiring caution in drawing broader international conclusions.

Future research is recommended to employ more diverse methodological approaches, including qualitative–quantitative integration through social impact assessments, to more precisely measure the extent to which Sharia pawn services reduce financial vulnerability and improve the welfare of low-income groups. Longitudinal studies are also essential to understand the long-term transformation of the *riba* concept in contemporary financial practices. Furthermore, cross-country comparative studies could explore how different institutional models influence substantive Sharia compliance. Comparisons between countries with structurally independent Sharia institutions and those with integrated Sharia units may yield richer insights into how institutional dualism affects social legitimacy. Finally, future research should examine, in greater depth, the perceptions and lived experiences of vulnerable users—including informal-sector workers, female-headed households, and micro-entrepreneurs—through participatory approaches such as financial ethnography to better understand how Sharia justice is negotiated and experienced in everyday practice.

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