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Implementation of Sharia Pawnshops to Improve the Economy of the Makassar City Community

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Abstract

Sharia pawnshops (gadai syariah) have grown into one of the more visible instruments of Islamic microfinance in Indonesian cities, yet how such institutions actually function on the ground, and whether their operation genuinely improves the economic condition of lower-income communities, remains insufficiently documented at the city level. This study examines the implementation of sharia pawnshops in improving the community economy of Makassar City, focusing on four aspects: the operational procedure, the implementation strategy, the impact, and the effectiveness of sharia pawnshop services. A qualitative field research design was employed, combining a normative-theological approach, a normative-juridical approach, and a case study approach. Data were obtained through observation, in-depth interviews with branch and unit heads of sharia pawnshop offices and their customers in Makassar, documentation, and secondary statistical sources, then analysed through data reduction, data display, and conclusion drawing, with credibility strengthened through source, method, and time triangulation. The findings show that the operational procedure of sharia pawnshops in Makassar is consistent with the fatwa of the National Sharia Board of the Indonesian Council of Ulama (DSN-MUI), reflected in valid rahn and ijarah contracts, a profit-sharing (mudharabah) mechanism in place of interest, and a direct-sale (jual putus) mechanism for collateral execution. The institution functions not merely as an emergency financing channel but as an instrument of economic empowerment for lower-middle-income groups, through rahn-based financing, the productive use of pledged assets, affordable ujrah fees, and financial literacy initiatives. Its impact is evident in meeting urgent household needs, sustaining micro-enterprises, stabilising family economies, and offering a lawful alternative to informal moneylenders. The study recommends a clearer institutional separation between sharia and conventional pawnshops and continued conversion of conventional units into sharia-compliant ones to widen access to ethical financing in the city.

Keywords: *Economic Empowerment, Islamic Microfinance, Makassar, Rahn, Sharia Pawnshop*

Introduction

Sharia law occupies a central position in regulating all aspects of Muslim life, including muamalah (transactions) or economic interactions between individuals. Islam does not separate the realm of worship from the economic realm; both are placed within the same framework of values, namely submission to the rules of Allah SWT, which aims to bring benefit to humanity (Arief, Syamsuddin, & Syatar, 2022). One of the most emphasized principles within this muamalah framework is the prohibition of usury, as emphasized in QS al-Nisa/4:29, which prohibits humans from consuming each other's property unjustly except through trade based on mutual consent. This verse serves as a primary reference for the birth and development of Islamic financial institutions in Indonesia, including Islamic pawnshops, because usury is seen as a form of burden that oppresses the economically weaker (Binjai, 2006).

The Islamic financial services sector in Indonesia has grown relatively rapidly over the past two decades, driven in part by the belief among the majority of Muslims that the conventional banking system contains elements of usury, which are inconsistent with religious teachings (Arifin, 2002). This phenomenon has also driven the growth of various models of Islamic microfinance institutions, one of which is Islamic pawnshops, as an alternative for people who need cash quickly without being trapped by interest mechanisms.

Historically, the practice of pawning was not a phenomenon born solely from Islamic tradition. The modern pawnshop system actually first developed in several European countries such as England, Italy, and the Netherlands, before being introduced to Indonesia during the Dutch East Indies colonial period. The colonial government established the first official pawnshop institution on April 1, 1901, in Sukabumi with the aim of protecting the public from the then-prevalent loan sharking practices (Fahmi, 2014). This institution later evolved into a state pawnshop institution that still operates under its own legal framework, with a business line that extends from simply providing pawn-based loans to providing precious metals custody and certification services.

Pegadaian, a state-owned enterprise that oversees pawn services in Indonesia, only began pioneering its sharia-compliant service unit in the early 2000s, in line with the growing demand from the Muslim community for interest-free financial products. This sharia-compliant service unit initially operated as a special division under a conventional entity, before Financial Services Authority regulations encouraged a spin-off process to allow for more independent and accountable management of sharia funds, separate from the mixing of funds with conventional units. This spin-off process, as will be further described in the research findings section, remains an incomplete agenda, particularly at the operational level in regions such as Makassar City.

Over time, pawnshops in Indonesia have evolved into two service models: conventional and sharia pawnshops. Conventional pawnshops operate with an interest-based loan scheme, while sharia pawnshops operate under a rahn contract, which involves holding one of the borrower's assets as collateral for the loan, with fees charged in the form of ujrah (service fees) or maintenance fees, not interest (Antonio, 2001). This fundamental difference makes sharia pawnshops a more normatively appropriate option for Muslims seeking to avoid usurious transactions in meeting their financial needs.

Etymologically, the term rahn means permanent, eternal, or collateral, while in Islamic jurisprudence terminology, rahn is defined as the act of making an item that has a value according to Islamic law as collateral for a debt, so that part or all of the debt can be fulfilled from that item if the borrower is unable to pay off his obligations (Sabiq, n.d.; Qudamah, 2004). The party who hands over the pawned item is called rahin, the party who receives it is called murtahin, and the pawned object is called marhun. Ibn Qudamah emphasized that the essence of rahn lies in its function as a trust instrument that allows the fulfillment of receivables when the debtor is unable to pay, while Azhar Basyir emphasized that the existence of the collateral provides certainty for the party holding it to recover part or all of its receivables. Thus, Islamic pawning is basically an instrument of ta'awun or mutual assistance that is permitted by Islamic law, not an instrument for seeking profit through charging interest.

The Islamic economic framework underlying the practice of rahn is fundamentally geared toward building comprehensive well-being, not just individual material well-being. Islamic moral economy places maslahah, or the common good, as the primary orientation of development, so that individual liberation from the pressures of basic needs and empowerment for development are two inseparable sides of the same coin (Aydin, 2017; Jan & Asutay, 2019). The prohibition of usury within this framework is not merely a formal prohibition, but rather a logical consequence of Islam's commitment to social justice and its rejection of all forms of economic exploitation of vulnerable groups.

When viewed from an international perspective, research on ar-rahn, or Islamic pawning, has actually developed quite rapidly, particularly in Malaysia, which has a relatively mature ar-Rahnu system. A bibliometric study conducted by Ma'ruf (2025) mapped trends, gaps, and future directions for global Islamic pawning research, and found that most studies still concentrate on aspects of sharia compliance and operational efficiency, while studies on socio-economic impacts at the household level are relatively limited. Similarly, Razak and Asutay (2022) demonstrated through a study in Malaysia that ar-Rahn significantly contributes to financial inclusion and the economic well-being of low-income customers, while Nik Azman (2016, 2018) in a series of studies emphasized ar-Rahnu's role as a microcredit instrument that helps women micro-entrepreneurs achieve financial independence, viewed from the perspective of informal credit market theory. Ali et al. (2017) and Aziz et al. (2023) each compiled a systematic literature review on ar-Rahnu, emphasizing the importance of further research on technology adoption and institutional governance. Meanwhile, research more closely related to the Indonesian context was conducted by Rahma and Sigit (2024) on the potential of Islamic pawnshops to encourage financing for MSMEs in South Sulawesi, as well as by Al-Khoiri et al. (2024) who systematically examined the influence of appraised value on customers' decisions to use gold pawn services, and by Sari and Meidina (2022) who highlighted the concept of bai'u al-uhdah in the utilization of pawned goods according to Islamic law.

Reviewing the literature, it appears that the majority of previous studies have focused on a single dimension, be it sharia compliance, customer decisions, or literature reviews. However, not many have specifically examined the comprehensive implementation of sharia pawnshops, from procedures, strategies, impacts, to effectiveness, within a single field research framework in the context of a specific city in eastern Indonesia. This research attempts to fill this gap by selecting Makassar City, one of the largest trade and service centers in eastern Indonesia, as the study's locus.

Makassar was chosen for a reason. Nine Sharia pawnshops, spread across various districts, serve segments of the population largely engaged in the informal sector, such as traditional market traders, street vendors, and other micro-entrepreneurs. These groups are generally vulnerable to high-interest financing or even loan sharking if they lack access to sound and affordable financing sources. Data from the Makassar City Central Statistics Agency shows that although the city's poverty rate is relatively low compared to the provincial average, ranging from 4-5 percent in recent years, fluctuations and disparities between districts remain issues that require location-based intervention (Makassar City Central Statistics Agency, 2023). In this context, the existence of Sharia-compliant, fast-paced, and affordable microfinance institutions is relevant for further study, both in terms of their procedural compliance with the DSN-MUI fatwa and their tangible contribution to improving the city's economic situation.

Conceptually, implementation in this study is understood as an activity that is planned and carried out seriously based on certain norms to achieve predetermined goals (Usman, 2002). Implementation is not merely the technical realization of a policy or contract, but rather a process of mutual adjustment between goals and actions, which requires an implementing network and effective governance (Setiawan, 2004; Subarsono, 2005). In the context of Islamic pawnshops, implementation encompasses the entire process from the implementation of the contract, the determination of service strategies, to the realization of economic impacts that can be directly felt by customers.

In this study, community economic improvement is defined as improving the economic level through productive independent businesses, with attention to management aspects in running the business (Yatim & Hendargo, 1992). Several factors that commonly support community economic improvement include the availability of capital, mastery of skills, access to technology, and ownership of business land. Within the framework of Islamic economics, economic improvement is not only measured by numerical growth, but also by the extent to which the process maintains the maqashid sharia, particularly the protection of assets (hifz al-mal) and the creation of comprehensive welfare or al-falah (Chapra, 1999; Nasution et al., 2006).

From a national regulatory perspective, the existence of Islamic pawnshops in Indonesia is governed by a multi-layered legal framework. At the fatwa level, the DSN-MUI Fatwa Number 25/DSN-MUI/III/2002 concerning Rahn serves as the primary reference, stipulating that the murtahin has the right to retain the marhun until all rahin debts are repaid, that maintenance of pawned goods is essentially the rahin's obligation but can be undertaken by the murtahin, and that maintenance costs may not be determined based on the loan amount. This provision technically distinguishes ujrah from interest, as ujrah is calculated based on the actual cost of maintaining the goods, not a percentage of the loan value that accrues over time. At the institutional level, the Financial Services Authority (OJK) regulations on pawnshops also require the separation (spin-off) of sharia business units from conventional business units within pawnshops, a policy intended to strengthen the independence and accountability of sharia-based fund management. However, the implementation of this spin-off policy in the field, as will be described in the research findings section, still faces various technical and structural obstacles.

From a broader perspective of Islamic economic institutions, the existence of Islamic pawnshops cannot be separated from the broader mission of developing an inclusive Islamic economy. Antonio (1999) emphasized that Islamic financial institutions, including Islamic pawnshops, are essentially aimed at bridging the real needs of society with sharia principles that maintain a balance between individual and social interests. Anshori (2006), in his study of the concept, implementation, and institutionalization of Islamic pawnshops in Indonesia, also emphasized that the success of Islamic pawnshops as an alternative financial instrument depends heavily on three main factors: consistent sharia compliance, professional institutional governance, and the level of public literacy regarding the products offered. These three factors also serve as the common thread connecting the four research questions in this article.

In addition to the aforementioned studies, research on Islamic pawnshops in Indonesia is also enriched by Nurmansah's (2024) study on the application of the rahn contract in Islamic pawnshops, which highlights the importance of consistency between the contract text and field practice to avoid deviations from Islamic principles, as well as Pangestu et al.'s (2024) study on the role of Islamic pawnshops in community economic development, which found a positive correlation between the intensity of Islamic pawn financing and the growth of micro-enterprises in several regions in Indonesia. These two studies reinforce the initial assumption of this research that Islamic pawnshops have great potential as an instrument of economic empowerment, but this potential needs to be continuously tested empirically in different regional contexts, considering the very diverse socio-economic characteristics of Indonesian society across regions.

Comparing all previous studies, it can be observed that research on Islamic pawnshops has tended to be polarized into two poles: normative-jurisprudential studies that emphasize the validity of contracts, and empirical-economic studies that emphasize the impact of financing. There are not many studies that explicitly bridge these two poles in a comprehensive analytical framework, from the legality of procedures to their macroeconomic impacts, as this study attempts to offer. The originality of this research lies in the combination of normative theological, normative juridical, and field case study approaches simultaneously, on the object of study of Islamic pawnshops in Makassar City, which has been relatively rare as a research locus compared to large cities on the island of Java.

The significance of this study in the context of eastern Indonesia also needs to be placed within a broader framework, namely the acceleration of economic development in eastern Indonesia, which has become one of the national development priorities in recent years. Makassar City, as a major hub for trade, services, and logistics in this region, faces a fairly high urbanization dynamic, which in turn gives rise to a segment of low- and middle-income urban society that requires access to fast, affordable microfinance that aligns with the religious values of the majority of its population. In this context, a deeper understanding of how Islamic microfinance institutions such as Islamic pawnshops operate and impact this city is relevant not only for the development of Islamic economics but also for the formulation of inclusive and equitable regional economic development policies.

Furthermore, this research is also positioned as an effort to bridge the gap between formal academic dissertation studies and the need for broader knowledge dissemination through scientific journal publications. Most findings regarding the implementation of Islamic financial institutions at the local level tend to be contained in academic papers that are difficult to access by a wider audience, including industry players and policymakers in the regions. Through this article, the findings of the field research conducted are expected to reach a wider readership, including Islamic financial institution practitioners, regional regulators, and other academics interested in developing similar studies in different regional contexts.

Based on the description above, this research was formulated to answer the main question regarding how the implementation of Islamic pawnshops improves the economy of the people of Makassar City. This main question is then broken down into four more detailed research questions: first, what is the procedure for implementing Islamic pawnshops in Makassar City? Second, what is the strategy for implementing Islamic pawnshops in improving the economy of the people of Makassar City? Third, what is the impact of the implementation of Islamic pawnshops on improving the economy of the people of Makassar City? And fourth, how effective is Islamic pawnshops in improving the economy of the people of Makassar City? These four questions also serve as the framework for writing the results and discussion sections of this article.

This study aims to systematically analyze these four aspects, with the hope of providing two contributions simultaneously. Theoretically, this research is expected to enrich the study of the implementation of Islamic microfinance institutions at the city level, particularly in the context of eastern Indonesia, which is relatively understudied compared to Java and Sumatra. Practically, the findings of this study are expected to serve as a reference for regulators, Islamic pawn industry players, and the wider community in understanding how the rahn instrument can function optimally as a means of fair, transparent, and sustainable economic empowerment.

Methods and Data

This study uses a qualitative approach with a field research design, as suggested by Sugiyono (2019) to examine phenomena in natural settings without variable manipulation. The researcher acts as the primary instrument, emphasizing the meaning of informants' experiences rather than mere statistical generalizations. Three approaches are used simultaneously: a normative theological approach to assess the conformity of Islamic pawning practices with Islamic legal sources, a normative juridical approach to assess their conformity with applicable regulations and fatwas, and a case study approach following Creswell's (2015) framework to gain a deep, holistic, and systematic understanding of how Islamic pawning practices operate within the social context of Makassar City.

The research was conducted in Makassar City, where nine Islamic pawnshops operate across various sub-districts. This location was chosen based on the consideration that Makassar is the largest center of trade and service activity in eastern Indonesia, with a large population of informal entrepreneurs relevant to assessing the impact of Islamic microfinance.

The research data sources consist of primary and secondary data. Primary data were obtained directly from key informants, including branch managers, unit heads, and managers of Islamic pawnshops, as well as a number of customers from traditional market traders, street vendors, and other micro-entrepreneurs in Makassar City. Secondary data were obtained from written documents, recordings, photographs, institutional archives, official publications from the Central Statistics Agency (BPS), and mass media coverage relevant to the research topic.

The key informants in this study consisted of nine people, including one branch manager, two heads of units/managers of Islamic pawnshop units, one academic in the field of economics and Islamic law as a supporting informant for theoretical confirmation, and five customers from various professional backgrounds, namely mixed traders in traditional markets, traveling vegetable sellers, wet cake sellers, motorcycle repair shop owners, and grocery store traders. The variety of professions of these customer informants was selected purposively to capture the diversity of experiences of informal micro-business groups which are the main segment of users of Islamic pawn services in Makassar City, as well as to enrich the triangulation of data sources in the analysis stage.

Data collection was conducted through three main techniques: direct observation of the service process at the Islamic pawnshop office, in-depth interviews with key informants, and documentation of relevant archives and written records. The research instrument in this qualitative approach was the researcher herself, equipped with theoretical knowledge, an understanding of qualitative methods, and a readiness to enter the research field (Moleong, 2018).

The collected data was processed and analyzed following the three stages proposed by Miles and Huberman (1984): data reduction, data presentation, and conclusion drawing and verification. Data reduction was carried out by sorting information relevant to the four research questions. Data presentation was done in the form of descriptive narratives and supporting tables. While conclusions were drawn gradually and continuously refined as field data increased.

The validity of the data was tested through triangulation techniques, including source triangulation, data collection technique triangulation, and time triangulation, in line with the criteria of credibility, transferability, dependability, and confirmability commonly used in qualitative research (Sugiyono, 2019).

Source triangulation was conducted by comparing statements from unit managers, branch managers, and customers on the same topic, for example regarding the mechanism for determining the ujrah (price fee), to ensure consistency of information from different positions in the service chain. Technical triangulation was conducted by comparing interview results with direct observations at service locations and written documents such as Rahn Evidence Letters, so that informants' claims regarding contract transparency could be cross-verified with actual practices and documentation found in the field. Time triangulation was conducted by conducting field visits at different times, both during peak and off-peak service hours, to ensure that the observed service patterns were consistent and not simply a unique condition at a particular moment of observation. The combination of these three forms of triangulation strengthens the belief that the findings presented in the research results section reflect a relatively stable pattern, not merely a fleeting impression from a limited observation.

This study also adheres to ethical research principles, including respect for informant autonomy, privacy and dignity, anonymity and confidentiality, fairness, and the principles of beneficence and non-maleficence for all parties involved. Some of the names of customer informants in this article are presented using pseudonyms or initials to maintain confidentiality, while the professional descriptions and context of the statements are retained to ensure the findings remain scientifically sound.

Results

Overview of Research Location

Makassar City, the capital of South Sulawesi Province, is one of the largest centers of economic growth in eastern Indonesia, with trade, services, and logistics activities spanning Sulawesi, Maluku, and parts of Papua. Nine Sharia pawnshops are spread across various districts in the city, with services concentrated in central trading areas such as the Central Market, Terong Market, and other densely populated residential areas. This strategic location is intended to reach segments of the informal sector, given that businesses in this sector generally require fast access to financing within close proximity to their business locations.

The nine units used in this study have relatively uniform operational characteristics in terms of service standards, but differ in the profile of the customers they serve, depending on the socio-economic characteristics of the surrounding area. Units located near traditional markets tend to be dominated by daily traders, while units located in residential areas tend to serve more household customers with short-term consumer financing needs. This variation contributes to the research findings on the strategy and impact of Sharia pawnshop implementation described in the following section, as the service approach employed by officers at each unit is tailored to the characteristics of the dominant customer base in that area.

In general, the Islamic pawn process in Makassar is simple, fast, and user-friendly for the lower classes. Customers bring collateral, typically gold jewelry, along with identification, then fill out an application form, which is then appraised by an officer. Once the loan amount and the amount of the loan are agreed upon, the rahn agreement is executed, and funds are disbursed within approximately 15 to 30 minutes, either in cash or by bank transfer. Research findings on each of the four aspects examined are outlined below.

Sharia Pawn Procedures in Makassar City

Sharia pawn procedures at the nine Sharia pawnshop units in Makassar City are based on five main characteristics. First, all transactions are based on contracts that refer to the fatwa of the National Sharia Council of the Indonesian Ulema Council, specifically DSN-MUI Fatwa Number 25/DSN-MUI/III/2002 concerning Rahn. Unit managers in Makassar emphasized that the rahn contract is used as the legal basis for the custody of collateral, while the ijarah contract applies to storage fees, with an explanation of the contract, time period, and detailed costs always provided to customers before funds are disbursed. Some units even formalize the contract in a Rahn Proof Letter signed jointly by the officer and the customer, complete with the due date and amount of ujrah. Several customers interviewed, including traditional market traders and itinerant vegetable vendors, consistently stated that they understood the contract they signed, were not charged interest, and were only charged a storage fee that was explained at the beginning of the transaction. The consistency of this information, both from the management and customer side, indicates that sharia contracts are not just a document formality, but are actually practiced in daily services.

Second, Islamic pawnshops in Makassar implement an interest-free scheme based on the profit-sharing principle (mudharabah) for some of their financing products. Unit managers explain that the fees charged to customers are not interest, but rather ujrah, or collateral maintenance fees, the amount of which is determined in accordance with the provisions of the National Sharia Council (DSN-MUI) and disclosed openly before the contract takes place. In the productive financing scheme for MSMEs, the mudharabah mechanism positions the customer as the business manager (mudharib) and the pawnshop as the capital owner (shahibul maal), with a profit-sharing ratio agreed upon in advance. For example, in a financing scheme worth one hundred million rupiah with a ratio of 60:40, business profits will be shared according to that proportion, while the risk of losses arising not due to customer negligence is fully borne by the pawnshop as the capital owner. This scheme reflects the principle of fairness, which is a fundamental difference from the fixed-interest system in conventional financing. However, informants from the Islamic economic law academic community who were interviewed noted that some people still equate Islamic pawning with conventional pawning in practice, so literacy regarding the fundamental differences between ujrah and interest still needs to be continuously intensified.

Third, collateral for customers who are unable to repay their loans is executed through a direct sale mechanism, rather than an open auction as is customary in conventional pawnshops. The branch manager of a Sharia pawnshop in Makassar explained that the appraisal of the collateral at the execution stage is still carried out by competent officers based on market prices. The proceeds are used to repay the principal and administrative fees, while any excess sales value must be returned to the customer. This mechanism aligns with the principle of al-'adl (justice) in Islamic transactions, which guarantees the rights of both parties. Although most of the customers interviewed had never experienced the execution process directly, they expressed confidence that such a process, if it occurred, would be carried out fairly and transparently, given their daily experience of service.

Fourth, the procedural orientation of Sharia pawn financing in Makassar is more geared toward productive financing for the lower-middle class, rather than solely for consumer needs. Gold rahn products are listed as a major contributor, with Sharia financing reaching 40-50 percent of the monthly target at some branches. This orientation encourages economic growth at the micro level while reducing the community's dependence on informal, unlicensed loans.

Fifth, despite these achievements, the implementation of Islamic pawnshops in Makassar still faces structural challenges, particularly in terms of regulation and human resources. Regulations governing pawnshop practices in Indonesia are currently considered to be oriented towards conventional pawnshop mechanisms, resulting in inequalities in the full application of Islamic principles. The absence of comprehensive regulations specifically for Islamic pawnshops also hampers legality, governance, and institutional oversight. Furthermore, the limited human resources with a deep understanding of Islamic jurisprudence (fiqh muamalah) pose a significant obstacle to maintaining consistent Islamic compliance at the operational level.

To address these limitations, several Islamic pawnshop units in Makassar City conduct regular training programs for staff, covering basic Islamic jurisprudence (fiqh) of muamalah (Islamic jurisprudence), Sharia-based collateral valuation techniques, and simulations explaining contracts to customers in language easily understood by laypeople. Standard operating procedures (SOPs) issued by the head office ensure that each stage, from identity verification and asset valuation to contract explanation and disbursement, is carried out uniformly across all units, thereby minimizing variations in service quality between branches. Unit managers report that compliance with these SOPs is evaluated periodically through internal audits, which include reviewing contract documentation and customer complaints for continuous improvement. This practice demonstrates that the structural challenges at the macro regulatory level mentioned above can be somewhat offset by disciplined governance at the operational unit level, although this certainly cannot replace the need for a stronger and more comprehensive regulatory umbrella from the central government.

Sharia Pawn Implementation Strategy to Improve Community Economy

Four main strategies were identified from the results of this study as supporting the implementation of sharia pawnshops in an effort to improve the economy of the people of Makassar City.

The first strategy is providing financing based on a rahn contract, which allows people to obtain cash without interest. The procedure begins with filling out a form and verifying their identity, followed by a face-to-face appraisal of the collateral, before the rahn and ijarah contracts are executed. This strategy has proven to help people, especially small business owners, obtain emergency funds and business capital without losing their valuable assets, as the collateral can be redeemed once their financial situation improves.

The second strategy involves utilizing collateral with productive value, as reflected in the customer's use of loan funds. Funds obtained from Islamic pawnshops are typically used by micro-entrepreneurs for productive purposes, such as purchasing work equipment, purchasing additional raw materials, or improving business facilities. Micro-marketing teams at several Islamic pawnshops actively conduct direct visits to MSMEs to introduce Islamic financing products, a more humane, persuasive approach than conventional marketing strategies.

The third strategy is the implementation of affordable and transparent ujrah tariffs. The amount of maintenance costs for collateral is communicated openly to customers before the contract takes effect, so that customers know exactly what obligations must be met without the risk of unexpected cost increases as is common in tiered interest schemes at informal financing institutions.

The fourth strategy is strengthening Sharia financial literacy among the public, particularly customers and potential customers. Several informants, both from unit managers and academics, emphasized that promoting and educating all levels of society about Sharia pawn products is key to reducing misunderstandings and negative perceptions that equate Sharia pawnshops with conventional pawnshops, while also strengthening public trust in these institutions.

These four strategies, if implemented consistently, enable Islamic pawnshops to provide fairer, more transparent, and more sustainable financial services, while simultaneously instilling public understanding and wisdom in managing finances in accordance with Islamic principles. Table 3 summarizes these four strategies, along with their implementation in the field and the main benefits experienced by customers, based on data reduction results from interviews with unit managers, branch managers, and Islamic pawnshop customers in Makassar City.

Summary of Sharia Pawn Implementation Strategy in Makassar City

Strategy	Forms of Implementation in the Field	Key Benefits for Customers
Rahn-based financing	Public appraisal of collateral, rahn and ijarah contracts are read directly in front of the customer	Fast liquid funds without interest, fixed assets can be redeemed
Utilization of productive goods	Direct visits by micro teams to MSME actors, education on the use of funds for productive activities	Business capital increases, turnover increases gradually
Affordable ujrah rates	Determination of fixed maintenance costs stated at the beginning of the contract, without tiered interest	Certainty of payment amount, avoids a swelling debt burden
Islamic financial literacy	Regular socialization, explanation of contracts in simple language, education on the difference between ujrah and interest	Better understanding of sharia principles, increased trust in institutions

The pattern in Table 3 shows that these four strategies reinforce each other: rahn-based financing serves as the gateway to services, the utilization of productive goods serves as the channel for funds, affordable ujrah rates guarantee the continuity of payments, and financial literacy serves as the foundation for long-term trust. Without any of these four elements, the overall effectiveness of the strategy could potentially decline; for example, rahn-based financing without adequate literacy risks creating customer misunderstandings about the concept of ujrah, as discussed by several informants in the previous section.

In addition to these four main strategies, this study also found a supporting strategy in the form of strengthening personal relationships between officers and customers. Several customers emphasized that the officers' friendliness, patience in re-explaining procedures for customers who didn't understand, and a non-pushy attitude during the collection process were important factors that differentiated their experience with Islamic pawnshops compared to other financing institutions. This personal approach, while not always included in formal operational standards, appears to be a key to the success of Islamic pawnshop marketing and customer retention strategies in Makassar City, particularly among the lower income segment, which tends to prioritize relational convenience when choosing a financial institution.

Compared to the marketing strategies of conventional financial institutions, which generally emphasize promotions based on financial incentives, such as low interest rates or cashback, the strategy of Islamic pawnshops in Makassar appears to emphasize a value-based approach and long-term relationships. Sofian (2011) in his study on marketing management emphasized that this kind of value-based approach is generally more effective in building customer loyalty in market segments that are sensitive to trust, as reflected in the behavioral patterns of Islamic pawnshop customers who tend to stick with the same services repeatedly, rather than switching to other financing institutions just because they are tempted by cheaper short-term offers.

The Impact of the Implementation of Sharia Pawning on Improving the Community's Economy

The impact of the implementation of sharia pawn in this study was identified in five main dimensions.

First, Islamic pawning plays a role in meeting urgent community needs, such as children's education costs, healthcare needs, and the daily operational needs of small businesses. Several traditional market traders interviewed stated that they prefer pawning gold rather than selling it, so that their assets remain protected while urgent needs are met, and the collateral can be redeemed once the business returns to profitability.

Second, Islamic pawnshops provide tangible support for the sustainability of micro-enterprises. Funds obtained by customers are often allocated for productive needs, such as replenishing inventory for mobile vegetable vendors or purchasing raw materials for home-based culinary businesses. An academic informant emphasized that the role of Islamic pawnshops in improving the community's economy is significant because they target lower-middle-class communities who lack business capital. Their presence helps micro-enterprises avoid the clutches of loan sharks and unfair loans.

Third, Islamic pawnshops contribute to improving family financial stability, especially when household incomes are under pressure. Without the burden of constantly increasing interest, customers can manage family expenses more measurably and sustainably, as reported by several unit managers and customers who have directly experienced the benefits of a clear payment system from the outset.

Fourth, Islamic pawnshops serve as a healthy and halal alternative to loan sharking practices. Several customers have explicitly stated that halal considerations are their primary reason for choosing Islamic pawnshops, as the clear contract and absence of interest provide a sense of security and align with their religious principles, compared to loans from loan sharks, whose interest rates continue to increase without certainty.

Fifth, Islamic pawnshops expand access to inclusive financial services, including for those with limited formal education and those residing in suburban areas. The straightforward procedures and easy-to-understand explanations from staff allow groups unfamiliar with formal financial administration to comfortably access Islamic financing services.

These five dimensions of impact, upon closer examination, demonstrate a complementary pattern between the micro and macro dimensions. At the micro or household level, the most noticeable impact is on meeting urgent needs and family financial stability, as reflected in the experiences of informants who used Islamic pawnshops for children's education needs, healthcare costs, and daily working capital. At the business level, the most prominent impact is on the sustainability and growth of micro-enterprises, where financing funds are allocated productively to increase stock and improve business facilities. Meanwhile, at the broader social level, the impact of Islamic pawnshops is evident in their function as a bulwark against loan sharks and as an instrument of financial inclusion for groups that have been marginalized from the formal financial system.

It's also important to note that these impacts don't appear instantly, but rather develop gradually over time, with customers' repeated experiences using Sharia-compliant pawn services. Several customer informants reported that their trust in the Sharia system grew cumulatively, from initial trial transactions to eventually making Sharia pawnshops their primary choice for managing emergency funds and business capital. This gradual pattern of trust growth is consistent with the characteristics of microfinance institutions in general, whose success depends heavily on consistent service and the fulfillment of contractual promises over time, rather than solely on the attractiveness of the product in the initial transaction.

As a concrete illustration of this pattern, one informant, a traveling cake seller, recounted how he was initially hesitant to use Islamic pawnshops due to a lack of understanding of the differences between them and the conventional pawnshops he had heard about from his neighbors. After receiving an explanation from the officer about rahn and ijarah contracts during his first transaction, he decided to try pawning some of his jewelry to increase his capital for raw materials ahead of Ramadan, when demand for cakes increases sharply. The positive experience with this transaction, coupled with the ease of redeeming the collateral once his business generated a profit, encouraged him to make Islamic pawnshops a seasonal source of capital, regularly used during peak demand periods. A similar story was shared by the owner of a small motorcycle repair shop who used Islamic pawnshop financing to purchase spare parts in bulk at wholesale prices, thus increasing his business's profit margin compared to purchasing spare parts at retail with limited capital. These two stories, while anecdotal, reinforce the quantitative picture in Table 2 of how Islamic pawnshop financing at the individual micro-level leads to strengthened business capacity, which in turn contributes to the city's aggregate economic growth.

To strengthen the picture of the macro impact of the development of Islamic pawnshops on the economy of Makassar City, Table 1 presents data on the economic growth of Makassar City and South Sulawesi Province in the period 2024-2025, while Table 2 presents the estimated contribution of Islamic pawnshop financing to the development of MSMEs in Makassar City in the period 2021-2025.

Economic Growth of Makassar City and South Sulawesi Province (2024-2025)

Period	Indicator	Percentage (%)	Source
Third Quarter 2024, Makassar City (YoY)	Economic growth compared to Q3 2023	5,26	Makassar City Statistics Office
First Quarter 2025, Makassar City (YoY)	GRDP at constant prices compared to Q1 2024	4,53	Makassar City Statistics Office
First Quarter 2025, South Sulawesi (YoY)	Economic growth of South Sulawesi	5,78	BPS of South Sulawesi Province
Second Quarter 2025, South Sulawesi (YoY)	Economic growth compared to Q2 2024	4,94	BPS of South Sulawesi Province

The data in Table 1 shows that the economy of Makassar City and South Sulawesi Province grew positively throughout 2024 until mid-2025, although it slowed down in early 2025. This growth was supported by the services sector, especially trade, transportation, and accommodation, with the contribution of primary sectors such as fisheries and agriculture starting to increase in the first quarter of 2025 to exceed 7 percent (Makassar City Central Statistics Agency, 2024; South Sulawesi Province BPS, 2025).

Estimated Contribution of Sharia Pawn Financing to MSMEs in Makassar City (2021-2025)

Year	Number of MSMEs Assisted (units)	Total Financing Disbursed (billion Rp)	Average Increase in MSME Turnover (%)	Contribution to Makassar City's GRDP (%)
2021	850	25	8	1,5
2022	1.200	40	10	2,1
2023	1.600	55	12	2,8
2024	2.100	70	14	3,4
2025	2.500	85	15	4,0

Source: processed from internal data from Islamic pawnshop branches, Makassar City Central Statistics Agency, and the Financial Services Authority (2025).

Table 2 shows a consistent upward trend across all observed indicators. The number of MSMEs assisted by Sharia-compliant pawn financing nearly tripled in five years, from 850 businesses in 2021 to 2,500 in 2025. Total disbursed financing also grew from IDR 25 billion to IDR 85 billion during the same period, in line with growing trust among MSMEs in Sharia-compliant financing schemes. The average turnover increase for MSMEs receiving financing also increased from 8 percent in 2021 to 15 percent in 2025, indicating that the funds obtained were truly used for productive activities, not merely for consumption. In line with this, the contribution of assisted MSMEs to the Gross Regional Domestic Product of Makassar City also increased from 1.5 percent to 4.0 percent in the same period, indicating that strengthening the micro-business sector through sharia financing also contributed to the city's economy in aggregate, even though the figures in Table 2 are estimates processed from internal data and need to be further verified through the official database of related institutions in further research.

The Effectiveness of Sharia Pawnshops in Improving the Community's Economy

From an Islamic legal perspective, pawning or rahn is a permissible contract with a strong sharia basis, as stipulated in QS al-Baqarah/2:283. The principles of justice, honesty, and responsibility between the lender and borrower are the spirit of this contract, and the absence of usury elements makes it in line with the maqashid sharia, especially the protection of assets (hifz al-mal) and support for the welfare of the community at large.

The effectiveness of Islamic pawnshops in this study is reflected in their role as a fast, accessible financial solution consistent with Islamic legal principles, particularly the prohibition of usury and any form of transaction that harms either party. The majority of informants chose Islamic pawnshops as their primary choice when facing urgent needs due to their simple, transparent procedures and the perceived security they offer compared to informal financing alternatives.

Makassar City's poverty data further reinforces this picture. According to a publication by the Central Statistics Agency (BPS), Makassar City's poverty rate was recorded at around 4.39 percent in early 2023, one of the lowest in South Sulawesi Province (BPS Makassar City, 2023). While this achievement cannot be attributed solely to the existence of Islamic pawnshops, given the numerous other poverty alleviation programs running simultaneously in the city, the positive trend in the MSME sector shown in Table 2 indicates that access to usury-free microfinance contributes to the economic resilience of low-income households, particularly in preventing them from becoming entangled in high-interest financing or loan sharking practices.

Examined further within the framework of the maqashid sharia, the effectiveness of sharia pawning in this study can be mapped to at least three of the five main objectives of sharia (al-dharuriyyat al-khams). First, the protection of assets (hifz al-mal) is reflected in the contract mechanism that ensures that the customer's collateral remains his property and can be redeemed, rather than being forced to sell it as is the greater risk in informal loan shark practices. Second, the protection of lives (hifz al-nafs) is indirectly reflected in the function of sharia pawning in helping people meet urgent health needs without having to sell productive assets that are their source of livelihood. Third, the protection of offspring (hifz al-nasl), in a broader sense encompassing family welfare, is reflected in the role of sharia pawning in financing children's educational needs as conveyed by a number of customer informants. This mapping shows that the effectiveness of sharia pawnshops cannot only be measured from quantitative economic indicators, but also from the extent to which their existence supports the more fundamental objectives of sharia.

From an institutional perspective, this effectiveness is also supported by the consistency of sharia supervision, both through compliance with DSN-MUI fatwas and through internal oversight by the Sharia Supervisory Board at the corporate level. Branch managers reported that this supervision includes regular audits of contract compliance, routine training for officers on muamalah jurisprudence, and evaluation of customer complaints related to contract understanding. This multi-layered oversight mechanism is one factor explaining why research findings consistently demonstrate high sharia compliance at the operational unit level, even though challenges at the macro regulatory level, as outlined in the procedures section, still require continuous improvement.

Overall, the findings across these four aspects—procedure, strategy, impact, and effectiveness—are intertwined. Procedures that adhere to the DSN-MUI fatwa serve as the foundation for building customer trust. This trust strengthens the effectiveness of rahn-based financing strategies and financial literacy. The effectiveness of these strategies ultimately leads to tangible impacts in the form of family economic stability and micro-business growth in Makassar City.

Discussion and Conclusion

The findings of this study confirm that the implementation of sharia pawnshops in Makassar City has generally been in line with the classical rahn fiqh framework and the DSN-MUI fatwa, while also opening up space for further discussion regarding its position in encouraging economic empowerment of urban communities. The procedural conformity with DSN-MUI Fatwa Number 25/DSN-MUI/III/2002 found in this study is in line with the findings of Nasution (2016) who emphasized the importance of the operational system of sharia pawnshops referring directly to the Qur'anic verses, especially QS al-Baqarah/2:283, as the main source of legitimacy for rahn contracts. This consistency is important to underline, considering that Ma'ruf's (2025) research through his bibliometric study found that the issue of sharia compliance remains a dominant theme in the global Islamic pawn literature, but empirical studies at the city level, particularly in eastern Indonesia, are still relatively rare. This study fills this gap by showing that sharia compliance at the operational level of pawnshop units in Makassar is not merely a normative aspect on paper, but is actually practiced and felt directly by customers from small traders and micro-business actors.

In terms of strategy, findings regarding the application of the mudharabah scheme to productive financing reinforce Razak and Asutay's (2022) argument that ar-Rahn can function not only as an emergency financing instrument but also as a financial inclusion mechanism that supports long-term economic well-being. However, this study also found that the scheme's effectiveness is still limited by the low level of public Islamic financial literacy, a finding consistent with the results of a systematic review by Aziz et al. (2023) which identified gaps in public understanding as one of the main structural barriers to the development of ar-Rahnu across various country contexts. A key difference found in this study, compared to the Malaysian context studied by Nik Azman (2016, 2018), lies in the maturity of regulations. In Malaysia, ar-Rahnu has a relatively well-established regulatory framework integrated with the national microfinance system, while in Indonesia, and specifically in Makassar City, pawn regulations still largely refer to conventional pawn provisions, thus posing unique challenges in terms of legality, governance, and oversight of Islamic pawn institutions.

In terms of impact, this study's findings, which demonstrate the role of Islamic pawnshops in supporting family economic stability and the sustainability of micro-enterprises, align with those of Rahma and Sigit (2024) regarding the potential of Islamic pawnshops in encouraging financing for MSMEs in South Sulawesi. Both studies consistently show that Islamic pawnshops are most beneficial to informal segments of society, who have historically been underserved by large-scale formal financial institutions. This pattern was also found by Al-Khoiri et al. (2024) in the context of customers' decisions to use gold pawnshops. The similarity of this pattern across several regions in Indonesia indicates that the role of Islamic pawnshops as a financial inclusion instrument for lower-middle-class communities is quite consistent, not limited to a single region.

In terms of effectiveness, macro data from Makassar City showing a relatively low poverty rate compared to the provincial average, accompanied by an increasing trend in the contribution of MSMEs assisted by Islamic pawnshops to the city's GRDP, provides an initial indication that this institution plays a role in the urban poverty alleviation ecosystem, although this study is not intended to claim a single causal relationship between the existence of Islamic pawnshops and the reduction in poverty rates, considering the complexity of other factors that influence the city's economic conditions, including local government programs and the growth of the service sector in general. This interpretation is important to prevent overgeneralization of descriptive data and case studies.

Considering the limitations of this study, the limited scope of informants in nine Islamic pawnshops in Makassar City and the qualitative nature of the methods used mean that these findings cannot be directly generalized to other city contexts without considering local socio-economic characteristics. Further research using a quantitative or mixed-methods approach, involving a larger customer sample and panel data analysis of GRDP and poverty over a longer time span, would strengthen the external validity of the initial findings presented in this article.

Another limitation that needs to be acknowledged is that the data in Table 2 regarding the estimated contribution of Islamic pawn financing to MSMEs in Makassar City is compiled based on internal branch data processing combined with official statistical publications. Therefore, the figures are estimates and do not necessarily reflect the official consolidated database from the relevant national authorities. Future research that can directly access the official database of the Financial Services Authority (OJK) and the consolidated financial reports of Islamic pawn institutions will provide a more precise picture of the true contribution of this sector to the regional economy. Similarly, this study has not yet measured impact using a quasi-experimental design, such as systematically comparing the economic conditions of customers before and after using Islamic pawn services, which would certainly provide stronger causal evidence than the descriptive-qualitative approach used in this study. Combining in-depth qualitative research, such as that presented here, with larger-scale quantitative research in future research would be very useful in building a more comprehensive evidence base regarding the role of Islamic pawn in regional economic development in Indonesia.

From a policy perspective, the findings regarding the incomplete spin-off process and the continued dominance of conventional pawn-based regulations open up discussion about the need for more specific regulatory harmonization for the Islamic pawn industry in Indonesia. Malaysia's experience with the ar-Rahnu system, which has been integrated into the national microfinance regulatory framework, as discussed by Nik Azman et al. (2020), can serve as a comparative reference, although differences in institutional structure and socio-political context between the two countries must be taken into account to prevent haphazard policy adoption. Several elements that could potentially be adapted include an integrated sharia supervisory framework between regulators and service providers, uniform sharia compliance reporting standards across institutions, and policy incentives for institutions that consistently implement the spin-off process on time.

From an internal institutional perspective, the findings on the importance of a personal approach between officers and customers, as outlined in the results section, underscore that the success of Islamic microfinance institutions is not solely determined by the textual conformity of the contract, but also by the quality of the relationships built during the service process. This finding aligns with Dahlan's (2002) view on muamalat jurisprudence, which emphasizes that the validity of a contract cannot be separated from the morals and good faith of the parties involved. Consequently, training for Islamic pawnshop officers should ideally focus not only on the technical aspects of the contract and the appraisal of goods, but also on strengthening communication and service competencies oriented towards the psychological comfort of customers, considering that the majority of Islamic pawnshop customers come from economically vulnerable groups and require a sense of security in interacting with financial institutions.

From an academic perspective, this research demonstrates that the combined approach of normative theological, normative juridical, and field case studies, as employed in this research, is quite effective in capturing the comprehensive implementation of Islamic financial institutions, from the roots of their fiqh legitimacy to their socio-economic impacts on the ground. This approach can be replicated in studies of other Islamic microfinance institutions, such as baitul maal wat tamwil or Islamic cooperatives, to enrich the body of Islamic economic research in Indonesia, particularly in areas that have received little attention in the national academic literature.

Based on the data analysis presented, this study concludes four main points. First, the sharia pawn procedures in Makassar City are carried out in accordance with the principles regulated by the National Sharia Council (DSN-MUI), reflected in the use of valid sharia contracts, the implementation of a profit-sharing system instead of interest, and the execution of collateral through a direct sale mechanism, with a primary orientation towards productive financing for the lower-middle class. Second, the implementation strategy for sharia pawn includes the provision of rahn-based financing, the utilization of collateral with productive value, the application of affordable ujrah rates, and strengthening sharia financial literacy, which together enable the institution to provide fair, transparent, and sustainable services. Third, the impact of sharia pawn implementation is evident in meeting urgent needs, supporting micro-enterprises, increasing family economic stability, providing a healthy alternative to loan shark practices, and expanding access to inclusive financial services. Fourth, the effectiveness of Islamic pawnshops is evident in their role as a fast, easy, and Islamically-compliant financial solution, making them the primary choice for the people of Makassar when facing urgent economic needs, while also serving as an empowerment instrument that strengthens the role of Islamic financial institutions in supporting the welfare of the community at the local level.

These four conclusions collectively confirm that Islamic pawnshops in Makassar are not merely replicas of conventional pawnshops disguised as Islamic pawnshops, but rather microfinance instruments that substantively strive to embody the principles of fairness, transparency, and support for lower-middle-class communities. However, this success still needs to be maintained through strengthened regulations, increased public literacy, and consistent institutional governance, so that the potential of Islamic pawnshops as an instrument for empowering the people's economy can be optimized more broadly, not only in Makassar but also in other regions in Indonesia with similar socio-economic characteristics.

The implications of these conclusions lead to several recommendations. Consistent implementation of contracts, profit-sharing systems, and outright sale mechanisms in accordance with the DSN-MUI principles must be maintained to strengthen public trust and support the empowerment of small businesses. Expansion of services and improvement of Sharia financial literacy must be continuously encouraged so that Sharia pawnshops increasingly become a primary, fair and sustainable choice for the wider community. Regulators are expected to consider a clearer separation between Sharia and conventional pawnshop operations and encourage the gradual transformation of conventional pawnshop units in Makassar City into Sharia pawnshop units. This will ensure the pure, effective, and transparent application of Sharia principles, while simultaneously expanding access to sound financing for the city's residents in the long term.

For managers of Islamic pawnshops, this study recommends strengthening the muamalah fiqh training program for all frontline officers on an ongoing basis, not just during initial recruitment, to ensure consistent sharia compliance as the number of units and transaction volumes grow. For the Makassar City government, the findings regarding the role of Islamic pawnshops in supporting micro-enterprises can be a consideration in designing partnership programs between Islamic financial institutions and regional MSME empowerment programs, for example through a ujrah subsidy scheme for micro-entrepreneurs just starting out, or through integrating data from MSMEs fostered by relevant agencies with the Islamic pawnshop customer base to expand the reach of coaching. For future researchers, this study opens up opportunities for further quantitative and mixed-method studies, with a broader coverage area in eastern Indonesia, to more rigorously test the relationship between Islamic pawn financing and measurable indicators of community welfare.

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