



# Reconstructing the role of pawnshop institutions in supporting MSMEs and the people's economy: A critical review and an implementative financial inclusion model

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## ABSTRACT

**Background:** Micro, Small, and Medium Enterprises (MSMEs) are a key pillar of the people's economy but continue to face structural financial exclusion due to rigid requirements and collateral-based conventional financing. Existing literature predominantly frames Pegadaian (pawnshops) as an emergency liquidity provider or residual institution, limiting its recognized role in sustainable MSMEs empowerment and inclusive economic development. This study aims to reconstruct Pegadaian's role within the financial inclusion ecosystem through critical synthesis and model development. **Methods:** A qualitative, reconstructive, and normative Critical Literature Review was conducted. From 1,365 articles identified in Scopus and Google Scholar, 20 studies were selected through a four-stage qualitative PRISMA adaptation (identification, screening, eligibility assessment, and inclusion), applying criteria of MSMEs relevance, non-bank financing focus, policy implications, methodological adequacy, and conceptual contribution. Analysis employed conceptual mapping, literature quality assessment, thematic analysis, and cross-context critical synthesis grounded in financial inclusion, institutional economics, social capital, and the people's economy. **Findings:** The review reveals four dominant patterns: persistent conceptualization of Pegadaian as an emergency liquidity institution, methodological fragmentation with limited longitudinal perspectives, weak integration between financing, financial literacy, and business ecosystems, and the absence of implementative models applicable to MSMEs. However, the literature indicates Pegadaian's potential to evolve into a more adaptive, value-based, and empowerment-oriented financial inclusion institution. **Conclusion:** This study concludes that the P3-UMKM model provides a robust and scalable framework to reposition Pegadaian as an Inclusive Development Finance Institution by integrating innovative financing, capacity building, hybrid digital-physical service delivery, and impact-oriented governance. **Novelty/Originality of this article:** The study's novelty lies in the P3-UMKM Model as a coherent and implementable framework that systematically integrates productive financing, financial literacy, digitalization, and value-based governance to support inclusive and sustainable MSMEs development in Indonesia.

**KEYWORDS:** critical literature review; financial inclusion; MSMEs; P3-UMKM; Pegadaian

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## 1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of the people's economy, contributing substantially to employment generation, income distribution, and national economic resilience (Rosyidiana & Narsa, 2024; Zuan et al., 2024). The sustainability of MSMEs is strongly conditioned by access to financing that aligns with business characteristics, particularly for micro and ultra-micro enterprises operating under constraints related to assets, legal status, and administrative capacity (Eguia & Wilson, 2026; Febriansyah et al., 2024; Maran, 2022; Tuffour et al., 2025). However, empirical evidence consistently demonstrates that most MSMEs remain subject to structural financial exclusion due to the dominance of conventional financing systems reliant on formal requirements, credit histories, and legal collateral that are difficult to satisfy (Diatmoko et al., 2025; Hung & Lin, 2022; Liu et al., 2025; Wasiuzzaman, 2021). This mismatch between MSME financing needs and the institutional design of formal financial systems renders MSMEs particularly vulnerable to economic shocks, health crises, and short-term liquidity pressures, underscoring the urgency of alternative, inclusive, and equitable financing mechanisms within the people's economy discourse.

The constraints of conventional MSMEs financing are not merely technical but deeply structural and systemic. Banking institutions routinely apply non-price credit discrimination—through assessments of borrower character, managerial capacity, and formal collateral—which indirectly excludes small and informal enterprises (Ayu et al., 2025; Cartmill et al., 2022; Simba et al., 2024; Sumba-bustamante et al., 2024; Wasiuzzaman, 2021). Even when business prospects are viable, the absence of formal collateral and financial documentation remains a primary barrier to bank credit, a challenge exacerbated by heightened risk aversion during periods of economic and macroeconomic uncertainty (Dhar, 2024; Hadiyan et al., 2026; Takeda et al., 2020). Consequently, MSMEs are often compelled to rely on high-cost informal financing or to compromise business sustainability, thereby intensifying economic vulnerability in the absence of robust institutional alternatives (Adbi & Lee, 2024; Eguia & Wilson, 2026; Oteng et al., 2024; Jerbi, 2024; Kabange, 2026).

Within this financing gap, *Pegadaian* has historically functioned as a financial institution operating between the formal and informal sectors, primarily providing rapid liquidity to households and small enterprises facing urgent economic pressures (Alassaf et al., 2023; Ashley et al., 2023; Inoue, 2021; Nicolini & Cude, 2019). Pawnshops serve as risk-coping mechanisms through asset-based lending using movable collateral, rapid processing, and simplified requirements, making them accessible to populations excluded from banking systems (Alkhazaleh & Allahham, 2023; Yamaka et al., 2023). Recent studies indicate that this function increasingly extends beyond consumptive purposes to support productive MSME activities, including working capital provision and cash-flow stabilization (Inoue, 2021; Yamaka et al., 2023). Despite these structural advantages, the strategic role of pawnshops within financial inclusion ecosystems remains under-theorized and weakly operationalized in the literature.

From a people's economy perspective, pawnshops also embody strong social and value-based dimensions. Community-based pawn institutions are historically rooted in moral economy principles, social solidarity, and protection against exploitative lending practices (Copete, 2020; Wisnu et al., 2024). These values persist in contemporary pawnshop models, particularly Islamic pawnshops that emphasize justice, social welfare, and value-based inclusion, thereby reaching groups experiencing voluntary financial exclusion from interest-based systems (Este & Version, 2020; Koti & Modiba, 2022; Razak & Asutay, 2021; Supari & Anton, 2022). However, existing studies largely treat these social functions in isolation from productive financing and MSME empowerment, resulting in fragmented conceptualization and limited institutional integration.

The global economic crisis and the COVID-19 pandemic further highlight the importance of alternative financial institutions in sustaining MSMEs. Evidence shows that MSMEs are disproportionately affected by crises due to declining demand, supply chain

disruptions, and liquidity constraints, while banks tend to contract credit supply under heightened uncertainty (Hanselman et al., 2018; Takeda et al., 2020). In contrast, pawnshops have demonstrated their capacity to function as buffer institutions by providing rapid and relatively stable liquidity during crisis periods, supporting both business survival and post-crisis recovery (Inoue, 2021; Yamaka et al., 2023). Yet, this functional evolution has not been accompanied by the development of integrated implementative models linking financing with financial literacy, digitalization, and public policy alignment.

Despite growing recognition of their potential, the literature reveals persistent conceptual, methodological, and implementative limitations. Pawnshops continue to be framed predominantly as emergency liquidity providers, limiting deeper engagement with their role in MSMEs sustainability and people-centered economic development (Maran, 2022; Nicolini & Cude, 2019). Methodologically, studies remain fragmented and sector-specific, lacking cross-contextual and interdisciplinary synthesis (Copete, 2020; Inoue, 2021). From an implementation standpoint, weak integration with financial literacy initiatives, business mentoring, and digital transformation further constrains pawnshops' effectiveness as inclusive financial institutions (Ketut et al., 2025; Resmi et al., 2021). These gaps underscore a significant disconnect between normative acknowledgment of pawnshops' roles and the availability of operationally viable models.

Against this backdrop, this study aims to reconstruct the role of Pegadaian in supporting MSMEs and the people's economy through a critical review and the development of an implementative financial inclusion model. Unlike prior studies that treat Pegadaian primarily as an emergency liquidity provider or that examine pawnshops in isolation from broader MSME ecosystems, this study uniquely applies a reconstructive critical synthesis to reposition Pegadaian as a strategic development finance institution—an angle that remains unexplored in the Indonesian financial inclusion literature. Specifically, the study seeks to reposition Pegadaian within the financial inclusion ecosystem, identify conceptual, methodological, and implementative gaps in existing scholarship, and formulate an integrated model linking productive financing, financial literacy, digitalization, and people-centered economic principles. The reconstructive critical review approach is particularly suited here as it enables not only systematic identification of what prior scholarship has found, but also interrogation of underlying assumptions and institutional logics that constrain Pegadaian's potential—an analytical mode unavailable to conventional empirical studies. Accordingly, this research addresses three core questions: Research Questions 1 (RQ1) how Pegadaian's role has evolved from emergency liquidity provision toward sustainable economic empowerment; Research Questions 2 (RQ2) what constraints hinder the optimization of this role; and Research Questions 3 (RQ3) how a new implementative model can be operationally reconstructed. In doing so, the study contributes to the consolidation of fragmented literatures while offering a policy-relevant and institutionally grounded framework that positions Pegadaian as a strategic actor in advancing financial inclusion and strengthening Indonesia's people's economy.

## 2. Methods

### 2.1 Research design and analytical orientation

This study employs a qualitative research approach using a Critical Literature Review (CLR) design to analyze and reconstruct the role of Pegadaian in supporting Micro, Small, and Medium Enterprises (MSMEs) and the people's economy (Kegelaers, 2023; McKeague et al., 2024). CLR was selected because it enables not only systematic identification of prior research but also critical interrogation of conceptual framings, methodological choices, institutional assumptions, and policy implications embedded within the literature (Naeem et al., 2023; Reddy et al., 2020).

The analytical orientation of this study is explicitly reconstructive and normative, rather than explanatory or predictive (Ayre & McCaffery, 2022; Lim, 2025; Yadav, 2022). Accordingly, the research does not test hypotheses or aggregate empirical effects but seeks

to reposition Pegadaian within the financial inclusion ecosystem. This orientation directly corresponds to RQ1, which examines how Pegadaian has been positioned in existing scholarship and the extent to which its role has shifted from emergency liquidity provision toward sustainable economic empowerment. The CLR design ensures epistemological coherence between the research objectives, analytical strategy, and intended theoretical and practical contributions.

## *2.2 Critical review framework and research questions alignment*

The CLR framework adopted in this study follows internationally recognized principles of qualitative critical review, emphasizing interpretation, reflexivity, and conceptual synthesis. Literature is treated not merely as evidence but as an analytical object through which dominant narratives, marginal perspectives, and unresolved tensions are examined. This framework is explicitly aligned with the three research questions. RQ1 is addressed through a mapping and critical evaluation of how prior studies conceptualize pawnshops, non-bank financial institutions, and state-owned financial entities within MSMEs financing and inclusive development discourses. RQ2 is addressed by systematically identifying conceptual, methodological, and implementation-related limitations across the literature. RQ3 is addressed through integrative synthesis and benchmarking, which inform the reconstruction of an implementative and context-sensitive model of Pegadaian's role.

## *2.3 Literature search strategy*

The literature search was conducted using internationally indexed academic databases, primarily Scopus, supplemented by Google Scholar for cross-checking and citation tracing. Search strings were developed around thematic clusters including financial inclusion, MSMEs, people's economy, non-bank financial institutions, pawnshops, Pegadaian, ar-rahn, microfinance, and alternative financing. The objective of this stage was to capture a comprehensive and diverse body of literature spanning theoretical, empirical, and policy-oriented studies across multiple national contexts. The initial search yielded 1,365 journal articles. At this stage, no quality appraisal was conducted, as the purpose was to establish a broad knowledge base for subsequent critical selection and synthesis.

## *2.4 Study selection and qualitative PRISMA adaptation*

The study selection process followed a qualitative adaptation of the PRISMA framework, used as a procedural guide to enhance transparency and auditability rather than as a statistical filtering tool (Rethlefsen et al., 2021). The process consisted of four stages: identification, screening, eligibility assessment, and inclusion. During the screening stage, titles and abstracts were reviewed for thematic relevance. Studies focusing exclusively on commercial banking, fintech platforms without institutional or public-policy dimensions, macroeconomic analyses detached from MSMEs contexts, or individual behavioral studies lacking systemic relevance were excluded. This stage reduced the dataset to 195 full-text articles.

The eligibility stage involved in-depth full-text assessment using substantive criteria: relevance to MSMEs and the people's economy, explicit discussion of non-bank or alternative financing mechanisms, and the presence of institutional, policy, or implementation implications. Articles that were purely descriptive or analytically superficial were excluded, resulting in 34 eligible articles. From these, 20 articles were selected for inclusion in the critical synthesis based on analytical richness and relevance to the research questions. Specifically, the five inclusion criteria applied during the eligibility stage were: (1) explicit thematic relevance to MSMEs financing, financial inclusion, or pawnshop/non-bank institutions; (2) focus on or implications for non-bank alternative financing mechanisms; (3) presence of policy, institutional, or implementation dimensions; (4) methodological adequacy as assessed by the adapted CASP and Newcastle–Ottawa Scale;

and (5) conceptual contribution to the reconstruction of Pegadaian's institutional role. Exclusion criteria included studies exclusively focused on conventional banking or fintech without public institutional dimensions, purely macroeconomic analyses, and studies with insufficient methodological documentation. Study quality was assessed on four dimensions: methodological rigor, conceptual relevance, analytical depth, and practical implications, with ratings of Excellent, Good, or Moderate assigned to each article.

### *2.5 Thematic analysis and critical synthesis*

Data analysis was conducted through qualitative thematic analysis using an iterative and reflexive process (Fryer, 2022). Concepts, arguments, and findings were coded and grouped into higher-order themes, including pawnshops as liquidity providers, social and moral economy functions, structural limitations of conventional MSMEs financing, financial inclusion and sustainability, as well as institutional and implementation challenges. This stage directly addresses RQ2 by systematically identifying recurring limitations and gaps within the literature. The analysis went beyond thematic aggregation to examine contradictions, silences, and conceptual inconsistencies that constrain Pegadaian's optimal role as an inclusive financial institution. Thematic findings were subsequently integrated through critical conceptual synthesis, forming a coherent analytical framework.

### *2.6 Global benchmarking and model reconstruction*

To address RQ3, the study incorporated global benchmarking of comparable institutions as reported in the selected literature. This analysis examined pawnshops, Islamic pawn financing (*ar-rahn*), and alternative non-bank financial institutions across different national contexts, focusing on institutional mandates, regulatory environments, target beneficiaries, and sustainability mechanisms. Benchmarking was not intended for statistical generalization but served as a comparative-reflective tool to identify best practices and contextual constraints relevant to Indonesia. Insights from this stage informed the reconstruction of an implementative model that integrates financing, financial inclusion, literacy, and people's economy principles in a sustainable and adaptive manner.

### *2.7 Methodological rigor and transparency*

Methodological rigor was ensured through explicit documentation of each review stage, transparent inclusion criteria, and iterative validation of thematic interpretations. The adapted PRISMA flowchart enhances auditability and replicability, while the qualitative CLR design preserves the flexibility necessary for normative and reconstructive analysis. In addition, triangulation of findings from multiple scholarly sources was conducted to strengthen the consistency and credibility of the thematic analysis.

By explicitly aligning research design, analytical procedures, and synthesis strategies with RQ1–RQ3, this methodology strengthens the credibility, coherence, and reviewer-oriented clarity of the study's contributions. Furthermore, the methodological framework enables a systematic comparison between conventional banking services and digital pawnshop platforms in promoting financial inclusion among unbanked communities. The integration of qualitative synthesis and thematic interpretation also provides a deeper understanding of institutional challenges, user behavior, and technological adaptation within the evolving digital financial ecosystem.

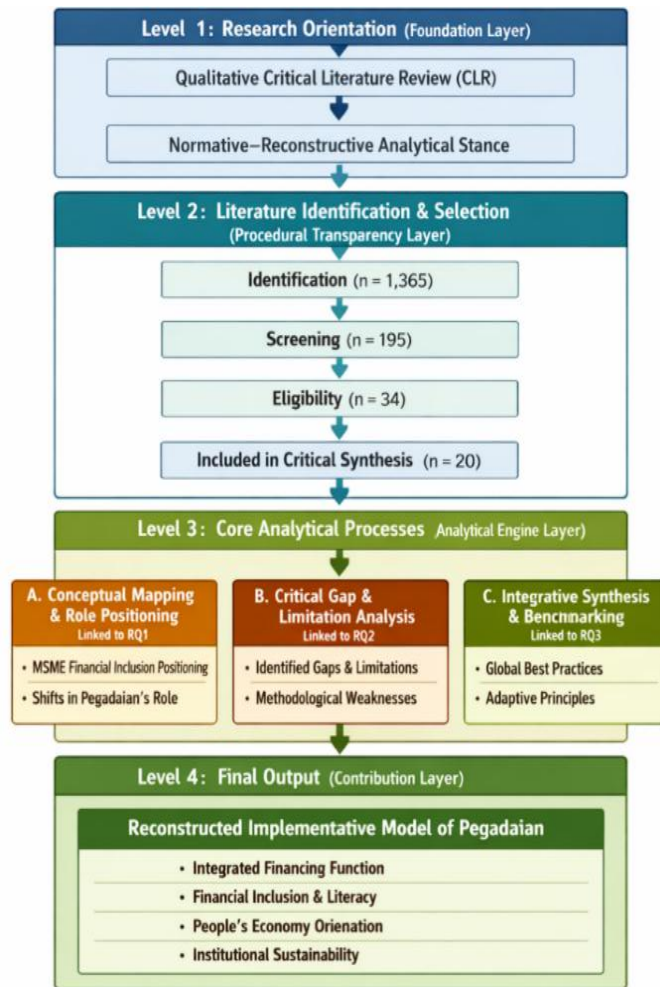


Fig. 1. Methodological-analytical framework linked to RQ1-RQ3

### 3. Results and Discussion

Based on the critical literature review of Pegadaian's role in supporting MSMEs and the people's economy, this section presents findings from the systematic literature selection process, the characteristics of the reviewed studies, quality assessment outcomes, and the results of the critical synthesis. The analysis is organized around three core dimensions: (1) dominant patterns in the literature, (2) limitations of existing approaches, and (3) underexplored spaces for innovation.

#### 3.1 Literature selection process

The literature selection followed an adapted Qualitative PRISMA Flowchart tailored to the requirements of a critical review (Fig. 2). During the identification stage, 1,365 international journal articles indexed in Scopus were retrieved through systematic searches using keywords related to financial inclusion, MSMEs, the people's economy, non-bank financial institutions, pawnshops, ar-rahn, and alternative financing, covering publications from 2015 to 2025. This stage aimed to comprehensively map the intellectual landscape and capture geographic variation to enable cross-country comparative analysis.

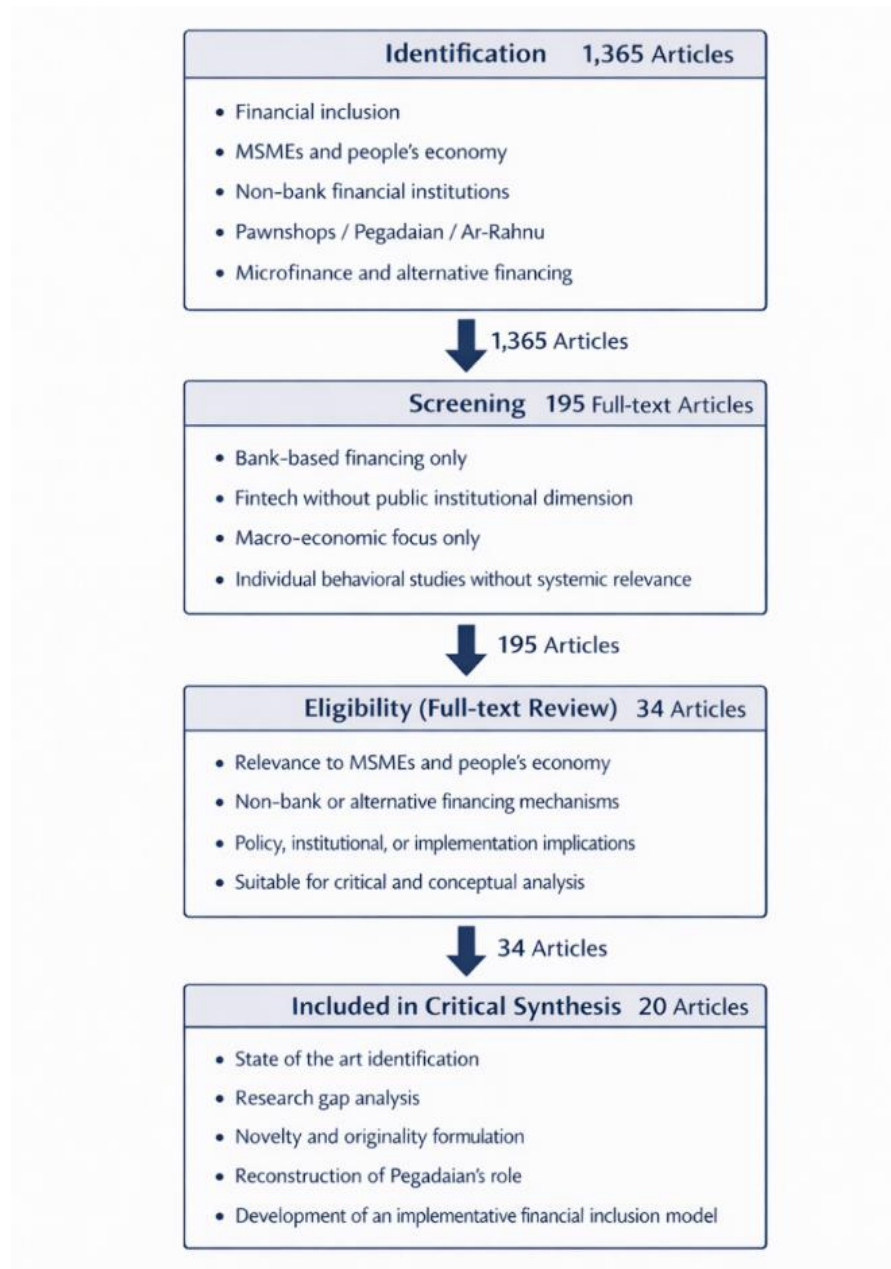


Fig. 2. PRISMA flowchart

The screening stage involved title and abstract review, resulting in 195 thematically and institutionally relevant full-text articles. Studies focusing exclusively on conventional banking, fintech without public institutional dimensions, aggregate macroeconomic analyses, or individual-level behavior lacking systemic implications were excluded. Subsequently, an eligibility assessment applied five qualitative criteria—MSMEs relevance, non-bank financing mechanisms, policy implications, methodological adequacy, and conceptual contribution—narrowing the corpus to 34 articles. From these, 20 articles were selected for critical synthesis based on methodological rigor, analytical depth, and relevance to reconstructing Pegadaian's role, with a balanced distribution across Indonesian, regional, and global contexts.

### 3.2 Characteristics of the reviewed literature

The 20 selected articles exhibit substantial diversity in methodological approaches, geographic coverage, and substantive focus (Table 1). Methodologically, nine studies (45%)

employed quantitative designs, six (30%) qualitative approaches, three (15%) mixed methods, and two (10%) conceptual-theoretical analyses. This diversity strengthens analytical triangulation, enabling cross-method validation while mitigating biases associated with methodologically homogeneous reviews.

Table 1. Summary of the characteristics of 20 articles included in the critical synthesis

Author(s) & year	Main focus	Method/design	Geographic context	MSME sector	Key contribution
Razak & Asutay (2021)	Islamic Pawnshops ( <i>Ar-Rahn</i> ) and financial inclusion	Empirical study (mixed methods)	Malaysia	Multi-sector	<i>Ar-rah</i> n enhances welfare through value-based financing
Inoue (2021)	Pawnshops as coping risk mechanisms	Historical-empirical analysis	Japan (historical), Asia	MSMEs during crisis	Pawnshops function as economic stabilizers
Copete (2020)	Community pawn institutions and moral economy	Ethnographic study	Latin America	Local communities	Pawnshops are rooted in social solidarity
Wasiuzzaman (2021)	MSME credit constraints in banking	Quantitative survey	Malaysia	Manufacturing, services	Non-price discrimination limits credit access
Takeda et al. (2020)	Pandemic impacts on MSMEs	Empirical analysis	Asia-Pacific	Multi-sector	MSMEs require rapid post-crisis liquidity
Nicolini & Cude (2019)	Pawnshops and financial well-being	Quantitative study	United States	Households & micro-enterprises	Pawnshops serve as financial safety nets
Febriansyah et al. (2024)	Financial inclusion and MSME performance	Quantitative analysis	Indonesia	Multi-sector	Financial inclusion positively affects performance
Babajide et al. (2022)	Social capital and microfinance	Mixed methods	Nigeria	Microenterprises	Trust strengthens financing impacts
Resmi et al. (2021)	MSME financial literacy	Experimental study	Indonesia	Culinary MSMEs	Training improves financial management
Kabange (2026)	Informal financing for MSMEs	Qualitative study	South Africa	Informal sector	Informal financing is more accessible
Tandilino et al. (2025)	Digital financial inclusion	Quantitative study	Indonesia	Digital MSMEs	Digitalization enhances MSME performance
Ketut et al. (2025)	MSME FinTech literacy	Survey research	Indonesia (Bali)	Tourism, culinary	Digital literacy improves competitiveness
Rahayu et al. (2023)	Informal MSMEs and FinTech	Qualitative analysis	Indonesia	Informal sector	FinTech reaches unbanked MSMEs

Author(s) & year	Main focus	Method/design	Geographic context	MSME sector	Key contribution
Masdupi (2024)	Financial literacy and sustainability	Empirical study	Indonesia	Multi-sector	Financial literacy is critical for sustainability
Diatmoko et al. (2025)	Ultra-micro-Islamic financing	Conceptual-normative	Indonesia	Ultra-micro	Importance of <i>maqasid al-shariah</i> orientation
Este & Version (2020)	Pawnshops and local economies	Spatial analysis	Italy	Local communities	Pawnshops influence local economic behavior
Hung & Lin (2022)	Pawnshop industry sustainability	Quantitative study	Taiwan	Pawnshop industry	Customer satisfaction is key to sustainability
Maran (2022)	ASEAN MSMEs and access to finance	Policy analysis	ASEAN	Multi-country	Banks fail to reach marginal MSMEs
Agarwal et al. (2021)	Group lending mechanisms	Theoretical-empirical	India	Microenterprises	Group solidarity reduces risk
Simba et al. (2024)	Collateral and financial exclusion	Critical analysis	Sub-Saharan Africa	Informal MSMEs	Collateral requirements create structural exclusion

Geographically, the literature is dominated by studies conducted in Indonesia (8 articles; 40%), reflecting the national focus on Pegadaian, while the remaining 12 articles (60%) span Southeast Asia, South Asia, Africa, Latin America, and advanced economies, providing a robust global comparative perspective. Thematically, the literature clusters into five primary areas: pawnshops and financial inclusion ( $n = 7$ ), barriers to MSME financing ( $n = 5$ ), financial literacy and digitalization ( $n = 4$ ), social capital and moral economy ( $n = 3$ ), and critiques of collateral-based systems and structural financial exclusion ( $n = 1$ ). All reviewed studies were published between 2020 and 2025, underscoring their contemporary relevance and enhancing cross-sectoral analytical richness.

### 3.3 Quality assessment of the literature

Literature quality was assessed using an adapted combination of the Critical Appraisal Skills Programme (CASP) and the Newcastle–Ottawa Scale, based on four dimensions: methodological rigor, conceptual relevance, analytical depth, and practical implications (Table 2). The assessment identified nine articles (45%) as Excellent, characterized by high methodological rigor, strong conceptual grounding, deep analysis, and clear practical relevance. These include Razak & Asutay (2021), Wasiuzzaman (2021), Febriansyah et al. (2024), Babajide et al. (2022), Kabange and Simatele (2022), Masdupi (2024), Agarwal et al. (2021), Simba et al. (2023), and Inoue (2020), which function as anchor references in the synthesis.

Table 2. Quality assessment summary

Author (year)	Methodological quality	Conceptual relevance	Analytical depth	Practical implications	Overall quality rating
Razak & Asutay (2021)	High	Very high	High	High	Excellent
Inoue (2021)	High	High	Very high	Medium	Excellent
Copete (2020)	High	Medium	High	Medium	Good
Wasiuzzaman (2021)	Very high	Very high	High	High	Excellent
Takeda et al. (2020)	High	High	Medium	High	Good
Nicolini & Cude (2019)	High	Medium	High	Medium	Good
Febriansyah et al. (2024)	Very high	Very high	High	Very high	Excellent
Babajide et al. (2022)	High	High	High	High	Excellent
Resmi et al. (2021)	High	High	Medium	High	Good
Kabange (2026)	High	Very high	High	High	Excellent
Tandilino et al. (2025)	High	Very high	Medium	Very high	Good
Ketut et al. (2025)	Medium	High	Medium	High	Good
Rahayu et al. (2023)	Medium	High	High	High	Good
Masdupi (2024)	High	Very high	High	High	Excellent
Diatmoko et al. (2025)	Medium	Very high	High	Very high	Good
Este & Version (2020)	High	Medium	High	Low	Good
Hung & Lin (2022)	High	Low	Medium	Low	Moderate
Maran (2022)	Medium	Very high	Medium	Very high	Good
Agarwal et al. (2021)	Very high	High	Very high	High	Excellent
Simba et al. (2024)	High	Very high	Very high	Very high	Excellent

Ten articles (50%) were rated Good, reflecting solid methodologies and conceptual relevance but with contextual or analytical limitations. One article (Hung & Lin, 2022; 5%) was classified as Moderate due to limited analytical depth, yet it was retained for its conceptual relevance to pawnshop sustainability. No low-quality studies were identified, and sensitivity analysis confirmed the robustness and stability of the core synthesis.

### 3.4 Dominant patterns in the literature

#### 3.4.1 Conceptual pattern: *Pegadaian* as a “residual institution”

The dominant strand of the literature conceptualizes pawnshops as residual institutions—entities that merely fill gaps left by the formal financial system rather than acting as strategic actors within the financial ecosystem. Studies by Inoue (2021); Nicolini & Cude, (2019); Takeda et al. (2020) consistently frame pawnshops as safety nets, buffer mechanisms, or coping strategies accessed only when banking services are constrained. This framing situates pawnshops in a subordinate relationship to banks, positioning them as second-best options or lenders of last resort with temporary and marginal roles.

As a consequence, pawnshops remain theoretically marginalized within financial inclusion discourse. Mainstream literature emphasizes the expansion of formal banking or fintech-driven solutions (Febriansyah et al., 2024; Tandilino et al., 2025), while pawnshops are often mentioned only tangentially or grouped indiscriminately with informal lenders. This residual framing obscures the institutional advantages of pawnshops, including their semi-formal yet credible status, asset-based lending using low-value movable collateral, rapid disbursement without complex credit assessments, and extensive branch networks reaching rural and underserved areas. Kabange, (2026) and Razak & Asutay (2021) represent notable exceptions by beginning to reposition pawnshops as development-oriented financing actors, although such perspectives remain marginal within the broader literature. As an illustrative example, Inoue (2021)’s historical analysis of Japanese pawnshops shows that during the Showa economic crises (1920s–1930s), pawnshop lending volumes surged precisely as formal banking contracted—a pattern mirrored in post-COVID-19 MSMEs data from Southeast Asia (Yamaka et al., 2023). Similarly, Razak &

Asutay (2021) document cases in Malaysia where ar-rahn clients transitioned from emergency borrowers to regular financing clients who simultaneously improved household welfare scores, illustrating a concrete pathway from residual to developmental financing that Indonesian literature has yet to formalize.

### *3.4.2 Methodological pattern: Fragmentation and the absence of longitudinal perspectives*

A second dominant pattern is methodological fragmentation, manifested in three forms. First, disciplinary silos persist: economics and finance studies prioritize efficiency and financial performance with limited engagement with social dimensions, while sociological and anthropological studies emphasize social capital and moral economy without systematically analyzing financial mechanisms. Second, most studies adopt a single-institution focus, examining pawnshops in isolation without situating them within broader financial ecosystems or benchmarking them against alternative institutions. Third, the literature is dominated by cross-sectional designs that capture static snapshots but fail to address dynamic processes, causal mechanisms, or long-term impacts.

Among the 20 reviewed studies, only Masdupi (2024) employ a longitudinal design through a three-year panel analysis; the remainder rely primarily on cross-sectional or retrospective approaches. This creates a pronounced temporal blind spot: while correlations can be identified—such as between access to pawnshop financing and MSMEs performance—causality and trajectories of change over time remain largely unexplored. Although Resmi et al. (2021) utilize a rigorous experimental design, the short follow-up period of four weeks is insufficient to assess the sustainability of behavioral changes or long-term business outcomes.

This fragmentation results in an incomplete knowledge base. Existing studies demonstrate that MSMEs face non-price barriers in accessing bank credit (Wasiuzzaman, 2021), that financial inclusion correlates positively with MSMEs performance (Febriansyah et al., 2024), and that social capital moderates microfinance impacts (Babajide et al., 2022). However, the literature lacks an integrated understanding of how these elements interact specifically within the context of pawnshop-based financing. The scarcity of multi-method, multi-level, and longitudinal studies constrains theory building and limits the development of evidence-based implementative models.

### *3.4.3 Geographic pattern: Bias toward advanced economies and urban contexts*

A third dominant pattern is geographic bias. Although this review deliberately incorporates diverse contexts, the broader pawnshop literature disproportionately focuses on advanced economies (e.g., the United States, Japan, Taiwan, and Western Europe) or urban centers in developing countries. Studies by Nicolini & Cude (2019), Hung & Lin (2022), and Este & Version (2020) analyze pawnshops within advanced financial systems where they serve niche markets or specific demographic groups.

The applicability of findings from these contexts to Indonesia—particularly to rural and peri-urban MSMEs that constitute the bulk of the informal economy—is questionable without careful contextual adaptation. Financial ecosystems, regulatory environments, social capital structures, and economic behaviors differ markedly between advanced and emerging economies. While Inoue (2021) offers valuable historical insights from Japan, the analysis does not address contemporary challenges in emerging markets such as Indonesia, where traditional financial exclusion coincides with rapid digital transformation.

Even studies conducted in developing countries—including Razak & Asutay (2021) in Malaysia, Babajide et al. (2022) in Nigeria, and Kabange (2026) in South Africa—predominantly focus on urban or peri-urban settings. Rural contexts characterized by geographic remoteness, infrastructure deficits, and thin markets remain underexplored. Copete (2020) provides a rare in-depth examination of community pawnshops in rural Latin

America, highlighting the importance of social embeddedness and moral economy—insights that are highly relevant yet insufficiently integrated into mainstream scholarship.

#### 3.4.4 Normative pattern: Implicit market-centric assumptions

The fourth dominant pattern is the prevalence of implicit market-centric assumptions that frame financial inclusion primarily as a problem of market expansion—extending formal financial services to unbanked populations through market-based mechanisms. The digitalization literature, in particular, tends to celebrate fintech innovations as solutions for financial inclusion (Tandilino et al., 2025; Ulupui et al., 2025; Rahayu et al., 2023) without critically examining distributional effects, digital divides, or the potential for exacerbating inequality.

Such market-centric framing often marginalizes non-market dimensions that are central to the people's economy, including economic justice, solidarity, community self-determination, and democratic governance. Alternative perspectives foregrounding social capital, trust, and moral economy (Babajide et al., 2022; Copete, 2020) remain peripheral in dominant discourse. Diatmoko et al. (2025) explicitly advocate a *maqasid al-shariah* orientation that prioritizes social welfare over profit maximization, directly challenging market-centric logic; however, normative approaches of this kind remain rare.

As a result, policy recommendations emerging from the literature are predominantly technocratic, emphasizing product innovation, process efficiency, and digital platforms while neglecting fundamental questions of institutional purpose, governance structures, accountability mechanisms, and distributional outcomes. Razak & Asutay (2021) constitute a notable exception by explicitly integrating value-based (Islamic) principles into institutional analysis, demonstrating that alternative normative frameworks are both feasible and analytically productive.

### 3.5. Limitations of existing approaches

#### 3.5.1 Theoretical limitations: Absence of an integrated framework

The primary theoretical limitation in the literature is the absence of an integrated framework that systematically captures the multifaceted role of pawnshops in MSMEs development and the people's economy. Existing studies rely on partial analytical lenses—such as financial inclusion, institutional economics, social capital, or moral economy—without synthesizing these perspectives into a coherent explanation of pawnshops as simultaneous financial intermediaries, social institutions, and development actors. Simba et al. (2024) emphasize collateral efficiency, Copete (2020) foregrounds moral economy, and Febriansyah et al. (2024) focus on the statistical relationship between financial inclusion and MSMEs performance; however, none adequately unpack the underlying causal mechanisms linking these dimensions. As a result, the literature fails to articulate pawnshops' distinctive value proposition, provide guidance for institutional design, or establish impact indicators beyond conventional financial metrics.

#### 3.5.2 Methodological limitations: Limited attention to mechanisms and MSMEs heterogeneity

The literature also exhibits insufficient attention to mechanisms—that is, how and why outcomes occur—and to MSME heterogeneity. Studies by Wasiuzzaman (2021) and Takeda et al. (2020) identify financing barriers and heightened liquidity needs but do not examine variations in causes and responses across different MSME segments. Heterogeneity in scale, sector, location, gender, and capability is rarely analyzed explicitly, as acknowledged by Kabange (2026). Consequently, policy recommendations tend to be generic and weakly operational. Although Resmi et al. (2021) demonstrate the effectiveness of financial literacy interventions, the narrowly defined context raises concerns regarding scalability and external validity.

### 3.5.3 Empirical limitations: Measurement challenges and data gaps

Significant empirical limitations arise from inconsistent definitions of financial inclusion, heavy reliance on self-reported data, and the use of weak or proxy indicators. Febriansyah et al. (2024) and Ketut et al. (2025) face constraints related to indicator weighting and the validity of digital literacy measures, while Hung & Lin (2022) prioritize customer satisfaction without assessing broader development impacts. Moreover, critical data gaps persist regarding loan utilization patterns, repeat borrowing behavior, long-term outcomes, outcome heterogeneity, and the comparative effectiveness of pawnshop-based financing relative to alternative instruments.

### 3.5.4 Implementative limitations: The gap between prescription and pragmatics

Finally, the literature is rich in normative prescriptions but limited in implementative pragmatism. Studies such as Diatmoko et al. (2025) and Maran (2022) propose strategic reorientation without specifying operational pathways, governance arrangements, resource requirements, or implementation timelines. Key challenges—including political economy constraints, institutional capacity limitations, and change management dynamics—are frequently overlooked. While Razak & Asutay (2021) and Babajide et al. (2022) offer valuable implementative insights, these remain highly context-specific, limiting their transferability and scalability across institutional and national settings.

## 3.6. Underexplored innovation spaces

### 3.6.1 Conceptual innovation: Reframing Pegadaian as an inclusive development finance institution

The critical review identifies a major conceptual innovation opportunity by reframing Pegadaian from a residual safety net into an Inclusive Development Finance Institution (IDFI)—a strategic actor with a triple mandate: (1) financial inclusion, (2) MSME development, and (3) advancement of the people's economy. The IDFI framework positions Pegadaian proactively within the financial ecosystem by integrating financing with capability building, market connectivity, and policy advocacy, while embedding justice, solidarity, and sustainability as core principles. Although Simba et al. (2024), Copete (2020), and Babajide et al. (2022) provide important conceptual building blocks, these insights have not been synthesized into a scalable institutional model. The innovation lies in integrating these perspectives into a coherent and implementable framework tailored to the Indonesian Pegadaian context.

### 3.6.2 Product innovation: Beyond traditional pawn loans

The literature reveals substantial scope for product innovation beyond conventional pawn-based lending. These innovations are increasingly viewed as essential for improving financial inclusion and addressing the diverse financing needs of underserved communities. Key opportunities include: (1) working capital products secured by inventory or receivables (Kabange, 2026; Simba et al., 2024); (2) progressive and graduated loan products such as ar-rahn (Razak & Asutay, 2021); (3) group-based financing mechanisms (Agarwal et al., 2021; Babajide et al., 2022; Copete, 2020); (4) hybrid savings-credit products oriented toward asset building; and (5) sectoral value-chain financing (Maran, 2022).

### 3.6.3 Process innovation: Hybrid physical-digital service delivery

Responding to both the opportunities and risks of digitalization (Ketut et al., 2025; Rahayu et al., 2023; Tandilino et al., 2025), pawnshop institutions are increasingly required

to modernize their operational processes while maintaining accessibility and trust among low-income customers. Process innovation centers on hybrid delivery models, including omnichannel access, facilitated digital services, intelligent collateral valuation (Nicolini & Cude, 2019), blockchain-based collateral registries (Este & Version, 2020; Hung & Lin, 2022), and data-driven risk management systems (Masdupi, 2024; Resmi et al., 2021).

#### *3.6.4 Ecosystem innovation: Pegadaian as a platform orchestrator*

Pegadaian holds significant potential to function as an ecosystem orchestrator by coordinating financial literacy partnerships (Resmi et al., 2021), business development services (Masdupi, 2024), market access facilitation (Babajide et al., 2022), digital infrastructure provision (Tandilino et al., 2025), and MSME voice-based policy advocacy (Maran, 2022). By integrating these complementary services, Pegadaian can create a more inclusive and sustainable entrepreneurial ecosystem for MSMEs.

#### *3.6.5 Governance innovation: Participatory and accountable structures*

Operationalizing the values of the people's economy (Diatmoko et al., 2025) requires governance innovation, including MSME stakeholder representation, dual bottom-line reporting (Razak & Asutay, 2021), participatory product development (Wasiuzzaman, 2021), independent grievance mechanisms (Babajide et al., 2022), and impact-based incentive systems. These governance mechanisms are essential to ensure that institutional objectives remain aligned with the social and economic needs of MSMEs.

#### *3.6.6 Policy innovation: An enabling regulatory environment*

Policy innovation is essential to support scale, sustainability, and social impact. A supportive policy environment can enable financial institutions to experiment with new approaches while effectively managing emerging risks. Priority directions include regulatory sandboxes, tiered regulatory frameworks, impact-based capital requirements (Simba et al., 2024), public-private partnership schemes, and cross-program integration within national development initiatives (Maran, 2022).

### *3.7 Innovation: The proposed implementative model*

#### *3.7.1 From critical review to implementation*

Building on the critical synthesis of dominant patterns, existing limitations, and underexplored innovation spaces, this study presents its core contribution: the P3-UMKM Model (Pegadaian for MSME Empowerment and Development). This implementative model reconstructs Pegadaian's role beyond emergency liquidity provision toward a holistic, adaptive, and people-centered Inclusive Development Finance Institution (IDFI).

The P3-UMKM Model is developed through triangulation of three sources: (1) evidence-based synthesis of the 20 reviewed studies, extracting global best practices (e.g., ar-rahn in Malaysia, community pawnshops in Latin America, group lending in India, informal finance in Africa); (2) contextual analysis of Indonesia's Pegadaian and the national MSME ecosystem; and (3) normative principles of the people's economy emphasizing justice, sustainability, autonomy, and participation. Rather than a rigid blueprint, the model constitutes an adaptive framework customizable across geographic contexts, MSME sectors, and implementation stages.

### 3.7.2 The P3-UMKM model

#### 3.7.2.1 Foundational philosophy and principles

The P3-UMKM Model is grounded in five foundational principles that constitute its institutional DNA. First, the principle of integration over fragmentation emphasizes that financing alone is insufficient without strengthening financial capability. Drawing on evidence that financing without adequate financial literacy produces suboptimal outcomes (Resmi et al., 2021) and that literacy is essential for sustainability (Masdupi, 2024), the P3-UMKM Model integrates three interconnected empowerment pillars consisting of financial access through accessible and affordable financing, financial capability through financial, digital, and business literacy, as well as a financial ecosystem involving market linkages, technological infrastructure, and policy advocacy. This integration is expected to create synergistic impacts that exceed the effects of isolated interventions.

Second, the principle of flexibility within a standardized framework reflects the need to balance consistency and contextual adaptation. Informed by alternative collateral frameworks (Simba et al., 2024) and the contextual flexibility of informal lenders (Kabange, 2026), the model applies standardized principles to maintain accountability while simultaneously allowing flexible implementation to accommodate MSME heterogeneity across scale, sector, location, and levels of formality. This flexibility is operationalized through differentiated financial products, graduated requirements, and customized support mechanisms.

Third, the principle of community embeddedness positions Pegadaian not merely as a financial service provider but as a community-based institution closely connected to local economic and social realities. Consistent with studies emphasizing social embeddedness and social capital (Babajide et al., 2022; Copete, 2020), the model incorporates participatory governance involving MSME representation, partnerships with local associations and cooperatives, social collateral mechanisms based on peer networks, and alignment with local economic values. Such embeddedness is intended to strengthen trust, institutional relevance, and accountability within the targeted communities.

Fourth, the principle of hybridity as institutional strength recognizes that institutional effectiveness emerges from the ability to combine multiple organizational dimensions simultaneously. Acknowledging both the opportunities and risks of digital transformation (Rahayu et al., 2023; Tandilino et al., 2025), the model adopts hybridity through digital-physical omnichannel delivery that combines technological efficiency with direct human interaction, formal-informal positioning that leverages both institutional credibility and accessibility, commercial-social balance between financial sustainability and social objectives, and individual-collective outreach targeting both individual entrepreneurs and MSME groups.

Finally, the principle of evidence-based adaptation highlights the importance of continuous learning and institutional responsiveness. Recognizing contextual variability and implementation uncertainty, the P3-UMKM Model incorporates ongoing monitoring systems that track inputs, outputs, outcomes, and impacts, alongside evaluation mechanisms that assess effectiveness, efficiency, and equity. Feedback loops involving clients, staff, and institutional partners further support adaptive management processes in which strategies are continuously adjusted based on empirical evidence. Through this approach, the P3-UMKM Model operates not as a rigid blueprint but as a dynamic and learning-oriented institutional framework.

#### 3.7.2.2 Comprehensive architecture of the P3-UMKM model

The P3-UMKM Model consists of four integrated and mutually reinforcing operational pillars. The first pillar, product innovation and differentiation, transforms Pegadaian's services from uniform pawn-based lending into a tiered and context-sensitive financing

portfolio. By combining emergency liquidity services, working capital financing, progressive financing schemes, collective financing models, and integrated savings–credit products, Pegadaian is positioned as an adaptive financial inclusion institution capable of aligning with MSME business cycles and facilitating the transition from survival-oriented financing toward sustainable economic empowerment.

The second pillar focuses on process redesign for accessibility. This operational dimension emphasizes the reduction of non-price barriers through proportional documentation requirements, rapid risk-based approval systems, omnichannel service architectures, and transparent client-oriented governance practices. Through these innovations, Pegadaian can function as an MSME financing institution that remains both accessible and prudent while accommodating diverse business capacities and institutional limitations among unbanked communities.

The third pillar, ecosystem integration and value-added services, positions Pegadaian as an orchestrator within the MSME ecosystem rather than solely as a financing provider. This pillar integrates financial services with financial literacy programs, digital capability development, market access facilitation, and collaborative partnership networks. Such integration ensures that financial inclusion contributes not only to short-term liquidity fulfillment but also to productive capacity building, business resilience, and long-term sustainability for MSMEs.

Finally, the fourth pillar emphasizes governance and accountability mechanisms. This pillar ensures that the P3-UMKM Model maintains a balance between social impact objectives and financial sustainability through dual performance measurement systems, participatory governance structures, accountability mechanisms, impact-based incentives, and regulatory compliance. By embedding these governance principles, Pegadaian is positioned as a fair, transparent, accountable, and sustainable institution for advancing inclusive finance.

### *3.7.3 Operational mechanisms of the P3-UMKM model*

#### *3.7.3.1 End-to-end operational flow*

The P3-UMKM operational flow delineates an integrated service pathway from initial access to sustained MSME engagement. Phase 1 (Access & Assessment) ensures inclusivity through multi-channel entry points (branches, applications, mobile units, and agents), followed by registration, basic orientation, and profiling to assess needs, risks, and product fit. Phase 2 (Financing) involves product selection, tiered approval and contracting, disbursement, and monitored fund utilization to safeguard accountability and portfolio quality. Phase 3 (Empowerment) extends financing into capability strengthening through financial and digital literacy, business development services, and access to markets and technology. Phase 4 (Evaluation & Progression) tracks business performance and repayment, prepares structured graduation pathways to advanced products or formal finance, and consolidates long-term relationships. All phases are linked by continuous feedback loops drawing on MSME inputs and data analytics to enable iterative improvement, product innovation, and impact-based strategic adjustment.

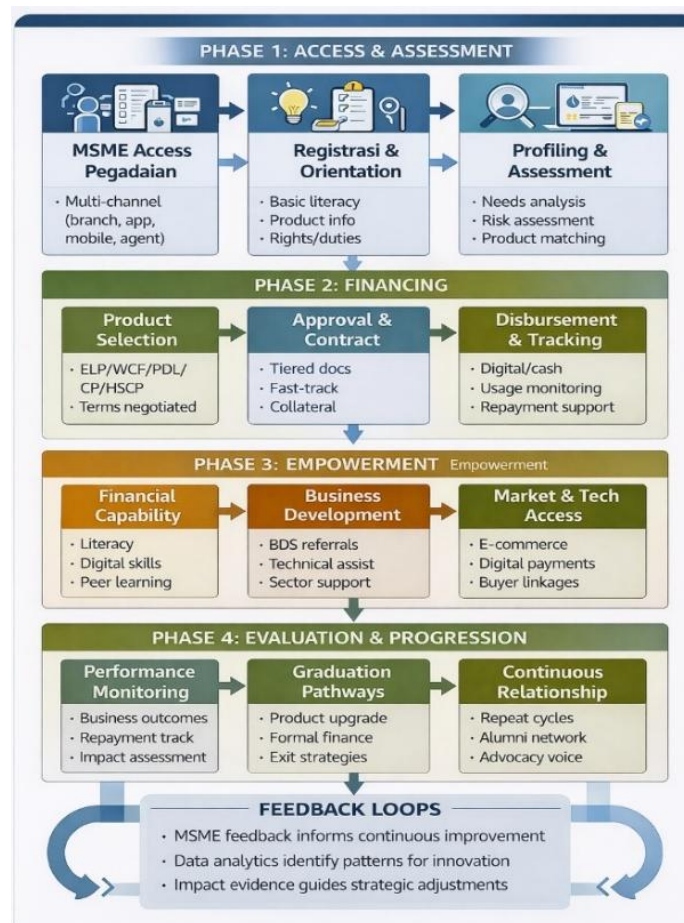


Fig. 3. Operational flow

3.7.3.2 Segmented credit mechanisms

Table 3. presents a tiered financing mechanism designed to accommodate MSME heterogeneity by business scale. Segmentation comprises three groups—ultra-micro, micro, and small enterprises—with clearly differentiated financing products, assessment approaches, documentation requirements, approval authority, and support intensity. As business scale increases, assessment and documentation complexity rise while support intensity declines. Each segment follows a structured graduation pathway, illustrating progression from basic financing toward more sophisticated and formal financial instruments. This design underscores that financing is not static but progressive and adaptive, functioning as an operational roadmap aligned with MSME development stages.

Table 3. Segmented credit mechanisms in the P3-UMKM model

UMKM Segment	Business scale (annual turnover)	Primary financial products	Assessment approach	Documentation tier	Approval authority	Support Intensity	Graduation Path
Segment A: Ultra-Micro	< Rp 50 million	Emergency Liquidity Products (ELP); Collective Products (CP)	Simplified: character (peer references), minimal collateral, business observation	Tier 1: ID, business photo, basic collateral	Branch manager up to Rp 10 million	High: mandatory basic financial literacy, intensive hand-holding, group mechanisms	ELP → Working Capital Financing (WCF) → Progressive Development Loan (PDL)

UMKM Segment	Business scale (annual turnover)	Primary financial products	Assessment approach	Documentation tier	Approval authority	Support Intensity	Graduation Path
Segment B: Micro	Rp 50–300 million	Working Capital Financing (WCF); Progressive Development Loan (PDL)	Moderate: simplified cash-flow analysis, business viability, collateral adequacy	Tier 2: Tier 1 + simple financial records	Branch manager up to Rp 30 million; regional approval above Rp 30 million	Medium: voluntary advanced training, business development services (BDS), market linkage facilitation	Pegadaian WCF → Pegadaian PDL → Bank KUR / formal credit
Segment C: Small	Rp 300 million–Rp 2.5 billion	PDL (asset acquisition); Hybrid Savings-Credit Products (HSCP); value chain finance	Standard: business plan financial projections, collateral valuation, credit bureau check	Tier 3: Tier 2 + business plan and references	Regional office / head office for > Rp 50 million	Low: self-service for capable firms, opt-in specialized support	Pegadaian → Commercial bank loans → Capital markets (growth firms)

Table 4. Summarizes the flexible collateral framework employed by the P3-UMKM Model to expand MSME access to finance. Collateral is categorized into four types: asset-based, cash-flow-based, social collateral, and hybrid approaches. Each category specifies collateral forms, operational mechanisms, valuation methods, and risk mitigation features. This framework broadens collateral beyond physical assets to include cash flows, social relations, and business reputation, enabling risk-adjusted flexibility without compromising prudential standards.

Table 4. Flexible collateral framework in the P3-UMKM model

Collateral category	Collateral types	Operational mechanism	Valuation method	Risk mitigation features
Asset-Based (Traditional)	Gold, jewelry, electronics, vehicles, machinery	Standard pawnshop collateral	Automated valuation for standard assets; expert appraisal for unique items	Loan-to-Value (LTV) 70–80% for first-time borrowers; up to 90% for repeat borrowers
Flow-Based (Innovative)	Inventory, receivables, future cash flows	Pledge of inventory with periodic monitoring; invoices or purchase orders from creditworthy buyers	Discounted valuation based on liquidity and turnover risk	Higher discounts for slow-moving inventory; reliance on historical revenue data
Social Collateral (Group-Based)	Peer guarantees, community endorsement, reputation collateral	Joint-liability contracts; endorsements from UMKM associations or cooperatives	Qualitative assessment of group trust and repayment history	Reduction of individual collateral requirements (up to 50%) through group guarantees
Hybrid Approaches	Combination of asset, flow, and social collateral	Asset collateral as primary with social collateral as supplementary	Progressive valuation adjusted over loan cycles	Progressive collateral reduction; flexible redemption, grace periods, staged repayment

Table 5. Consolidates the operational logic underpinning the P3-UMKM Model, synthesizing principles that guide credit design, risk management, institutional roles, support strategies, and sustainability objectives. It highlights the interlinkages between segmented financing, collateral flexibility, and inclusion strategies, while reaffirming Pegadaian's role as a bridge between informal MSMEs and the formal financial system. As such, the table serves both as a conceptual summary and a practical implementation guide, concluding the results section with an integrated representation of the model's internal architecture.

Table 5. Operational logic of the P3-UMKM Model

Dimension	Operational principle
Credit Design	Segmented, tiered, and adaptive to UMKM heterogeneity
Risk Management	Combination of asset, flow-based, and social collateral
Institutional Role	Pegadaian as bridge between informal UMKM and formal finance
Support Strategy	Differentiated intensity based on business maturity
Inclusion Logic	Gradual formalization through structured graduation paths
Sustainability	Progressive trust-based financing and collateral flexibility

### 3.7.3.3 Interest rate setting mechanism

The P3-UMKM Model balances affordability and institutional sustainability through a risk- and mission-based tiered pricing scheme comprising three levels. Tier 1 (Preferential) targets ultra-micro enterprises, women entrepreneurs, rural communities, disaster-affected groups, and first-time borrowers, with flat monthly rates of 0.5–0.75%, set below cost-recovery levels and justified by cross-subsidization, social justice considerations, and maqasid orientation. Tier 2 (Standard) applies to micro enterprises and repeat borrowers with moderate risk, offering rates of 1–1.25% per month, sufficient to cover funding, operational, and risk costs without excessive margins. Tier 3 (Premium) serves small enterprises with strong collateral and low risk at 1.5–2% per month, generating surplus to subsidize Tier 1 while remaining within regulatory limits.

The pricing scheme is adaptive, incorporating loyalty discounts, capacity-building incentives, and seasonal flexibility. To ensure accountability, the P3-UMKM Model integrates a three-tier monitoring and evaluation system: (1) real-time transaction monitoring for early risk detection; (2) periodic performance monitoring for managerial improvement; and (3) strategic impact evaluation through longitudinal studies to validate social value creation and inform long-term policy direction.

### 3.7.4 Roles of key actors

#### 3.7.4.1 Mapping the stakeholder ecosystem

The Fig. 3. Illustrates the stakeholder ecosystem of the P3-UMKM Model, with Pegadaian positioned as the central orchestrator coordinating three interrelated layers. The Policy Layer comprises ministries, regulators, and local governments that provide policy support, regulatory frameworks, and resources (enablement). The Service Layer includes business development service providers, technology platforms, universities, NGOs, corporations, and financial institutions that deliver integrated services, partnerships, and infrastructure (integration). The Beneficiary Layer consists of MSMEs, associations, and communities as end users who benefit from enhanced access to finance, capability development, market linkages, and participatory voice (empowerment). Overall, the diagram highlights Pegadaian's bridging role in aligning policy, service delivery, and empowerment within the MSME financial inclusion ecosystem.



Fig. 3. Stakeholder ecosystem

#### 3.7.4.2 Specific roles of key actors in the P3-UMKM model

The P3-UMKM Model operates as a multi-actor collaborative ecosystem with Pegadaian as the central orchestrator. Pegadaian leads the transition from a traditional pawnshop to an Inclusive Development Finance Institution through product innovation, omnichannel delivery, end-to-end risk management, MSME capacity building, digital infrastructure, and social impact measurement, supported by strengthened technical capability, change management, and partnership governance. MSMEs and their associations act as active partners—providing business data, enabling group-based mechanisms, and supplying systemic feedback—while associations reinforce social collateral, outreach efficiency, and participatory representation.

Policy leadership is provided by the Ministry of Cooperatives and MSMEs via coordination, smart subsidies, regulatory support, data integration, and social oversight. The Financial Services Authority (OJK) ensures proportional prudential regulation, regulatory sandboxes, dual bottom-line reporting, and consumer protection, while Bank Indonesia supports digital payments, data integration, priority liquidity, and inclusion statistics. Business Development Service providers enhance non-financial capacity, technology platforms enable scalability, corporations facilitate market access and value-chain finance, and local governments ensure contextual adaptation and implementation sustainability.

#### 3.7.5 Five-year implementation roadmap

The P3-UMKM roadmap adopts a phased approach to balance learning, scale, and sustainability. Year 1 focuses on institutional setup and pilot testing to establish operational feasibility and early evidence. Year 2 emphasizes rigorous evaluation, model refinement, controlled expansion, and partnership strengthening. Year 3 targets national scaling and ecosystem building, integrating P3-UMKM as a core business line with measurable revenue

growth and initial graduation to formal finance. Year 4 deepens service sophistication, achieves universal coverage, diversifies funding, and accelerates graduation pathways. Year 5 consolidates impacts through longitudinal evaluation, knowledge dissemination, and policy influence, culminating in full institutionalization. Over five years, the model is projected to serve 500,000+ MSMEs, achieve 20–25% graduation to formal finance, and deliver measurable welfare and poverty-reduction impacts.

Table 6. Five-year implementation roadmap of the P3-UMKM Model

Year / Phase	Primary objectives	Key implementation focus	Expected outputs & milestones
Year 1 (2026) Foundation & Pilot	Establish institutional foundations; Test operational feasibility; Generate early evidence; Build stakeholder buy-in.	Establish P3-UMKM Unit and SOPs; Staff training for pilot branches; Pilot rollout in 15–25 branches (urban–rural, multi-sector); Intensive monitoring and rapid iteration.	5,000–10,000 UMKM served; All products (ELP, WCF, PDL, CP, HSCP) tested; Operational systems functional; Early evidence on repayment, satisfaction, costs.
Year 2 (2027) Refinement & Early Expansion	Rigorously evaluate pilot; Refine model based on evidence; Begin controlled scaling; Strengthen partnerships.	Impact and process evaluations; Product, process, and pricing adjustments; Expansion to 50–75 branches; Launch digital platforms and agent networks.	25,000–40,000 UMKM served (cumulative); 60–70% repeat borrowing rate; 90–95% repayment rate; Evidence-validated operational model
Year 3 (2028) Scaling & Ecosystem Building	Achieve national scale; Build robust multi-stakeholder ecosystem; Mainstream P3-UMKM within Pegadaian.	Expansion to 150–200 branches incl. provincial capitals; Rural outreach via mobile units; Value-chain finance mechanisms; UMKM advisory councils established.	100,000–150,000 UMKM served (cumulative); 30–50% average revenue growth among clients; 10–15% graduation to formal finance; P3-UMKM integrated as core business line.
Year 4 (2029) Deepening & Diversification	Universal national coverage; Deepen service sophistication; Facilitate graduation pathways; Diversify funding sources.	Rollout to all 500+ branches; Differentiated urban–rural models; Formal bank linkages and alumni networks; Export and market access programs.	250,000–350,000 UMKM served (cumulative); 15–20% graduation rate; Operational financial sustainability achieved; National coverage with local adaptation.
Year 5 (2030) Consolidation & Institutionalization	Document and validate impacts; Disseminate knowledge; Plan long-term sustainability; Influence national policy	Experimental/quasi-experimental impact evaluations; Longitudinal client tracking; Best-practice documentation and publications; Policy advocacy and replication support.	500,000+ UMKM served (cumulative); 20–25% graduation rate; Measurable poverty and welfare impacts; P3-UMKM institutionalized and policy-influential.

### 3.7.6 Key innovations of the P3-UMKM model

The P3-UMKM Model introduces several interrelated innovations that collectively represent a paradigm shift from Pegadaian as a transactional pawnshop to a transformative development finance institution. One of the central innovations is the integrated triple mandate, which simultaneously pursues financial access, enterprise development, and the advancement of the people's economy by emphasizing synergy rather than trade-offs among these objectives. In addition, the model adopts a tiered flexibility framework in which standardized principles are combined with graduated implementation mechanisms to accommodate MSME heterogeneity while avoiding both rigid uniformity and fragmented discretion. The model also emphasizes hybrid institutional positioning by leveraging Pegadaian's semi-formal institutional status as a strategic advantage that combines the accessibility commonly associated with the informal sector and the credibility of formal financial institutions.

Furthermore, the P3-UMKM Model extends Pegadaian's role beyond conventional credit provision by positioning it as an ecosystem orchestrator that functions as a convener, coordinator, and catalyst for multi-stakeholder collaboration. This institutional transformation is reinforced through the operationalization of alternative collateral systems, including asset-based, cash-flow-based, and social collateral frameworks (Simba et al., 2023), thereby expanding access for MSMEs with limited conventional collateral. The model also incorporates an omnichannel access strategy integrating physical, digital, mobile, and agent-based delivery channels while supporting assisted user transitions to digital services. In parallel, financial literacy and business development services are embedded directly into the financing process rather than being implemented as separate stand-alone programs, thereby strengthening the integration between financing access and capability development.

Another important innovation lies in the establishment of participatory governance mechanisms that institutionalize MSME participation in decision-making processes and operationalize the principles of the people's economy. The model further adopts a dual bottom-line performance orientation by assigning equal importance to financial sustainability and social impact, thereby challenging the traditional dichotomy between charity and business objectives. Finally, the P3-UMKM Model incorporates evidence-based adaptive implementation through phased rollouts, continuous learning, iterative adjustments, and impact evaluation processes that combine institutional prudence with scalability. Through these interconnected innovations, the P3-UMKM Model represents a paradigm shift that repositions Pegadaian from a transactional pawnshop into a transformative development finance institution grounded in global evidence, contextualized to Indonesia's socioeconomic realities, and committed to advancing the people's economy.

### 3.8 Practical implications model P3-UMKM

The P3-UMKM Model provides an implementable framework to strengthen Pegadaian's role in supporting MSMEs and the people's economy through inclusive, adaptive, and sustainable financing. By addressing structural constraints of conventional finance via tiered documentation, flexible collateral, and graduated product design aligned with MSME heterogeneity, the model enables faster, more affordable, and more dignified access to finance—particularly for ultra-micro enterprises, women entrepreneurs, rural communities, and informal-sector actors. Over a five-year period, P3-UMKM is projected to reach approximately 35–40% of national MSMEs (around 500,000 enterprises), with significantly shorter access times than formal banking.

Beyond access, P3-UMKM integrates financing with productive and managerial capacity building through working capital and productive asset financing, alongside embedded financial and digital literacy support. These mechanisms facilitate inventory optimization, technology adoption, business expansion, and improved financial management, which are empirically associated with revenue growth and productivity gains. Progressive financing

pathways further promote income growth, job creation, asset accumulation, and structured graduation into the formal financial system.

At the people's economy level, P3-UMKM reduces financial access gaps, mitigates reliance on exploitative informal finance, and strengthens local economic systems. With projected macro-level impacts including increased MSME output, substantial job creation, and contributions to inclusive growth and income distribution, the model is institutionally feasible given Pegadaian's regulatory, financial, and organizational readiness. Supported by a high social benefit–cost ratio and explicit risk mitigation strategies, P3-UMKM constitutes a viable, sustainable, and policy-relevant instrument for transforming MSME financing and advancing Indonesia's people-centered economic development. Notwithstanding these projections, several implementation challenges merit critical acknowledgment. First, the P3-UMKM Model has not yet undergone primary empirical validation; its architecture is grounded in synthesized global evidence and contextual analysis, but longitudinal impact studies in the Indonesian context are needed to confirm its effectiveness, particularly the projected 20–25% graduation-to-formal-finance rate. Second, successful implementation depends on institutional capacity building within Pegadaian—including staff retraining, IT infrastructure upgrades, and governance reform—which carries substantial organizational change management risks. Third, political economy factors, including competitive interests from commercial banks and fintech operators, may create regulatory resistance to Pegadaian's repositioning as a development finance institution. Fourth, digital inclusion gaps in rural and remote areas of Indonesia may limit the reach of hybrid physical-digital service delivery in the near term. These challenges underscore the importance of the phased implementation roadmap and the model's adaptive management mechanisms, which are designed precisely to accommodate evidence-based iteration and contextual adjustment as implementation proceeds.

#### 4. Conclusions

This critical review demonstrates that the prevailing literature continues to frame pawnshops as residual financial institutions, thereby underestimating their strategic potential in supporting MSMEs and advancing the people's economy. Addressing this gap, the study proposes the P3-UMKM Model as an integrated and innovative framework that repositions Pegadaian as an Inclusive Development Finance Institution. The model introduces complementary innovations across conceptual, product, process, ecosystem, governance, and policy dimensions, collectively transforming pawnshop services from short-term liquidity provision into a development-oriented, capability-enhancing financial system.

Practically, P3-UMKM provides an actionable operational architecture—encompassing tiered pricing, hybrid physical–digital service delivery, embedded business development services, and impact-based monitoring—that offers concrete guidance for policymakers and practitioners seeking to scale inclusive finance while maintaining institutional sustainability. Academically, the model contributes a synthesized framework integrating financial inclusion, institutional economics, social capital, and moral economy, addressing longstanding fragmentation in the literature and opening pathways for mechanism-based and impact-oriented research. Importantly, the model's modular, ecosystem-based design enables national replication across diverse regional contexts in Indonesia. With appropriate regulatory support and local adaptation, P3-UMKM holds strong potential to be institutionalized as a scalable instrument for inclusive MSME development and sustainable, people-centered economic growth. . From a regulatory perspective, implementing P3-UMKM requires OJK to develop a proportional prudential framework that recognizes Pegadaian's dual social-commercial mandate, including dual bottom-line reporting standards and differentiated capital adequacy requirements that account for social impact metrics alongside financial performance. Policymakers at the Ministry of Cooperatives and MSMEs should integrate P3-UMKM into national MSME development strategies (RPJMN)

and coordinate smart subsidy mechanisms to support Tier 1 preferential pricing for ultra-micro enterprises. Future research should prioritize: (1) quasi-experimental or randomized controlled trials to empirically validate P3-UMKM's impact on MSME performance, income growth, and financial graduation rates; (2) longitudinal tracking studies examining behavioral and business outcome changes over 3–5 year periods; (3) comparative studies benchmarking P3-UMKM against similar development finance institution models in emerging markets; and (4) process evaluations examining implementation fidelity, staff capacity factors, and client experience dimensions that shape real-world effectiveness. Such empirical research will be essential to transform the P3-UMKM Model from a normative framework into an evidence-validated institutional instrument for inclusive development finance.

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### **Author Contribution**

Conceptualization, A. S. I. S., and F. R. Z.; Methodology, A. S. I. S., and I.; Validation, A. S. I. S., F. R. Z., and I.; Formal Analysis, F. R. Z.; Investigation, A. S. I. S.; Resources, F. R. Z.; Data Curation, A. S. I. S.; Writing – Original Draft Preparation, A. S. I. S.; Writing – Review & Editing, F. R. Z., and I.; Visualization, F. R. Z.; Supervision, F. R. Z.; Project Administration, A. S. I. S. All authors have read and agreed to the published version of the manuscript.

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Not available.

### **Informed Consent Statement**

Not available.

### **Data Availability Statement**

The data supporting the findings of this study are derived from published literature indexed in Scopus and Google Scholar, which are publicly available. No primary or proprietary datasets were generated or analyzed during the current study. All data sources used in this review are cited in the reference list. Therefore, no additional datasets are available for public sharing.

### **Conflicts of Interest**

The authors declare no conflict of interest.

### **Declaration of Generative AI Use**

During the preparation of this manuscript, the authors used Grammarly to improve grammar, clarity, and academic tone. Scopus AI was employed to support the identification

of high-quality references, and ChatGPT was used to assist in refining flowcharts. Following the use of these tools, the authors reviewed and edited all content as necessary and take full responsibility for the final publication.

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