



## **Non-Performing Financing (NPF) at Islamic Pawnshop of Indonesia: A Systematic Literature Review**

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**Keywords:**

Islamic Pawnshop, Non-Performing Financing (NPF), Risk Management, Sharia Contracts

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**Abstract**

Islamic pawnshops in Indonesia play an important role in providing pawn-based financing alternatives that are in accordance with sharia principles. Despite rapid development, the sector faces serious challenges in managing Non-Performing Financing (NPF). High NPF indicates gaps in the implementation of sharia principles and can threaten the financial stability of institutions. This research aims to identify the factors influencing NPF at Pegadaian Syariah and provide recommendations for improving financing management. Some factors that influence NPF include risk management, inappropriate selection of contract types, and low customer understanding of Islamic contracts. Additionally, macroeconomic factors such as the impact of the Covid-19 pandemic have further worsened this situation. To address this issue, there needs to be an increase in Islamic financial literacy, a strengthening of the customer selection system, and better application of information technology to monitor problematic financing. The findings of this research are expected to help Pegadaian Syariah reduce NPF and maintain its financial health.

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### **INTRODUCTION**

Islamic economics in Indonesia has shown rapid development in recent years. As a country with a Muslim majority, Indonesia has great potential to develop an economic system based on Sharia principles, including in the Sharia financial institution sector. (Dz., 2018). Islamic Economics or Sharia economics in Indonesia has shown rapid development in recent years. As a country with a Muslim majority, Indonesia has great potential to develop an economic system based on Sharia principles, including in the Islamic financial institution sector. This is evident from the rapidly growing number of Islamic financial institutions, both in the form of Sharia banks and non-bank institutions, such as Islamic Pawnshops. *Pegadaian Syariah*, as an institution that provides financing services thru pawning based on Sharia principles. (Rahmah & Sigit, 2024), Islamic Pawnshops have made a significant contribution to providing alternative financing options for the community, particularly for those who need access to financing with collateral but still in accordance with the provisions of Islamic standards. (Siadari, 2018).

Along with this development, Islamic Pawnshops have experienced significant expansion in Indonesia. Islamic pawnshops are rapidly expanding by opening branches in various major cities across Indonesia, such as Surabaya, Makassar, Semarang, Surakarta, Yogyakarta, and Aceh. In 2016, private Islamic pawnshops began to appear in Indonesia, although their number is still very limited compared to conventional pawnshops. According to data from the Financial Services Authority (*Otoritas Jasa Keuangan*; OJK) website, as of 2024,



there are 101 registered conventional private pawnshop companies, while there are only two private Islamic pawnshop companies. This reflects that although the Islamic pawnshop sector continues to grow, its presence in the Indonesian market is still very limited (Wisnu et al., 2024).

Although Islamic pawnshops are expanding quickly, the industry nevertheless confronts a number of difficulties, especially with relation to non-performing loans. The rise in Non-Performing Financing (NPF), which indicates a high percentage of problematic financing, is one of the primary concerns at the moment (d'Este, 2020). NPF in Islamic pawnshops serves a function similar to Non-Performing Loans (NPL) in banks, as both indicate problematic financing. However, the fundamental difference lies in the instruments employed. Islamic pawnshops use collateral assets, such as gold or other valuable goods, whereas banks generally rely on cash lending or credit facilities. In the case of NPL, the relationship between the bank and the customer is based on an interest-bearing debt arrangement, in which the customer receives funds and is obligated to repay the principal along with interest. In contrast, under NPF, the relationship between the Islamic financial institution and the customer is established through a sharia-compliant contract. Nevertheless, both concepts reflect the debtor's inability to fulfil obligations in accordance with the agreed terms and may, therefore, adversely affect the financial stability of the institution concerned. The Financial Services Authority (OJK) reported that the NPF rate of Islamic pawnshops has been trending upward over time. Sharia Pawnshops are not the only Sharia financial institutions experiencing this phenomena; *Bank Muamalat* has also seen an upsurge in NPF, particularly during the pandemic of Covid-19 (Badriyah et al., 2021).

The primary cause contributing to the rise in Non-Performing Financing (NPF) at *Pegadaian Syariah* is the effect of the Covid-19 pandemic, which resulted in diminished public purchasing power and a deceleration in financing distribution within the Islamic financial sector. The OJK study indicates that the distribution of Islamic bank funding in Indonesia in 2020 experienced a growth of just 8.08% (year-on-year), a decline from the previous year's increase of 10.89% (year-on-year) (OJK, 2023). The drop was precipitated by other factors, notably the social limitations enacted during the pandemic, which hindered debtors' capacity to fulfill their commitments. A similar tendency is observed at Islamic Pawnshops, where a rise in Non-Performing Financing (NPF) correlates with a decline in financing distribution. The escalating challenges in financing disbursement, along with the increasing non-performing loans, present a significant risk to the financial viability of this organization.

NPF is a primary indicator utilized to evaluate the financial health of institutions, including both Islamic banks and non-bank Islamic financial entities like *Pegadaian Syariah*. (Ramanesty et al., 2020). NPF is a condition in which the debtor fails to fulfill payment obligations as stipulated in the agreement, either partially or whole. A high NPF signifies issues in financial management that may affect the institution's financial stability. (Sofiani, 2023). When NPF continues to rise, it may result in substantial losses for financial institutions and could potentially lead to insolvency. As is well understood, a sound financial institution should exhibit a low NPF as an indicator that the financing provided has been effectively managed and maintained at a high quality (Ahmad et al., 2022).

The NPF issue gets more intricate within the setting of Sharia Pawnshops, which function in accordance with Sharia standards. Islamic Pawnshops function in accordance with Sharia principles, mandating that all transactions exclude usurious elements and advocate for



profit-sharing mechanisms and equitable trade practices (Supriyatni, 2021). Pegadaian Syariah, as an institution governed by Islamic law, ought to have few non-performing loans, given that most debtors are Muslims who are expected to comprehend that debt constitutes a repayment responsibility. Islamic teachings contain numerous hadiths emphasizing the importance of promptly settling debts, as indebtedness is a weight that may hinder one's entry into heaven. Despite the emphasis on debt repayment within Sharia standards, non-performing financing at Pegadaian Syariah continues to rise. This signifies a disparity between theoretical frameworks and practical implementation in the management of Sharia financing. An increase in NPF results in a deterioration of the funding quality offered by Pegadaian Syariah (Febriana et al., 2021). Pegadaian Syariah, as an institution governed by Islamic law, should not encounter a significant volume of non-performing loans, given that most debtors are Muslims who are expected to comprehend that debt is a responsibility that must be fulfilled. Islamic teachings contain numerous hadiths emphasizing the necessity of promptly settling debts, as indebtedness is a burden that may hinder one's entry into heaven. Despite the emphasis on debt repayment within Sharia standards, non-performing financing at Pegadaian Syariah continues to rise. This signifies a disparity between theoretical frameworks and practical implementation in the management of Sharia financing. An increase in NPF results in a deterioration of the funding quality offered by Pegadaian Syariah.

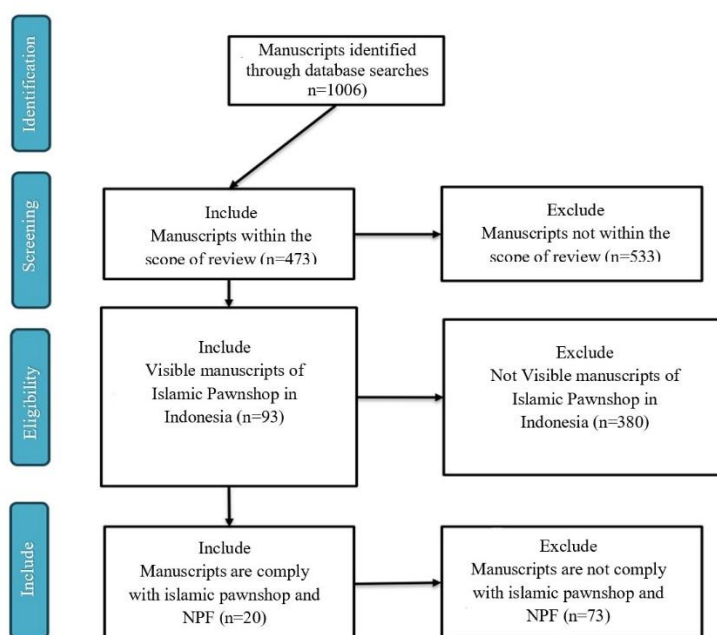
A potential way to tackle this issue is to perform a comprehensive analysis of the funding management system at Pegadaian Syariah. Enhanced literacy concerning sharia financing products, along with the establishment of a more rigorous selection process for prospective borrowers, can mitigate NPF risk (Pradesyah & Triandhini, 2021). A more open method of contract execution, along with enhanced comprehension of appropriate Islamic contracts, can elevate debtors' awareness of their responsibilities in completing debts.

This study seeks to deliver an exhaustive examination of Islamic pawnshops, concentrating on the identification of contemporary challenges associated with non-performing financing (NPF). (Ali & Miftahurrohman, 2016). This research analyzed current financing management from a Sharia financial viewpoint to identify feasible alternatives for enhancing the financing management system at Islamic pawnshops. This research aims to offer recommendations for Islamic pawnshops to enhance funding quality and decrease the NPF rate, so ensuring the institution's sustainable operation and its increased contribution to the Indonesian economy (Muthmainnah & Kartini, 2024). The study explore the optimization of sharia principles in Sharia Pawnshops to mitigate concerns associated with non-performing finance (NPF), also examine the relevant rules, obstacles in the implementation of sharia finance, and strategies for enhancing the performance of Sharia Pawnshops in the future.

## **METHOD**

This study employed a systematic review strategy, adhering to the criteria set forth in the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) published in 2020 (Page et al., 2021). Literature searches were performed across multiple academic databases, including EBSCO Essentials, Google Scholar, Scopus, Web of Science, and Psyc Articles. Article searches employed pertinent keywords including "Non-Performing Financing," "NPF," "Islamic Pawnshops," "Pegadaian Syariah," "financial management," and "Islamic financial institutions."

The eligibility criteria for the research search and selection were explicitly established prior to the commencement of the search. (Asda et al., 2025). The criteria for inclusion are as follows: (a) Articles published in English or Indonesian, (b) articles appearing in peer-reviewed journals, (c) articles released between 2015 and 2025, (d) topics pertinent to non-performing financing in Islamic financial institutions, specifically regarding Islamic pawnshops, (e) articles addressing Islamic financial dimensions and the ramifications of financing risk management, including the correlation between non-performing financing (NPF), asset management quality, and the impact of macroeconomic factors on the stability of non-bank institutions. The research selection adhered to a systematic methodology to guarantee that only the most pertinent and high-caliber literature was included in the analysis.

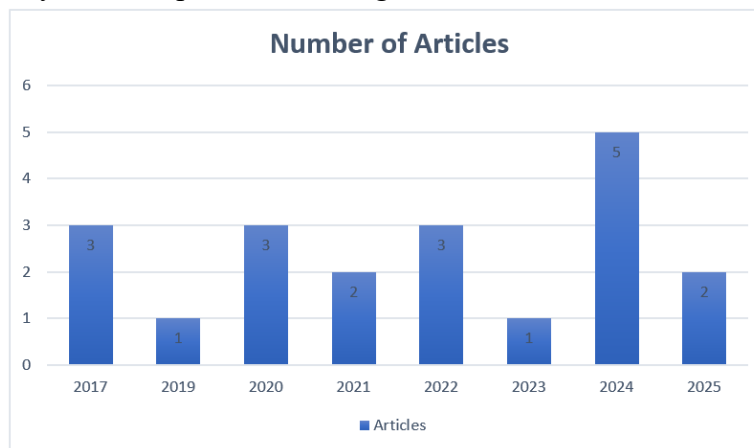


**Figure 1. PRISMA Analysis**

## RESULTS AND DISCUSSION

The following inclusion criteria are applied: articles written in English or This review seeks to gather and assess various studies regarding the factors affecting Non-Performing Financing (NPF) within the framework of non-bank Islamic financial institutions, given NPF's significant impact on the financial stability of Pegadaian Syariah. NPF is regarded as a crucial metric for evaluating the financial performance and risk management of Pegadaian Syariah, influencing the institution's capacity to uphold its liquidity and solvency. A comprehensive understanding of the variables contributing to the rise in NPF at Pegadaian Syariah is essential for formulating strategies to manage and mitigate NPF, as well as enhance operational efficiency. This review encompasses 20 scientific publications published from 2015 to 2025, examined using the Systematic Literature Review (SLR) methodology and PRISMA framework (refer to Figure 2). This method aims to offer a more thorough understanding of NPF's impact on the financial health of Pegadaian Syariah and to guide future study in this domain. The results of this review can inform the development of novel methodologies for comprehending and assessing risk management at Pegadaian Syariah, as well as its

implementation in reducing NPF and enhancing the quality of sharia finance offered. Indonesia, (b) articles published in peer-reviewed journals, (c) articles published between 2015 and 2025, (d) topics pertinent to non-performing financing in Islamic financial institutions, specifically regarding Islamic pawnshops, (e) articles examining the dimensions of Islamic finance and the ramifications of financing risk management, including the correlation between non-performing financing (NPF), asset management quality, and the influence of macroeconomic factors on the stability of non-bank institutions. The research selection adhered to a systematic methodology to guarantee that only the most pertinent and high-caliber literature was included in the analysis.



**Figure 2. Number of Articles**

**Table 1. The Result of Literature Analysis**

No	Authors	Topic Specifications	Results	Implications	Year
1	(Surilawana et al., 2024)	Comparison of the Islamic pawn system (Ar Rahnu) with conventional pawn in Malaysia	This shows that there are significant differences in the mechanism, scheme, and social implications between Ar Rahnu and conventional pawning.	For Islamic pawnshops in Indonesia, lessons can be learned from the international Ar Rahnu model to ensure that contracts and mechanisms are truly Sharia-compliant and efficient.	2024
2	(Effendi et al., 2017)	Factors influencing Non-Performing Financing (NPF) in Indonesian Islamic banks (panel data 2012-2016)	Variables such as profit-sharing ratio, ROA, inflation, CAR, and bank size significantly affect NPF.	Islamic pawnshops need to consider macro factors and internal risk management factors so that NPF can be controlled.	2017
3	(Salsabilla & Jaya, 2024)	The relationship between non-performing financing (NPF) and operational efficiency in Islamic banks in	It was found that high NPF and low operational efficiency had a negative impact on the financial health of banks.	For Islamic pawnshops, it is important to improve operational efficiency and asset management so that NPF does not damage the health of the	2024



		GCC countries.		institution.	
4	(Muthmainnah & Kartini, 2024)	NPF as a mediator in financing relationships (mudharabah, ijarah) with Islamic bank profitability	Ijarah financing has a significant negative impact on NPF and ROA; NPF plays a mediating role of ~47.5%.	Recommendation: Sharia pawnshops should prioritize safer types of contracts and financing to control NPF and increase profitability.	2024
5	(Yuwannita et al., 2022)	Determinants of NPF in Islamic banks in Indonesia & Malaysia	Variables such as FDR, CAR, and deposit financing ratio affect NPF.	Sharia pawnshops need to pay attention to financial management ratios (capital, liquidity) to keep NPF low.	2022
6	(Rahmah & Sigit, 2024)	The role of Islamic pawnshops in financing MSMEs	It was found that Islamic pawnshops have advantages (easy, fast) but are constrained by business license documents and business accounting.	To enhance the role of Islamic pawnshops in productive financing, it is necessary to improve requirements and education for MSMEs.	2024
7	(Rozie & Damit, 2023)	Literature review of Ar Rahn from the perspective of maqasid syariah, consumer protection, and social impact	It shows that much research is still limited and there is a gap in measuring social impact and sharia compliance.	Islamic pawnshops in Indonesia can fill this research gap: social impact, customer protection, sharia compliance.	2023
8	(Husna et al., 2025)	The role of Islamic pawnshops in the Islamic finance ecosystem and halal industry in Indonesia	Islamic pawnshops can be financial solution agents for halal businesses, but there are still many challenges in terms of literacy and standards.	This shows that Islamic pawnshops are not only about financial aspects but must also be integrated with the halal ecosystem to add value.	2025
9	(Pradesyah & Triandhini, 2021) R Pradesyah	The relationship between DPK, NPF, and financing distribution in Islamic banks	DPK has a positive effect on financing, while NPF has a negative effect; the effect is very high (~98.8% variance explained)	Islamic pawnshops as non-bank institutions must strengthen their funding sources (equivalent to DPK) and minimize NPF in order to maintain optimal financing.	2021
10	(Surilawana et al., 2024)	Ar Rahn: A Review of Literature and	Explain research trends, gaps, and the need for in-depth	For your research: Sharia pawnshops in Indonesia can expand on	2024



		Future Research	research related to risk, governance, and social impact.	the aspects of Sharia financial risk, governance, and influence on NPF in a non-bank context.	
11	(Abubakar & Handayani, 2017)	Regulation and Management of Sharia Pawnshops	Explains that existing regulations are not yet sufficient to optimize the sharia pawnshop management system.	More comprehensive regulations are needed to minimize non-performing financing (NPF).	2017
12	(Zikra et al., 2025)	Default on Debt Repayment with Pawn at Sharia Pawnshops	It was found that default occurred due to customers' low understanding of sharia contracts.	Improving sharia financial literacy is very important to reduce default at Sharia Pawnshops.	2025
13	(Ambariyani et al., 2021)	Implementation of Sharia Pawn Agreements at Sharia Pawnshops.	Sharia Pawn Agreements at Sharia Pawnshops are being implemented well, but the management of problematic financing remains high.	There is a need for further evaluation of risk management and customer selection at Sharia Pawnshops.	2021
14	(Azani, 2022)	Practice of Pawn Agreements with Land and Gold Collateral.	It was concluded that there are several challenges in implementing pawn agreements with land and gold collateral.	Strengthening supervision and training for employees in understanding and explaining agreements to customers.	2022
15	(Basri & Azani, 2019)	Implementation of Rahn Contracts at Sharia Pawnshops	The implementation of Rahn contracts is going well, but there is still a gap in customer understanding.	Strengthening literacy and understanding of the principles of Rahn contracts is essential.	2019
16	(Busriadi, 2020)	The Influence of Information and Technology on Customer Satisfaction in Islamic Pawnshops	Utilizing information technology can enhance customer satisfaction and diminish NPF.	Enhanced investment in information technology is essential to augment the efficacy of Islamic Pawnshops.	2020
17	(Dariana,	Examination of	The disparities in	Standardization is	2020



	2020)	Revenue Accounting for Islamic Conventional Pawnshops	accounting methods for between Sharia and traditional pawnshops influence the management of Non-Performing Financing (NPF).	essential in the accounting system to enhance transparency and financial management.	
18	(Febriana et al., 2021)	The Influence of Poor Population, Profit Margin, Inflation, and Gold Price on the Distribution of Rahn Financing	Economic variables such as inflation and gold prices have a significant impact on Rahn financing.	Adjusting profit margins to economic conditions and stricter supervision of financing.	2017
19	(Djami et al., 2022)	The Influence of Customers, Prices, Inflation and Pawnshop Financing	Gold prices and inflation have a direct impact on mortgage financing demand.	Managing gold prices and inflation is an important factor in managing the financing of Sharia Pawnshops.	2022
20	(Osman et al., 2020)	Public Perceptions on Islamic Pawnshops	The public views of Sharia Pawnshops is generally favorable; yet, worries over problematic financing persist.	Enhancing transparency and education to mitigate public apprehension around NPF.	2020

**Sharia Financial System, Sharia Pawnshops, and Disparities in Operational Practices**

The Islamic finance sector in Indonesia, encompassing non-bank entities like Pegadaian Syariah, has demonstrated substantial expansion in recent years. Pegadaian Syariah, as an institution offering pawn-based financing in accordance with Islamic standards, plays a significant role in providing alternative financial solutions for the community. Nonetheless, despite the sector's persistent expansion and substantial economic contribution, Sharia Pawnshops encounter considerable challenges, particularly concerning Non-Performing Financing (NPF), a situation wherein debtors fail to fulfill their payment obligations as stipulated in the agreement. Elevated NPF is a primary sign in evaluating the stability and financial performance of Sharia Pawnshops, as it directly influences the liquidity and solvency of these entities. Consequently, it is essential to comprehend the elements that affect NPF in Sharia Pawnshops and their implications for the long-term viability of these entities.

**Factors Affecting NPF in Islamic Pawnshops**

The analysis indicates that the administration of NPF at Islamic Pawnshops is affected by several internal and macroeconomic factors. Internal variables encompass elements of financial risk management, contract type selection, and oversight of the enforcement of internal regulations. According to Effendi et al. (2017), variables including profit-sharing ratio, Return



on Assets (ROA), Capital Adequacy Ratio (CAR), inflation, and institutional size significantly influence the increase of Non-Performing Financing (NPF). Inadequate risk management, including mistakes in contract type selection or insufficient creditworthiness assessment, can result in a rise in non-performing loans (NPF). Islamic Pawnshops, as a non-bank entity, lacks the substantial funding sources characteristic of Islamic banks; hence, an increase in problematic financing poses a risk to the sustainability of its operations.

Besides internal issues, macroeconomic elements significantly contribute to the rise of non-performing loans (NPF). Research by Muthmainnah & Kartini (2024) indicates that the type of financing contract, including mudharabah and ijarah contracts, significantly influences the rise in Non-Performing Financing (NPF). (Boedi Abdullah dan Beni Ahmad Soebani, 2014). Ijarah, the primary offering of Islamic Pawnshops, has been demonstrated to correlate with elevated Non-Performing Financing (NPF) rates and a reduction in Return on Assets (ROA). Ijarah, a Sharia-compliant financial instrument based on lease or rights transfer, entails significant risks if inadequately handled, particularly when borrowers encounter challenges in fulfilling their payment commitments. In this setting, despite the contract being founded on sharia principles, improper management and failure to align with client characteristics may elevate the risk of Non-Performing Financing (NPF).

A macroeconomic aspect leading to the rise in NPF is the Covid-19 pandemic's effect, which has diminished individuals' purchasing power and created financial hardships for several borrowers. The pandemic adversely affected funding distribution, resulting in diminished operational performance for Islamic Pawnshops and a rise in Non-Performing funding (NPF). Islamic Pawnshops confronts a significant challenge in managing unforeseen macroeconomic risks and must implement mitigation strategies to preserve the institution's financial stability.

#### The Gap Between Sharia Financial Systems and Operational Practices

A primary theme identified in this investigation was the disparity between the ideal Islamic financial system and the actual procedures employed by Islamic Pawnshops. Despite Pegadaian Syariah's adherence to Islamic precepts, evidence suggests that several aspects of its financial system resemble those of conventional financial systems. Research by Abubakar & Handayani (2017) indicates that despite regulations overseeing Islamic Pawnshops' adherence to sharia principles, numerous contracts in practice result in interest, a concept that contravenes Islamic teachings prohibiting usury.

Research by Zikra et al. (2025) revealed that clients frequently possess inadequate comprehension of sharia contracts, a significant contributor to the rise in non-performing financing (NPF). Despite the predominance of Muslim customers at Islamic Pawnshops, who are expected to comprehend their duty to fulfill debts in alignment with sharia principles, it is evident that not all consumers possess a complete understanding of the contractual principles they have selected. This engenders ambiguity over their payment responsibilities, ultimately resulting in non-performing financing (Refi et al., 2022). This highlights a disparity between Sharia theory and practical implementation, where contracts intended to ensure justice and openness in transactions are frequently misunderstood by clients, hence elevating the risk of non-performing loans.

Moreover, risk management in Islamic pawnshops is frequently shaped by procedures that align more closely with traditional financial practices. For instance, elevated administrative expenses or the imposition of concealed interest rates on financing goods, which ought to be



absent in the Islamic financial system. This indicates a divergence in the application of Islamic principles, which ought to prioritize equity and transparency, yet in practice often results in a more adaptable framework akin to the interest-based system in conventional banking.

### **The Impact of NPF on the Financial Health of Sharia Pawnshops**

A high NPF substantially affects the financial stability of Pegadaian Syariah. Salsabilla and Jaya (2024) asserted in their study that elevated NPF correlates directly with diminished operational efficiency. Non-performing financing diminishes profits that could be allocated to alternative productive endeavors, and a rise in NPF will deplete the reserves necessary for sustaining the operational stability of Islamic Pawnshops. As a non-bank entity, Sharia Pawnshops lack access to substantial capital compared to Islamic banks; thus, a continued rise in the NPF could jeopardize the institution's liquidity and solvency.

Moreover, elevated NPF adversely affects public confidence in Islamic Pawnshops. According to Osman et al. (2020), while public image of Sharia Pawnshops is generally favorable, a rise in non-performing financing (NPF) might undermine that trust, thus diminishing public interest in utilizing Sharia Pawnshop services (Arfiani & Mulazid, 2017). This results in elevated operating expenses as institutions are compelled to dedicate additional resources to manage non-performing loans, hence exacerbating their financial status.

#### **Solutions to Reduce NPF and Improve Sharia Finance Implementation**

To mitigate the rising Non-Performing Financing (NPF), the Islamic pawnshop must implement a set of strategic measures addressing multiple facets of risk and operational management. Effendi et al. (2017) advocate for Islamic pawnshops to enhance customer selection through a more stringent methodology grounded in a comprehensive assessment of creditworthiness. Moreover, the utilization of advanced information technology can facilitate the early monitoring and detection of prospective financial issues. Busriadi (2020) recommends that Islamic pawnshops invest more in information technology solutions to enhance operational efficiency and customer happiness, hence reducing Non-Performing Financing (NPF).

Moreover, it is essential to enhance internal rules at Islamic pawnshops to guarantee that all financing transactions adhere to Sharia norms. This entails enhancing oversight of pawn agreement processes and guaranteeing the absence of usurious features in financing. According to Azani (2022), rigorous oversight of sharia contract implementation is crucial for ensuring transparency and accountability, so enabling the financing to be justified in line with sharia and mitigating the danger of Non-Performing Financing (NPF).

Non-Performing Financing (NPF) is a critical concern for Islamic pawnshops and can significantly impact the financial viability of these entities. Suboptimal risk management, insufficient consumer comprehension of sharia principles, and unforeseen socioeconomic conditions, such the Covid-19 pandemic, significantly contribute to the rise in non-performing financing (NPF). Consequently, Islamic pawnshops must promptly assess and enhance their current financial management systems, encompassing the refinement of internal legislation, information technology, and more stringent oversight. Enhancing Sharia financial knowledge among clients and personnel is a crucial measure to mitigate Non-Performing Financing (NPF) and ensuring that Sharia Pawnshop operations adhere to Sharia rules. Moreover, it is crucial to comprehend the disparity between Islamic finance theory and its practical implementation, which frequently results in a system resembling conventional finance. Consequently, the



administration of Islamic pawnshops must be executed with greater diligence, ensuring adherence to stringent Islamic norms and minimizing reliance on operations that contravene these values.

## CONCLUSION

Islamic pawnshops in Indonesia have grown significantly as key players in the sharia financial sector by providing sharia-compliant pawn-based financing, but they face a major challenge in the form of high Non-Performing Financing (NPF), which threatens institutional stability and reflects weaknesses in the implementation of core Islamic finance principles such as fairness and transparency. The increase in NPF is driven by several factors, including weak risk management practices, limited understanding of sharia concepts among customers, and broader macroeconomic pressures such as reduced purchasing power during the Covid-19 pandemic, which has made repayment more difficult. To address this issue, Islamic pawnshops need to strengthen risk management systems through stricter customer assessment, improved monitoring of financing activities, greater use of information technology for early detection of problematic financing, and enhanced financial literacy programs for both staff and clients, alongside stronger internal controls to ensure full compliance with sharia principles and avoidance of *riba*-based practices. Future research could focus on evaluating the effectiveness of specific digital risk management tools and financial literacy interventions in reducing NPF, as well as comparative studies across regions or institutions to identify best practices in sustaining sharia-compliant financial health.

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Journal of Management, Economic and Financial



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