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# THE CONTRIBUTION OF PEGADAIAN ULTRA MICRO FINANCING TO MICRO-ENTERPRISE DEVELOPMENT IN SEDANAU VILLAGE FROM THE PERSPECTIVE OF ISLAMIC ECONOMICS

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**ABSTRACT**

This study analyzes the contribution of Pegadaian Ultra Micro (UMi) Financing to micro-enterprise development in Sedanau Village through the lens of Islamic Economics. Using a qualitative field research design, data were collected from one Pegadaian employee and four micro-enterprise customers via observation, semi-structured interviews, and documentation, with analysis following the Miles, Huberman, and Saldaña interactive model. Findings show that UMi Financing contributed across five dimensions: strengthening working capital, sustaining operational continuity, expanding product variety, maintaining business survival, and supporting household welfare. However, contribution remains suboptimal due to mixing of business and household finances, unstable income, and weak financial record-keeping. Assessed through Islamic Economics, the financing partially reflects the principles of justice, *amanah*, transparency, *ta'awun*, and *maslahah*, but full realization is constrained by the absence of business mentoring and Islamic financial literacy programs. Practically, these findings call for Pegadaian to integrate structured mentoring and financial literacy sessions into the UMi program delivery cycle, strengthening its alignment with SDG 1, SDG 8, and SDG 10.



## INTRODUCTION

Micro-enterprises in archipelagic areas constitute the backbone of local household economies, functioning simultaneously as income sources, informal employment absorbers, and primary drivers of community economic

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resilience. In Sedanau Village, an island-based settlement with limited access to formal financial markets, micro-enterprise actors run food and beverage businesses with minimal capital, rapid cash turnover, and highly simple financial management. Field observations confirm that these businesses have been operating continuously, even without formal financial support, relying on personal savings and informal borrowing to sustain daily operations. The presence of Pegadaian Unit Sedanau has opened a new access point for these actors to obtain formal working capital, specifically through the Ultra Micro (UMi) Financing program channeled by the government through non-bank financial institutions.

Based on field research conducted in May 2026, the implementation of UMi Financing at Pegadaian Unit Sedanau shows that micro-enterprise customers have been successfully using the financing to purchase raw materials, maintain stock availability, expand product variety, and sustain business continuity. Customers running food stalls, side-dish vendors, cake sellers, and beverage-and-fried-snack businesses reported that the financing provided meaningful support in strengthening their working capital. The financing process, from initial information delivery to disbursement, ran procedurally, with the Pegadaian officer communicating obligations clearly to customers prior to disbursement. This indicates that the operational delivery of UMi Financing at the field level has been functioning and reaching its intended beneficiaries.

Nonetheless, the practical contributions of this financing are not without complications. Several field findings indicate that, despite the financing having been utilized and producing tangible effects on business operations, a number of structural weaknesses persist: the mixing of household and business finances, unstable business income, weak financial record-keeping, and limited awareness of Islamic financial principles. These conditions reveal that while the financing has demonstrably contributed to micro-enterprise sustainability at the operational level, its contribution remains suboptimal in terms of productive capital utilization and long-term business growth. The research site thus presents a rich empirical case in which access to micro-financing has been achieved, but the quality of its contribution requires deeper normative and contextual analysis.

Ideally, according to scholars and theoretical frameworks on micro-enterprise financing, access to capital alone is insufficient to drive meaningful business development. Effective micro-financing must be accompanied by proper financial management, productive use of funds, and sustained enterprise guidance. Theorists in Islamic economics further emphasize that financing directed at micro-enterprise actors must be grounded in the principles of justice, trustworthiness (*amanah*), transparency, mutual assistance (*ta'awun*), and public benefit (*maslahah*), so that the capital not only generates economic output but also avoids burdening recipients with obligations beyond their capacity (Akbar, Hanifa, & Iskandar, 2025). Financial literacy, particularly Islamic financial literacy, is regarded as a critical determinant of whether micro-enterprise actors are able to translate financing access into real business improvement. Research confirms that sharia financial literacy and financial inclusion together constitute key factors in sustaining business operations (Amiliya et al., 2025).

From a microfinance institution perspective, the role of Islamic financing goes beyond credit provision; it must actively empower beneficiaries through transparent and accountable financial practices (Adiguna, Kusnaedi, & Hakim, 2024). Furthermore, scholars highlight that micro-enterprise financing should ensure that fund allocation remains strictly productive, separated from household consumption, and directed toward halal and sustainable business activities (Mahera, Ilham, & Albahi, 2025). Islamic microfinance scholarship also asserts that financing models aligned with *maqasid al-shari'a* must prioritize both the economic and social welfare of beneficiaries, ensuring that interventions reduce vulnerability rather than intensify financial risk (Solikin, Romdhoni, & Sumadi, 2025). Under these ideal conditions, micro-enterprise actors should, theoretically, demonstrate improving business performance, disciplined financial practices, and reduced dependence on informal capital sources — outcomes that, in this research context, have not been fully realized.

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The gap between the empirical reality at the research site and the theoretical ideal is significant. While UMi Financing at Pegadaian Unit Sedanau has managed to reach micro-enterprise actors and provide immediate working capital support, the conditions necessary for financing to produce optimal development outcomes, disciplined financial management, productive fund usage, Islamic financial literacy, and separation of business and household finances, are largely absent. Theoretically, financing that meets procedural standards should be channeled in an environment of sufficient financial awareness and management capacity for it to yield sustainable business outcomes. However, the field reveals that even when financing is accessed and used, its contribution remains constrained by behavioral and literacy factors that neither the financing institution nor prior research has adequately addressed in the context of island-based micro-enterprises in eastern Indonesia.

This gap produces the central research problem: while UMi Financing at Pegadaian Unit Sedanau has contributed to micro-enterprise continuity in observable ways, the nature, quality, and limitations of that contribution, assessed through the normative lens of Islamic Economics, have not been empirically examined. This raises two critical research questions: How exactly has UMi Financing from Pegadaian been implemented and utilized by micro-enterprise actors in Sedanau Village? And to what extent does its contribution to micro-enterprise development align with the principles of Islamic Economics, particularly justice, *amanah*, transparency, *ta'awun*, and *maslahah*?

Prior studies on UMi Financing and micro-enterprise development provide important groundwork but leave substantial analytical gaps. Research has established that UMi Financing influences micro and small industry production growth, though not always directly translating to broader regional economic effects (Hia, Handaka, & Zega, 2021; Syahbudi, Barus, & Barus, 2024). Studies linking UMi disbursement through Pegadaian to MSME development found that its impact is heavily mediated by borrowers' management capacities (Wanita, Pratiwi, & Nursyamsu, 2021; Basuki & Rezki, 2023). On the Islamic economics dimension, scholars have identified persistent tensions between conventional UMi contract mechanisms and Islamic legal requirements from a

Despite the breadth of these studies, a clear gap remains. Most prior research was conducted in more financially accessible urban or semi-urban settings, focused primarily on quantitative performance indicators, or examined Islamic financing compliance in isolation from field-level contribution analysis. None has specifically examined UMi Financing contribution in an island village context using Islamic Economics as a normative evaluative framework. Research confirms that low Islamic financial literacy (39.11% nationally) and geographic constraints disproportionately affect island communities, amplifying this gap (Rifiki & Huda, 2025; Mahera, Ilham, & Albahi, 2025). This study fills that gap by integrating empirical field analysis with Islamic economic principles as an evaluative lens, generating policy-relevant insights for micro-enterprise financing in geographically marginal regions.

The novelty of this research lies in its dual analytical approach: combining empirical field investigation of UMi Financing contribution in a geographically isolated archipelagic community with the normative framework of Islamic Economics as the primary evaluative lens. Unlike prior studies that treat Islamic principles as peripheral or treat field contribution separately from normative evaluation, this study integrates both dimensions to produce a comprehensive picture of what micro-enterprise financing actually contributes, and what it ought to contribute, in the specific context of Sedanau Village. This novelty is directly relevant to SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduced Inequalities), insofar as it generates evidence-based insights for designing more inclusive, just, and sustainable micro-financing interventions in underserved island communities.

The urgency of this research is anchored in the persistent financing gap facing micro-enterprises in Indonesia's island regions, where geographic isolation amplifies the challenges of capital access, financial literacy, and sustainable enterprise management. Government data indicates that the MSME financing gap in Indonesia reached IDR 1,649 trillion in 2023, with micro-enterprises in remote and island areas among the most underserved. Without empirical evidence specifically documenting how existing financing instruments such as UMi actually perform at the grassroots level, and without evaluating that performance through the values most relevant to the Muslim-majority communities

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they serve, policy design and institutional improvement remain disconnected from lived reality. This research provides that evidence, contributing directly to SDG 8 by advancing knowledge on what makes micro-financing genuinely productive, and to SDG 1 by identifying the barriers that must be removed for financing to generate lasting poverty reduction in island-based communities.

This study is guided by two central research questions. The first concerns the process and implementation of UMi Financing at Pegadaian Unit Sedanau and its concrete contribution to the development of micro-enterprises among its beneficiaries in Sedanau Village. The second examines the extent to which that contribution, and the practices surrounding it, aligns with the principles of Islamic Economics, particularly in terms of justice, trustworthiness, transparency, mutual assistance, and public benefit, and what this evaluation implies for improving micro-enterprise financing in island-based contexts.

## RESEARCH METHODS

This study employs a qualitative approach with a field research design, chosen because the research aims to understand in depth the contribution of UMi Financing at Pegadaian Unit Sedanau to micro-enterprise development from the perspective of Islamic Economics. A qualitative design is appropriate as it enables the researcher to capture the direct experiences, perspectives, and meanings that informants attach to the financing they receive and utilize (Creswell & Creswell, 2023). Data collection was conducted in May 2026 through three techniques: observation of micro-enterprise conditions among financing recipients; semi-structured interviews lasting approximately 45–60 minutes each, conducted with one Pegadaian Unit Sedanau employee (with direct responsibility for UMi Financing processing and monitoring) and four micro-enterprise customers (all active UMi Financing recipients operating in the food and beverage sector in Sedanau Village, selected through purposive sampling based on active financing status and willingness to participate); and documentation drawn from field notes, relevant financing records, and official references on UMi Financing and Islamic Economics. The selection of five informants is considered sufficient for a single-site, single-program case study, as the goal is depth of understanding of a specific, bounded phenomenon rather than statistical representation (Creswell & Creswell, 2023). These three techniques were applied in combination to ensure that findings reflect both the operational reality of the financing process and the lived experience of its beneficiaries.

Data analysis followed the interactive model comprising three stages: data condensation, data display, and conclusion drawing and verification (Miles, Huberman, & Saldaña, 2018). In this study, condensation was performed by selecting and simplifying interview and observation data relevant to financing implementation, contribution to business development, and Islamic Economics principles. Data were then presented in narrative form supported by interview excerpts and summary tables of field findings. Conclusions were drawn by connecting field findings to theoretical frameworks on UMi Financing, micro-enterprise development, and Islamic Economics principles. Data validity was ensured through source triangulation, comparing information from the Pegadaian employee and micro-enterprise customers, and technique triangulation, by cross-checking results from interviews, observation, and documentation to strengthen the objectivity and credibility of the findings.

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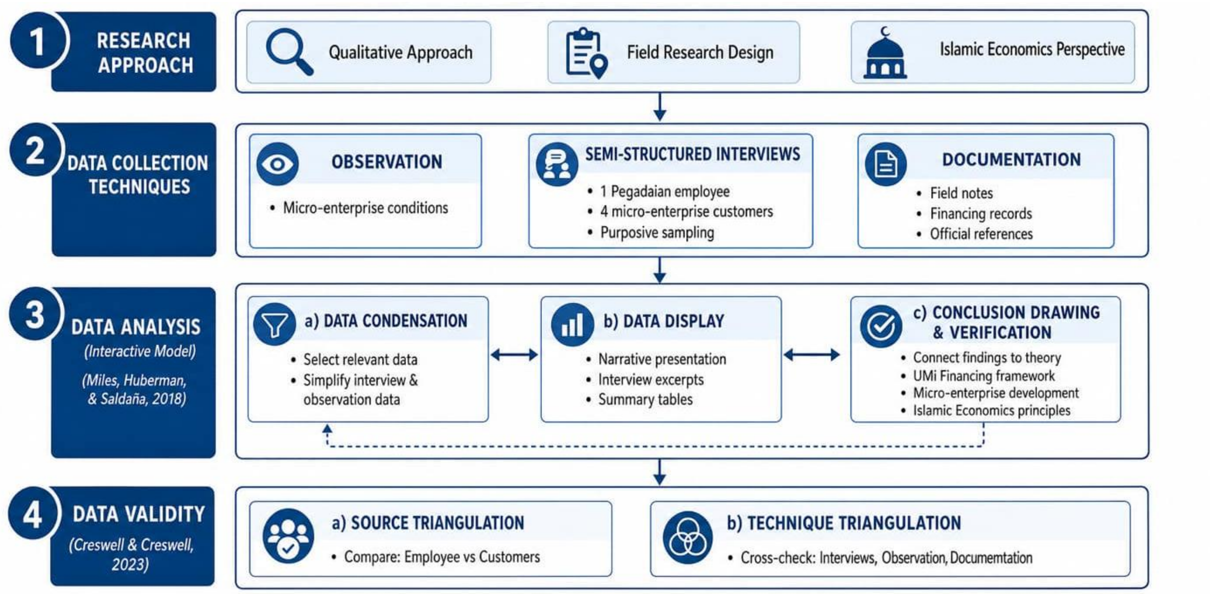


*Figure 1. Research Methodology Framework*

# RESULT AND DISCUSSION

## Result

### Implementation and Contribution of UMi Financing at Pegadaian Unit Sedanau to Micro-Enterprise Development

The implementation of UMi Financing at Pegadaian Unit Sedanau begins with an initial information delivery stage in which the Pegadaian officer explains the financing amount, installment system, repayment period, and customer obligations before any agreement is made. This procedural transparency at the front end of the financing process reflects a commitment to ensuring that customers enter the agreement with full awareness of their responsibilities. Following the information stage, customers submit administrative requirements including electronic identity cards, proof of business activity, and supporting documents to verify their eligibility as ultra-micro enterprise actors who have not yet accessed banking credit. Once requirements are verified and financing is approved, funds are disbursed directly to customers, who then allocate the capital according to their respective business needs.

Field findings confirm that the utilization of financing funds by all four micro-enterprise customers was directed toward productive business activities. A customer running a food stall used the funds to purchase cooking ingredients and maintain meal variety, enabling the business to serve customers more consistently. A side-dish vendor used the financing to buy larger quantities of raw materials, which expanded the range of available dishes and increased the potential for daily sales. A cake seller reported that the financing allowed her to accept larger orders with greater confidence because she could procure baking materials in advance rather than waiting for order payments to arrive. A beverage and fried-snack vendor used the funds to restock flour, cooking oil, packaged drinks, and snack ingredients, ensuring that the business could operate without interruption. These findings demonstrate that the financing has been channeled into operational strengthening, not merely received as a credit facility. This aligns with

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the assertion of Adiguna, Kusnaedi, and Hakim (2024) that microfinance institutions contribute meaningfully to financial inclusion and economic empowerment when their services genuinely reach underserved actors and enable productive activity.

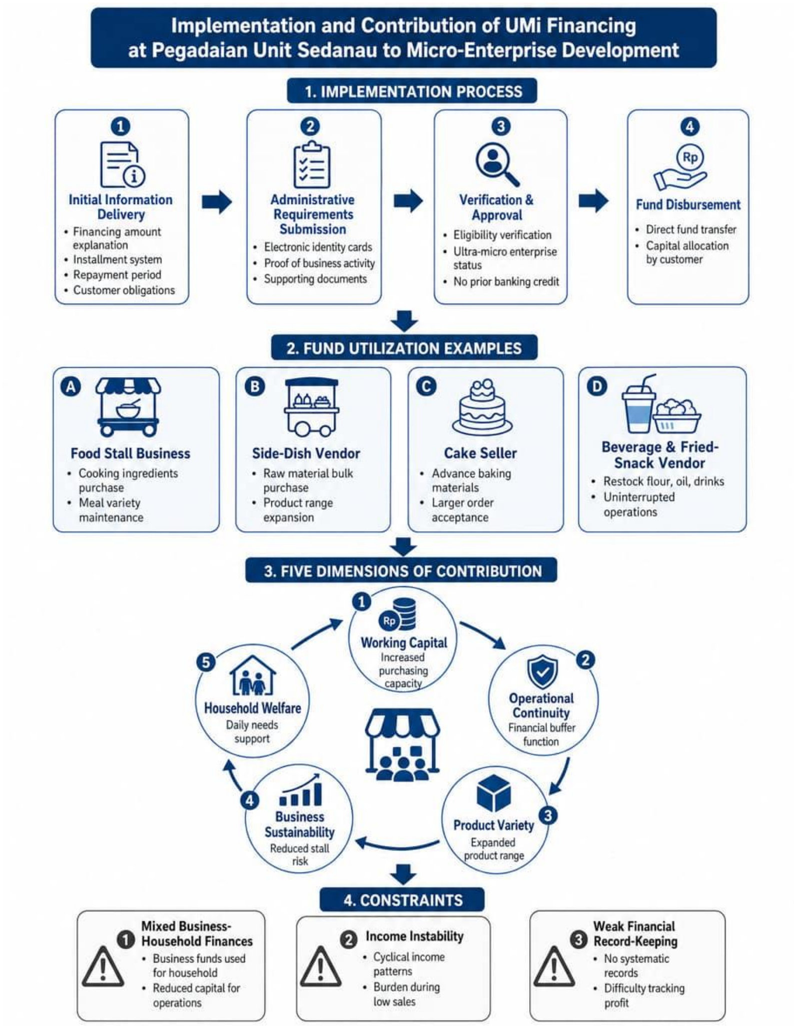


**Figure 2.** *Implementation and Contribution of UMi Financing at Pegadaian Unit Sedanau to Micro-Enterprise Development*

The contribution of UMi Financing to micro-enterprise development in Sedanau Village manifests across five dimensions. First, in terms of working capital, the financing increased the customers' purchasing capacity for raw materials and business supplies, which is the most immediate and visible form of contribution. Second, in terms of operational continuity, all four customers reported that financing helped their businesses remain active even during periods of limited personal savings, functioning as a financial buffer that prevented business interruption. Third, in terms of product variety, several customers were able to expand the range of products offered, a condition that directly

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affects customer satisfaction and sales potential. Fourth, in terms of business sustainability, the financing provided a structural support mechanism that reduced the risk of businesses stalling due to capital shortages, which is a common vulnerability among micro-enterprises with rapid cash turnover and minimal reserves. Fifth, in terms of household welfare, customers acknowledged that business income supported by the financing contributed to meeting daily household needs, indicating that the financing carries a broader social function beyond purely commercial impact. These five dimensions of contribution collectively affirm the finding of Basuki and Rezki (2023) that UMi Financing must be assessed not only from the volume of funds disbursed but from its real effects on enterprise performance and debtor welfare.

However, the contribution of UMi Financing has not been fully optimal, as three substantive constraints were identified in the field. The first and most prevalent is the mixing of business and household finances. Several customers acknowledged that when unexpected household expenses arose, business funds were used to cover them, reducing the capital available for the next purchasing cycle. This behavior directly weakens the productive function of the financing and undermines the capital rotation that micro-enterprises depend on to sustain operations. The second constraint is income instability. Customers reported that installment payments feel manageable during peak sales periods but become burdensome when sales decline or raw material prices increase. This indicates that the financing, while structured procedurally, does not account sufficiently for the cyclical and unpredictable income patterns characteristic of micro-enterprises in island communities. The third constraint is weak financial record-keeping. Most customers do not maintain systematic records of income, expenditure, or fund utilization. As a result, they cannot determine net profit accurately, plan future procurement effectively, or assess whether their business is genuinely growing. Affandi, Ridhwan, Trinugroho, and Hermawan (2024) confirm that financial literacy, including basic record-keeping competence, is a critical determinant of business performance among ultra-micro and micro enterprises in Indonesia, and that its absence significantly limits the impact of capital access on enterprise development outcomes.

**Contribution of UMi Financing in the Perspective of Islamic Economics**

Assessed through the normative framework of Islamic Economics, the contribution of UMi Financing at Pegadaian Unit Sedanau reflects partial alignment with the core principles of justice (*'adl*), trustworthiness (*amanah*), transparency (*shafafiyyah*), mutual assistance (*ta'awun*), and public benefit (*maslahah*), though with areas requiring further strengthening.

The principle of justice is most clearly observed in the information delivery practice at the beginning of the financing process. The Pegadaian officer's commitment to explaining the financing amount, installment obligations, and repayment period before disbursement ensures that customers enter the agreement without informational disadvantage. This procedural transparency prevents hidden obligations from arising and provides customers with a fair basis for decision-making. In Islamic Economics, justice in financial transactions requires that both parties possess clarity regarding their respective rights and obligations, and that no party is placed at an unfair disadvantage through concealment or ambiguity. The Qur'an explicitly commands the upholding of justice in all dealings, as in QS. al-Nahl [16]:90: "Indeed, Allah commands justice, good conduct, and giving to relatives, and He forbids immorality, bad conduct, and oppression." Ibn Kathir (2003) interprets this verse as encompassing fairness in all human transactions, including economic agreements. Akbar, Hanifa, and Iskandar (2025) further confirm that sharia-based micro-financing models must operationalize this principle through transparent contract disclosure. The observed practice at Pegadaian Unit Sedanau meets this requirement at the procedural level, though the broader question of whether the overall cost structure of conventional UMi Financing fully reflects the ideal of justice within Islamic transactional

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ethics remains a point of scholarly debate, as noted in the analysis of UMi Financing through a *maqasid al-shari'a* perspective (Diatmoko et al., 2025).

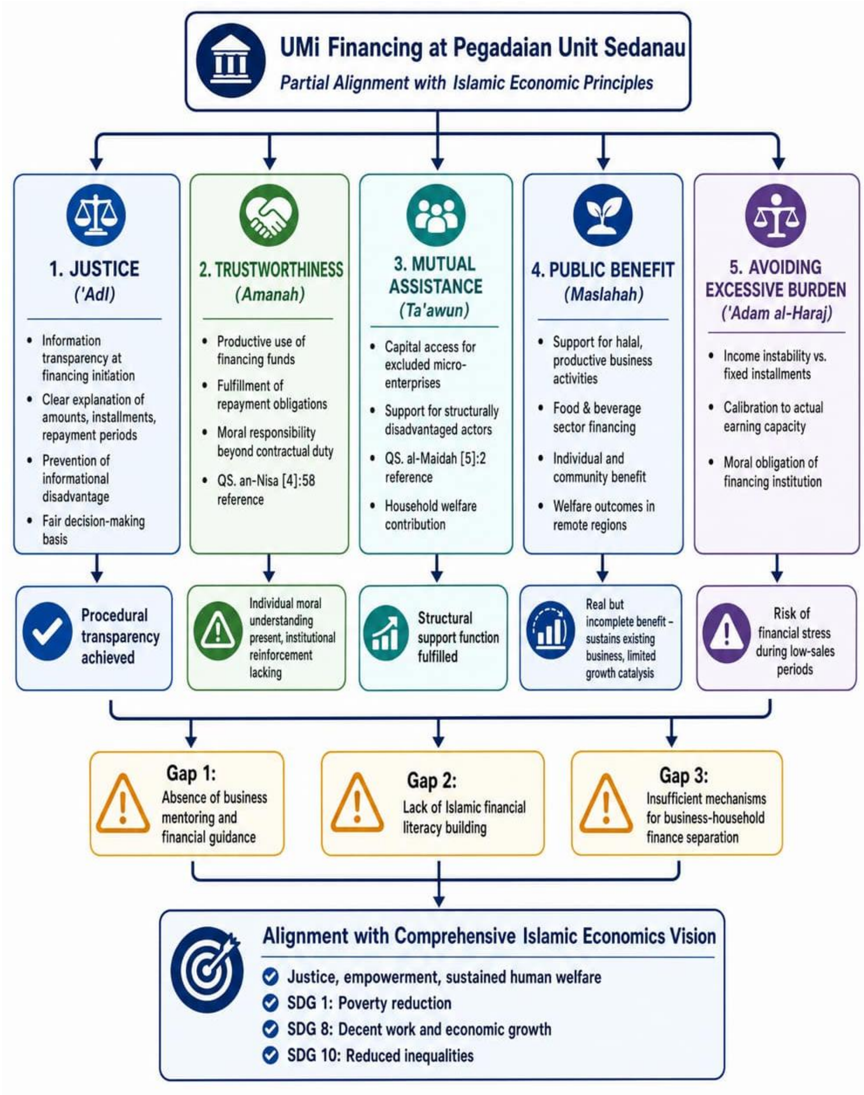


***Figure 3.*** *Contribution of UMi Financing in the Perspective of Islamic Economics*

The principle of *amanah* is reflected in the customers' understanding of their responsibility to use financing funds productively and to fulfill repayment obligations on schedule. Field findings show that customers internalize the concept of amanah in practice: one customer explicitly stated that the funds must be used for business purposes, because using them for other needs will prevent the business from developing and make installments difficult to pay. This awareness, however partial and unevenly distributed across customers, demonstrates that the financing relationship carries a moral dimension beyond mere contractual obligation. In Islamic Economics, amanah extends to

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both the financing institution, which must channel funds responsibly and transparently, and the recipient, who bears the moral duty to use the capital in ways that are halal, productive, and aligned with the purpose for which it was granted, consistent with the Quranic injunction in QS. an-Nisa [4]:58 regarding the faithful discharge of trust. The challenge identified in this study is that the absence of financial guidance and business mentoring from the financing institution means that amanah, though understood at the individual moral level, is not institutionally reinforced, leaving its practice dependent entirely on each customer's own discipline.

The principle of *ta'awun* is most visibly expressed in the structural function of UMi Financing as a mechanism for extending capital access to micro-enterprise actors who are excluded from formal banking. For a side-dish vendor operating with minimal reserves in an island village, access to working capital through UMi Financing represents a concrete form of institutional support that enables business continuity. This is consonant with QS. al-Maidah [5]:2, which commands mutual cooperation in goodness and piety, and which Islamic economic scholars interpret as a normative foundation for designing financial institutions that actively support those facing structural disadvantage (Solikin, Romdhoni, & Sumadi, 2025). The ta'awun dimension of the financing is also evident in its contribution to household welfare: when business operations are sustained through the financing, customers are better positioned to meet family needs, creating a social impact that extends beyond the commercial transaction itself.

The principle of *maslahah*, public benefit, is realized when the financing genuinely contributes to the sustainability and growth of business activities that are halal and productive. Al-Ghazali (d. 1111 CE), in his seminal work *Ihya' Ulum al-Din*, defined maslahah as the preservation of five essential human interests: religion, life, intellect, lineage, and wealth. Financing that supports halal, productive trade directly serves the preservation of wealth and life, thus fulfilling the core conditions of maslahah. Field findings confirm that all four micro-enterprise customers operate in the food and beverage sector, selling permissible products through legitimate trade. The financing they receive supports these activities, thereby fulfilling this basic condition: capital is directed toward lawful enterprise that benefits both the individual and the broader community. Mahera, Ilham, and Albahi (2025) emphasize that Islamic financial inclusion in remote regions must be assessed not only by reach but by whether it produces genuine welfare outcomes for beneficiaries. In Sedanau Village, the maslahah of UMi Financing is real but incomplete: the financing sustains existing businesses and supports household welfare, but it has not yet catalyzed qualitative business growth or significantly reduced the structural vulnerabilities that make these enterprises fragile.

The principle of avoiding excessive burden (*'adam al-haraj*) is also relevant to the observed income instability constraint. When micro-enterprise income fluctuates and installment obligations remain fixed, the financing can shift from a supportive instrument to a source of financial stress, particularly during low-sales periods. This underscores the importance of ensuring that financing amounts and repayment structures are calibrated to the actual earning capacity of borrowers, a consideration that Islamic Economics treats not merely as prudential risk management but as a moral obligation on the part of the financing institution. Amiliya et al. (2025) affirm that the intersection of Islamic financial literacy, inclusion, and business sustainability requires that financing institutions take an active role in ensuring borrowers possess the knowledge and capacity to manage obligations responsibly.

In synthesizing the findings through the Islamic Economics lens, the UMi Financing program at Pegadaian Unit Sedanau demonstrates positive foundational alignment with Islamic economic values at the level of procedural transparency, productive fund utilization, and social benefit orientation. However, the full realization of these values is constrained by three institutional gaps: the absence of business mentoring and financial guidance accompanying the financing, the lack of any systematic effort to build Islamic financial literacy among customers, and the insufficiency of mechanisms to help customers separate business and household finances. Addressing these gaps would not merely improve business performance metrics; it would bring the financing program into closer alignment with the comprehensive vision of Islamic Economics, in which financial instruments serve not only as capital delivery mechanisms but as instruments of justice, empowerment, and sustained human welfare, goals that directly support SDG 1 on poverty reduction, SDG 8 on decent work and economic growth, and SDG 10 on reduced inequalities.

## CONCLUSION

UMi Financing at Pegadaian Unit Sedanau has contributed to micro-enterprise development through five measurable dimensions: strengthening working capital, sustaining operational continuity, expanding product variety, maintaining business survival, and supporting household welfare. The financing process was implemented procedurally, with transparent information delivery prior to disbursement, and funds were utilized by all customers for productive business activities. However, the contribution remains suboptimal due to three persistent constraints, the mixing of business and household finances, unstable income, and weak financial record-keeping, which collectively limit the capacity of financing to generate qualitative and sustainable business growth. These findings confirm that capital access alone is insufficient; its productive impact is contingent on the financial management capacity and literacy of the recipients.

Assessed through the perspective of Islamic Economics, the financing reflects partial alignment with the principles of justice, *amanah*, transparency, *ta'awun*, and *maslahah*, but falls short of their full realization due to the absence of institutional mentoring, Islamic financial literacy development, and structured guidance on business-household financial separation. These gaps point to a concrete policy recommendation: Pegadaian should integrate mandatory financial literacy and business mentoring sessions into the UMi program delivery cycle as a condition for continued access. When addressed, UMi Financing holds meaningful potential to contribute to SDG 1 (reducing financial vulnerability), SDG 8 (fostering productive economic activity), and SDG 10 (narrowing structural inequality in financial access) in island-based communities.

This study has several limitations that future research should address. First, the sample size of five informants at a single location limits the generalizability of findings; comparative studies across multiple Pegadaian units in island regions would strengthen the evidence base. Second, data collection was conducted within a single month, preventing longitudinal assessment of financing impact over time. Third, the study did not measure financing contribution using quantitative performance indicators such as revenue growth or capital turnover ratios, which would enrich the analysis. Future research is recommended to employ mixed methods designs that combine qualitative field investigation with quantitative financial tracking, to assess the long-term impact of integrated mentoring and literacy programs on UMi Financing outcomes, and to examine the applicability of Islamic microfinance principles in other geographically marginal regions of Indonesia.

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