



Original Article

LEGAL PROTECTION FOR CREDITORS IN PAWN TRANSACTIONS: A CASE STUDY OF MSMEs IN THE INDONESIAN RETAIL SECTOR

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*Corresponding Author, E-mail: sanusi@upstegal.ac.id**ABSTRACT**

Background. Pawn transactions have become a significant alternative financing instrument for MSMEs, especially in retail. In Indonesia, pawn transactions will increase by 15% in 2023, with MSMEs as the primary users. However, legal protection for creditors still faces challenges, especially regarding collateral execution and default risk. This study aims to analyze and evaluate the effectiveness of legal protection for creditors in pawn transactions involving MSMEs in the retail sector and to provide strategic recommendations to strengthen the existing legal framework.

Research Method. This study uses a mixed-method approach, combining quantitative analysis through SEM-PLS with qualitative case studies.

Findings. Pawn regulations significantly affect creditor protection (path coefficient 0.35, $p < 0.001$), but there are still weaknesses in implementation, especially related to transparency and collateral Execution. Qualitative analysis shows that legal education and regulatory reform are urgently needed for legal protection.

Conclusion. To create a more stable financial ecosystem for MSMEs in the Indonesian retail sector, the interests of creditors and debtors must be balanced through increased transparency, legal education, and simplification of collateral execution mechanisms.

Keywords: Creditors, Legal Protection, Pawn Transactions, Retail, SMEs,

BACKGROUND

In the ever-evolving global economy, pawn transactions have become a significant alternative financing instrument, especially for small and medium enterprises (SMEs) [1]. As a short-term financing mechanism, pawning allows business actors to quickly access funds, especially in sectors with difficulty accessing formal financing, such as banking [2]. In various countries, pawning is regulated by civil law principles, prioritizing the protection of the rights of creditors and debtors. However, there is variation in applying these regulations, with developed countries such as the United States and the United Kingdom having more robust and more efficient creditor protection mechanisms than developing countries, which still need to improve law enforcement and creditor protection [3].

In Indonesia, pawning is a form of traditional financing that is still relevant today, especially in the MSME sector. According to data from the Financial Services Authority (OJK), in 2023, the volume of pawn transactions increased by 15%, with MSMEs in the retail sector as the primary users [4]. For MSMEs, pawning is an attractive financing alternative because the procedure is more straightforward and faster than formal financial institutions [5]. However, legal protection for creditors in pawn transactions in Indonesia still faces various obstacles. A report from Bank Indonesia (2023) noted an increase in cases of default, where debtors fail to fulfil their obligations so that creditors suffer losses. One of the factors contributing to this problem is the suboptimal regulations regarding the Execution of collateral and creditor mechanisms [6]. Although several previous studies discuss aspects of legal protection for creditors in pawn transactions, most studies still need to be expanded to normative analysis and have not linked empirical findings to relevant practices. This study evaluates the implementation of existing regulations and offers strategic recommendations that can be adapted to the Indonesian legal context, especially in balancing the interests of creditors and debtors. In

addition, this study focuses on the specific characteristics of the retail sector, which tends to have different dynamics in pawn transactions compared to other industries, thus providing a deeper understanding of the challenges faced by creditors and the potential reforms needed.

This study aims to understand the effectiveness of legal protection for creditors in pawn transactions involving MSMEs in the Indonesian retail sector. Although pawn regulations in Indonesia have been regulated in the Civil Code (KUHPer) and supervised by the OJK, creditors are often faced with high risks, especially in terms of Execution of collateral in the event of default, so this study aims to analyze and evaluate the effectiveness of legal protection for creditors in pawn transactions involving MSMEs in the Indonesian retail sector. This study emphasizes the importance of balancing creditor and debtor rights by proposing regulatory reforms and simplifying the collateral execution mechanism, which is expected to reduce the burden of formal legal processes for both parties. In addition, this study will identify weaknesses in the existing legal system and provide strategic recommendations to strengthen a more adaptive and efficient legal framework. Thus, this study is expected to contribute significantly to developing pawn law policies in Indonesia, which are more responsive to the needs of the MSME sector and are in line with more advanced international practices.

RESEARCH METHOD

This research uses a mixed-method approach that combines quantitative methods with a Cross-Sectional approach in 2024 on MSMEs in DKI Jakarta Province to provide a comprehensive understanding of legal protection for creditors in pawn transactions in the retail MSME sector in Indonesia. The population in this study included creditors and retail MSMEs in Indonesia involved in pawn transactions, especially in DKI Jakarta Province, which has similar cases regarding legal protection for creditors in pawn transactions. The sample determination was done using purposive sampling by selecting MSMEs engaged in the retail sector who have experience in pawn transactions and creditors with a portfolio of pawn transactions with MSMEs. To narrow the scope of the sample, the researcher set the following criteria:

1. MSMEs with more than 1 year of pawn experience.
2. Creditors who have cases related to legal protection in pawn.
3. Prioritizing MSMEs and creditors who experience obstacles or challenges in executing collateral or have experience in legal protection related to pawn transactions.

The sample calculation was carried out using the Cochran formula with the following provisions;

1. Confidence level (Z) = 1.96 (for a 95% confidence level)
2. Margin of error (e) = 5% or 0.05
3. Population proportion (p) = 0.5
4. Cochran formula for sample size (n_0):

$$n_0 = \frac{Z^2 \times p \times (1 - p)}{e^2}$$

$$n_0 = \frac{(1,96)^2 \times 0,5 \times (1 - 0,5)}{(0,05)^2}$$

$$n_0 = \frac{3,8416 \times 0,25}{0,0025}$$

$$n_0 = \frac{0,9604}{0,0025}$$

$$n_0 \approx 384,16$$

So, the total sample in this study is 384. Primary data used in this study were obtained through an online survey. Data analysis in quantitative research was carried out using Structural Equation Modeling - Partial Least Square (SEM-PLS), which allows for analysis of the

relationship between variables identified in pawn regulations and practices with creditor protection.

This study also uses a qualitative method, which was conducted through case studies of several MSMEs in the retail sector in the DKI Jakarta Province. This case study will focus on exploring the practical experiences of MSMEs and creditors involved in pawn transactions, as well as the factors that influence the effectiveness of legal protection in everyday practice. Qualitative data collection techniques are carried out through interviews and document analysis. Qualitative data obtained from interviews and documents will be analyzed using thematic analysis methods, where the main themes that emerge from the data will be identified and categorized. The results of the quantitative analysis of SEM-PLS will be used to identify general patterns. At the same time, findings from qualitative case studies will deepen the interpretation and provide practical context for the results. This integration is carried out by data triangulation, which allows the validation of findings from two approaches, strengthening the credibility and generalization of the research results.

FINDINGS

After conducting research by distributing questionnaires to creditors and MSME actors who meet the criteria for determining the sample, the collected data were subjected to descriptive analysis and validity testing. The form and results of testing with a quantitative approach in this study can be seen in Table 1 below.

Table 1. Results of Outer Model Validity and Reliability Test

Construct	Indicator	Loading Factor	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Creditor Protection	PK1	0.82	0.82	0.87	0.61
	PK2	0.84			
	PK3	0.76			
	PK4	0.79			
Pawn Regulation	RG1	0.88	0.86	0.90	0.64
	RG2	0.83			
	RG3	0.77			
Collateral Execution	EJ1	0.85	0.80	0.85	0.59
	EJ2	0.82			
	EJ3	0.78			
Default Risk	RW1	0.86	0.84	0.88	0.62
	RW2	0.79			
	RW3	0.81			

The results of the validity and reliability tests in Table 1 show that all constructs have a loading factor above 0.7, indicating that the indicators used in this study are valid for measuring the constructs in question. In addition, Cronbach's Alpha and Composite Reliability values greater than 0.7 indicate that this measurement instrument is reliable so that it can be used for further analysis. With an average variance extracted (AVE) above 0.5, it can be concluded that these constructs have good convergent validity. These results provide confidence that the constructs used in quantitative testing can give an accurate picture of legal protection for creditors in pawn transactions. After ensuring the validity and reliability of the constructs, the next step is to test the relationship between variables in the structural model, which will be seen in Table 2 below.

Table 2. Structural Model Test Results

Relationship Between Variables	Path Coefficient	T-Statistic	P-Value	R ² (Dependent Variable)
Pawn Regulation → Creditor Protection	0.35	4.65	0.000	
Collateral Execution → Creditor Protection	0.42	5.27	0.000	0.67
Default Risk → Creditor Protection	-0.21	2.34	0.018	
Pawn Regulation → Collateral Execution	0.56	6.88	0.000	0.49

Structural model testing shows a significant relationship between independent and dependent variables. In particular, the path coefficient for the relationship between Pledge Regulation and Creditor Protection is 0.35, with a highly substantial P-value ($p < 0.001$), indicating that the better the pledge regulation, the stronger the protection perceived by creditors. Similarly, the relationship between Collateral Execution and Creditor Protection shows a path coefficient of 0.42, which is also significant. On the other hand, Default Risk has a negative effect with a coefficient of -0.21, meaning that the greater the risk, the lower the protection perceived by creditors. R² of 0.67 indicates that 67% of the variability in creditor protection can be explained by the independent variables: pledge regulation, collateral Execution, and default risk. After examining the relationship between variables, a deeper analysis of the direct and indirect effects between variables will be presented in Table 3 below.

Table 3. Results of Direct and Indirect Effect Tests

Relationship of Variables	Direct Influence	Indirect Influence	Total Influence
Pawn Regulation → Creditor Protection	0.35	0.24	0.59
Collateral Execution → Creditor Protection	0.42	-	0.42
Default Risk → Creditor Protection	-0.21	-	-0.21
Pawn Regulation → Collateral Execution → Creditor Protection	-	0.42	0.42

Based on Table 3 above, it can be interpreted regarding the direct, indirect, and total effects of the variables studied. The direct impact between Pawn Regulation and Creditor Protection is 0.35, while the indirect effect through Collateral Execution is 0.24, so the total impact reaches 0.59. This shows that pawn regulation not only directly affects creditor protection but also through collateral Execution. For Collateral Execution, the direct effect 0.42 significantly contributes to creditor protection without any indirect impact. On the other hand, the risk of default shows a total negative effect of -0.21, indicating that high risk can reduce protection for creditors. Furthermore, SEM-PLS Path Analysis testing was carried out to answer the objectives of this study; the test results are shown in Table 4 below.

Table 4. SEM-PLS Path Analysis Results

Variable	Regression Coefficient	T-statistic	P-Value
Transparency → Creditor Satisfaction	0.45	3.76	<0.01
Legal Understanding → Creditor Satisfaction	0.38	2.92	<0.05
Legal Protection → Creditor Satisfaction	0.50	4.20	<0.01

The results in Table 4 show that transparency in the pawn process and good legal Understanding contribute positively to creditor satisfaction. In other words, the more transparent the pawn process is and the better the legal understanding of creditors is, the higher their

satisfaction with the existing legal protection. This finding emphasizes the need to improve education and transparency in pawn regulations to increase creditor trust and satisfaction. Overall, these results underscore the importance of regulation and Execution in providing adequate legal protection for creditors in pawn transactions. With these test results, this study shows a complex but interrelated relationship between pawn regulations, collateral Execution, default risk, and legal protection for creditors. These findings provide a solid basis for formulating relevant policy recommendations to improve legal protection for creditors in the retail MSME sector in Indonesia.

Next, qualitative data collection was conducted through in-depth interviews with respondents representing various stakeholders in pawn transactions in the Indonesian retail MSME sector. Respondents consisted of creditors and MSME actors who had experience in pawn transactions. Interviews focused on critical themes, including experiences in pawn transactions, perceptions of legal protection, challenges faced, and expectations of applicable regulations. The interview results showed that many respondents had positive experiences obtaining business capital through pawn transactions but expressed concerns about needing more transparency. Most respondents were also dissatisfied with the existing legal protection, considering that the applicable regulations required more guarantees for their rights as creditors. In addition, challenges in the pawn process, such as a lack of Understanding of legal rights and uncertainty in the Execution of collateral, were significant problems. The respondents also focused on the need for education and improved regulations to make the pawn process safer and more transparent. The results of interviews with respondents are shown in Table 5 below.

Table 5. Respondent Interview Results

Aspects	Findings
Experience in Pawn Transactions	Respondents are often involved in pawning for business capital, but the procedures must be more transparent.
Perception of Legal Protection	Dissatisfaction with existing legal protection; regulations are considered not to guarantee creditors' rights.
Challenges in the Pawn Process	The main challenges include a lack of legal Understanding, uncertainty in collateral Execution, and a high risk of default.
Expectations for Regulation	Expectations for improved regulation and public education regarding the correct and safe pawn process.

Content analysis was conducted on the interview data to identify emerging themes. The analysis results show several main themes that need attention in legal protection for creditors, including transparency in the pawn process, the need for legal education, and hopes for regulatory reform. The results of this analysis are presented in Table 6 below.

Table 6. Content Analysis Results

Theme	Description
Transparency in the Pawn Process	Respondents emphasized that lack of transparency reduces trust in pawn transactions.
Legal Education and Awareness	Need for legal Understanding of the rights and obligations of each party in a pawn transaction.
Need for Regulatory Reform	Agreement that existing regulations do not adequately protect creditors and the need for more comprehensive revisions.
Satisfaction with Collateral Execution Process	Satisfaction levels varied; many felt the execution process was slow and inefficient.

From the results of the content analysis displayed in Table 6 above, data triangulation was carried out by comparing interview findings with secondary data from legal documents and related literature to ensure the validity of the qualitative data in this study. The triangulation results show that the conclusions of the interviews are in line with the existing literature, which

underlines the importance of legal Understanding among retail MSMEs. A summary of the results of the data triangulation is displayed in Table 7 below.

Table 7. Triangulation Results

Aspects	Findings from Interviews	Findings from Secondary Data
Legal Understanding	Many respondents do not understand their rights.	Previous research shows low legal literacy among MSMEs.
Pawn Regulation	Regulation is considered not to protect creditors.	There needs to be more implementation of existing regulations.

Integrating these qualitative findings with quantitative results provides a holistic picture of legal protection for creditors in pawn transactions. The conclusion of this qualitative analysis emphasizes the need for more robust regulatory reform and increased legal Understanding to improve creditor protection. Through this approach, this study identifies existing problems and provides valuable recommendations for policymakers and retail MSMEs in Indonesia.

DISCUSSIONS

The results of this study indicate that legal protection for creditors in pawn transactions in the retail MSME sector in Indonesia still requires significant improvement. In general, quantitative and qualitative analysis findings suggest that current pawn regulations cannot fully protect creditors from the risk of default. This is reflected in the results of SEM-PLS, which show a significant influence of regulation and collateral Execution on creditor protection and a negative impact of default risk on the level of perceived protection. From a practical perspective, MSMEs and creditors involved in pawn transactions in the retail sector in DKI Jakarta often face challenges related to transparency and legal Understanding. The lack of legal literacy regarding the rights and obligations of each party in a pawn transaction makes creditors unable to take preventive steps, thereby increasing the risk of default. This research's result is similar to [7] and emphasizes the need for preventive legal protection to prevent disputes or violations of the law through regulations and policies. The hopes of creditors and MSME actors for more adaptive and transparent regulatory reforms are a focus that needs to be responded to immediately by the government. This study also emphasizes the importance of balancing the interests of creditors and debtors. A more efficient, fair, and transparent collateral execution mechanism is expected to increase creditor confidence and support the sustainability of pawn transactions in the retail MSME sector. On the other hand, the protection of debtor rights also needs to be considered so that regulations do not only burden one party because, in the context of legal protection, the concept of access to justice is fundamental, which includes not only the availability of judicial institutions but also the ability of the community to access and understand their legal rights [8].

Based on the research results, it was found that although the pawn system in Indonesia has been legally regulated through the Civil Code (KUH Perdata) and related laws, there are still several obstacles in its implementation that have an impact on creditor protection, especially in the MSME sector [9]. This study found that the theory of creditor protection is very relevant in this context, where creditors often face challenges in executing collateral when default occurs. One of the biggest obstacles identified is the weak collateral execution mechanism, which usually results in a slow execution process and is full of administrative obstacles. In many cases, creditors need help getting quick access to the collateral being pledged, which ultimately reduces the effectiveness of the legal protection that should be provided. On the other hand, creditors in the MSME sector are more vulnerable to credit risk due to limited knowledge and legal resources owned by debtors. This result is consistent with the credit risk theory, which states that credit risk levels increase when regulations that support creditor protection are not implemented effectively [10]. MSMEs often do not understand the legal procedures related to pawn transactions and their rights in cases of default, resulting in a situation where creditors and debtors are not optimally protected. In the context of collateral Execution, the theory of collateral Execution also receives special attention in this study. The execution process, which

is ideally fast and efficient, needs to be improved by bureaucracy and inadequate legal infrastructure [11]. Creditors, especially those in the MSME sector, feel less protected due to the complexity of legal procedures and limited access to effective dispute resolution mechanisms. In addition, agency theory helps explain the conflict of interest between creditors and debtors in pawn transactions [12]. In this study, it was found that there is a tendency for debtors not to feel pressured to fulfil their obligations, especially since they understand that collateral Execution may not run effectively. This reinforces agency problems, where debtors are incentivized to not fulfil their commitments due to the ineffectiveness of regulations in enforcing collateral Execution.

Another important finding is the perception of MSME actors regarding the effectiveness of the pawn system as a financial solution. Most respondents indicated that pawning is a profitable option for obtaining business capital. Still, they are also concerned about the complexity of regulations hindering their access to adequate protection rights in pawn transactions. This shows that there is still a need for improvement in legal socialization and education related to pawn regulations, both for creditors and debtors, so that both parties better understand their rights and obligations in a balanced manner [13]. Overall, this study underlines the importance of improving regulation and supervision in pawn transactions, especially regarding collateral Execution, to ensure that creditors are maximally protected. To create a more efficient and fair pawn system, there needs to be a simplification of execution procedures, increased access to legal assistance, and stricter regulations against debtor default. The proposed solution will protect creditors and provide legal clarity for MSME actors involved in pawn transactions, thereby creating a more stable and sustainable financial ecosystem.

CONCLUSION

This study shows that although pawning is a vital financing instrument for MSMEs in the Indonesian retail sector, legal protection for creditors in this transaction still needs significant improvement. Based on quantitative and qualitative results, current pawning regulations are considered suboptimal in providing adequate legal protection for creditors, especially regarding collateral Execution. The high risk of default and uncertainty in the legal process exacerbates the challenges creditors face. By integrating findings from international case studies, this study recommends several reforms, such as increasing transparency in the pawning process, legal education for MSME actors, and simplifying the collateral execution mechanism. Thus, more adaptive and efficient regulations can increase creditor confidence and encourage the growth of the retail MSME sector in Indonesia. This study also emphasizes that the balance between the rights of creditors and debtors needs to be adequately managed through a robust regulatory framework and stricter legal enforcement to ensure fairness for both parties in pawning transactions.

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