



The Impact of Pawnbroking on Local Communities with special reference to Bangladesh

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Abstract

This study examines pawnbroking's impact on social entrepreneurship and its implications for social development. It posits that Pawnbroking aids vulnerable entrepreneurs, often excluded from formal credit, in accessing quick financial resources, thereby enhancing social entrepreneurship. Through a meta-analysis and literature review, including three case studies from Bangladesh, the findings indicate that, despite exploitative practices, pawnshops are vital for providing the impoverished with financial access and supporting social welfare. However, risks such as asset loss, debt cycles, and exploitation of desperate borrowers are also highlighted. The study emphasizes the need for regulatory oversight and more accessible financial systems that protect borrowers while maintaining accessibility. Overall, pawnbroking offers both advantages and challenges for local communities in Bangladesh, necessitating a balance between quick cash access and consumer protections to promote healthier community dynamics.

Key Words: Credit, Pawnbroking, Social Entrepreneurship, Debt Cycles, Borrowers, Loan.

PAPER/ARTICLE INFO

RECEIVED ON: 13/05/2025

ACCEPTED ON: 30/06/2025

Reference to this paper should be made as follows:

Hernández, J.G.V. et al. (2025), "The Impact of Pawnbroking on Local Communities with special reference to Bangladesh", *Int. J. of Trade and Commerce-IJTC*, Vol. 14, No. 1, pp: 269-284.

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DOI: 10.46333/ijtc/14/1/20

1. INTRODUCTION

Pawnbroking is associated with poverty, raising concerns about its long-term sustainability due to inadequate transport, insufficient ice supply, and lack of funding. Social norms limit women's roles, although some pursue labor migration as a risk mitigation strategy.

The Pawnbroking industry lends money to borrowers who pledge property as collateral, providing quick access to funds. If loans are not repaid on time, pawnbrokers can sell the pledged items. Historically, this practice has been widespread since ancient Greece, with pawnbrokers offering secured loans against personal property to address environmental and socioeconomic challenges.

Micro-social entrepreneurship faces challenges such as financial literacy, credit access (including pawnshops), and market linkages, underscoring the need for improved financial planning. Key areas include enhancing personal and organizational finance skills in low-income communities. Pawnshops can provide essential financial alternatives in areas with limited access. Researching pawnbrokers is complicated by social stigma and financial illiteracy, as many micro-social entrepreneurs struggle with financial concepts. Targeted counseling and training programs can help improve financial management, budgeting, and responsible borrowing. However, obstacles still hinder microcredit access and the growth of social initiatives. Ali (2017) suggested that social capital, networking, and community banking could transform micro savings into investments. This study aims to enhance financial inclusion for micro-social entrepreneurs.

Pawnbroking is often stigmatized, causing borrowers to feel shame or embarrassment. Some pawnshops may exploit this vulnerability with high interest rates, trapping borrowers in debt. However, pawnbroking can also stimulate local economies by providing small business owners with access to capital, fostering job creation and entrepreneurship. Overall, while pawnbroking offers essential financial services and promotes economic empowerment in Bangladesh, it raises concerns about exploitation and social stigma. Balancing quick cash access with consumer protection is vital for creating healthier community dynamics.

1.1. Research Question

How does pawnbroking impact local communities in Bangladesh, considering its role in economic empowerment and the associated social stigma?

1.2. Objectives of the Study

- (i). Assess financial accessibility
- (ii). Analyze socio-economic impact
- (iii). Explore social benefits
- (iv). Identify challenges
- (v). Evaluate awareness and literacy

1.3. Pawn Broking

Improving financial literacy is essential for micro-social entrepreneurs, reducing stress and enhancing decision-making regarding savings, loans, and insurance. Pawnshops, moneylenders, and microfinance institutions help bridge the credit gap for small businesses, fostering socioeconomic growth. Expanding Pawnbroking through banks and cooperatives can enhance capital

access. To improve perceptions, institutions should increase outreach and ensure regulatory compliance. Sustainable pawnshops can offer fair interest rates and waive fees during downturns. Quick microcredit access benefits low- and middle-income users, supporting social welfare. Industry data shows pawnshops and micro financing meet small entrepreneurs' capital needs (Ismail & Ahmad, 1997). Pawnshops provide fast microcredit for small loans (Schrader, 1999). Regulated, socially-oriented pawnshops aid financial inclusion, often linking services to real estate and directing profits to welfare. Loans secured by collateral require no credit checks, offering better value for low-income users with assets like gold jewelry (Collard & Kempson, 2003, 2005). Borrowers prefer pawnshops for convenience and personal recommendations (Collard & Hayes, 2010). In rural Bangladesh, women have gained empowerment and financial independence through social networks and entrepreneurship (Ali et al., 2018).

1.4. Pawnshops and Social Finance for Micro-Social Entrepreneurs

1.4.1. Quick Loan Providers

Pawnshops offer fast access to small loans, allowing users to reclaim pledged items by repaying with interest or renewing agreements. If not renewed, items may be sold to recover debts. Often operated by micro and small businesses, pawnshops cater to individuals seeking immediate funds for living expenses, emphasizing speed and service. Many pawn gold jewelries due to high market prices, making pawnshops essential for micro-entrepreneurs. Their appeal includes waived fees and quick service, especially during economic downturns, promoting financial resilience (Nik Zaman et al., 2016).

1.4.2. Role of Institutional Social Finance

Institutional social finance, provided by government and social organizations, supports small enterprises with digital marketing and financial aid, aiding recovery from crises (Biancone & Radwan, 2018).

1.4.3. Islamic Pawnbroking (Ar-Rahnu)

Ar-Rahnu, a Sharia-compliant Pawnbroking service, assists low-income individuals and small business owners facing financial difficulties. It serves as an informal rural credit source, reducing transaction costs and supporting those excluded from formal financial systems (Razak, 2007).

1.4.4. Financial Literacy and Digital Innovations

Enhancing financial literacy and management skills is vital for sustaining micro-social entrepreneurship. Digital markets for pawnshops foster new social entrepreneurship models, improving marketing and consumer engagement.

1.4.5. Conventional vs. Islamic Pawnshops

Islamic pawnshops coexist with conventional ones, offering short-term loans while addressing social benefits. Conventional pawnshops often face criticism for high interest rates, leading to the rise of Islamic alternatives that focus on community empowerment and support for local economies (Skully, 1992).

1.4.6. Social Finance and Economic Recovery

Social finance instruments facilitate economic recovery by directing resources to support micro-entrepreneurship, encouraging innovation during crises. Microfinance and charitable funds enhance financial stability without repayment obligations (Bouman et al., 1988).

1.4.7. Historical and Regional Context

Historically, pawnshops have provided consumer credit and are prominent in Asia as microcredit sources. Conventional pawnshops profit from unredeemed items, while Islamic ones focus on social responsibility (Skully, 1992).

1.4.8. Indonesia's State-Run Model

Indonesia's state-run pawnshop, Perusahaan Umum Pegadaian, established in 1901, operates as a profit-oriented monopoly, providing quick microcredit.

1.4.9. Supporting Micro-Social Entrepreneurship

Pawnshops are crucial for micro-social entrepreneurship, providing capital during crises to help small businesses recover (Schumpeter, 1911). They primarily serve small entrepreneurs and farmers lacking bank access (Ismail & Ahmad, 1997).

1.4.10. Sharia-Compliant Financing for Women

Islamic Pawnbroking offers gold-based financing to women and small businesses, promoting justice and enterprise growth, particularly during economic downturns (Azman et al., 2016).

1.4.11. Hungary's BAV Consignment Store

Hungary's BAV Consignment Store, founded in 1773, serves clients excluded from traditional banking, with gold jewelry as collateral in 95% of cases. Entrepreneurs often use pawn loans for short-term liquidity, especially at the start of the school year (Bertók, 2023).

2. SOCIAL ENTREPRENEURSHIP

Social entrepreneurship is often considered a vague term. It typically refers to ventures that prioritize social impact over profit. However, social entrepreneurs may choose to reinvest profits for organizational growth and, if desired, can eventually take profits themselves. Operating at the bottom of the pyramid presents significant challenges, making it a complex endeavor.

2.1. Financial Literacy and Social Entrepreneurship

Financial literacy greatly influences participation and success in social entrepreneurship (Li & Qian, 2020). Micro-social enterprises often face challenges with credit and resource management. Enhancing financial skills and access to microcredit promotes inclusion and sustainable development.

2.2. Financial Education and Performance

Improved financial literacy boosts enterprise performance and service demand (Puspitasari & Astrini, 2021). Integrating capital investment with financial education helps social enterprises address community needs (Babajide et al., 2021). Savings can reduce poverty and support effective planning.

2.3. Empowerment through Training

Training enhances access to credit, insurance, and financial services, strengthening communities (Gandhi, 2013). Financial literacy fosters innovation and growth in MSMEs (Dewi & Herawati, 2023). The OECD supports financing initiatives for SMEs (Atkinson & Messy, 2012).

2.4. Access to Credit and Inclusion

Access to credit enables entrepreneurs to build resilience. Strategic partnerships and training enhance budgeting and decision-making. However, policy gaps and digital tool limitations hinder rural financial literacy. Supporting pawnshops and digital finance can build trust and reduce fraud (Achor & Robert, 2013).

2.5. Informal Credit and Micro-entrepreneurs

Rural entrepreneurs, especially those with poor credit, face significant barriers to loan access. Quality service and trust can improve inclusion. Informal credit systems often better serve low-income groups (Braverman & Gausch, 1986), encouraging micro-entrepreneurship.

2.6. Impact of Literacy Programs

Financial education empowers informed decision-making and resilience. Training enhances access and measurable impact (Stenner et al., 2009). Social enterprises across sectors can strengthen community capacity (Finlayson & Roy, 2019).

2.7. Technology and Motivation

Expectancy theory links opportunities to motivation and investment (Vroom, 1994). Online education promotes innovation and financial literacy (Purnomo et al., 2023). Connecting microcredit with digital training enhances inclusion for marginalized groups (Babai, 2024).

2.8. Digital Finance and Social Goals

A holistic approach combining financial and digital literacy supports income, gender equity, and entrepreneurship (Mishra et al., 2024). Digital finance can improve security and reduce corruption (Okoye & Ezejiofor, 2013).

2.9. Barriers and Targeted Support

Credit market imperfections restrict capital access for marginalized groups. Enhancing literacy in rural areas can boost entrepreneurship (Menne et al., 2022). Low literacy levels are linked to inadequate education (Lyons et al., 2021), highlighting the need for targeted programs for women, youth, and migrants.

2.10. Community and Government Initiatives

Programs must address barriers like childcare and transportation (Bank on USA, 2011). Initiatives like SEFIA in Mexico empower women through training (Bakar et al., 2024). Government efforts combining financial literacy with environmental goals and digital tools can foster inclusive entrepreneurship.

3. LITERATURE GAP

Current literature reveals gaps in financial literacy, skills, and credit access tailored to local contexts, which are essential for supporting micro-social entrepreneurs in Bangladesh. Empirical

studies show that ongoing financial education can enhance understanding of insurance and savings, benefiting micro and small social enterprises. Research on pawn broking, often neglected, suggests it could be reframed as a valuable credit option, despite its stigma (Edwards & Lomax, 2017).

3.1. Conceptual Framework

Pawnbroking offers an inclusive, asset-backed financing solution that doesn't require employment verification or credit checks (Bouman & Hospes, 1994). This model can empower marginalized individuals by granting access to essential resources to support their social initiatives. Social entrepreneurship focuses on social impact over profit, addressing issues like unemployment and poverty (Dees, 2001). A significant barrier remains funding, as traditional microfinance often overlooks impoverished populations.

4. METHODOLOGY OF THE STUDY

This study employs a needs assessment approach to develop a financial management program tailored for micro-social entrepreneurs, utilizing qualitative methods. Notably, poverty is associated with prawn broking in the region. The assessment aims to identify specific challenges faced by these enterprises and to inform the design of economic literacy initiatives that enhance access to microcredit and improve overall economic well-being. Extensive literature reviews will be conducted to support the research framework. Additionally, sociological aspects will be covered, particularly in relation to their economic impact.

4.1. Case Studies

Four case studies from Bangladesh will be prepared by the second author. The methodology for these case studies includes:

Defining Goals: Clear objectives will be outlined to guide the research.

Identifying Target Audience: Specific groups of micro-social entrepreneurs will be targeted for data collection.

Conducting Thorough Research: A comprehensive review of existing literature and relevant frameworks will be undertaken.

Gathering Data: Data will be collected from various sources, including interviews, focus groups, and existing reports.

Analyzing Findings: Data will be analyzed to identify common challenges and opportunities, which will inform the design of the financial management program.

Additionally, managerial implications for India will be discussed to provide broader insights and recommendations.

4.2. Time Period

The study will be conducted over a defined period from November 1, 2024, to March 31, 2025. This timeframe allows for thorough data collection and analysis, ensuring the program developed is comprehensive and well-informed.

5. DISCUSSION

5.1. Financial Accessibility

Pawnshops, typically located in urban and semi-urban areas, provide quick cash loans secured by personal property like jewelry or electronics. For those financially insecure, Pawnbroking offers simplicity and immediacy, particularly during emergencies (Wilson, 2002). This can provide social entrepreneurs with essential funding to start or sustain micro businesses.

5.2. Social Impact and Entrepreneurship

While Pawnbroking is often criticized for high interest rates, its role in empowering the impoverished should not be overlooked. Access to small, quick loans can help individuals start home-based businesses or manage short-term cash flow issues, fostering community resilience and economic self-reliance (Fernando, 2006).

5.3. Moral Issues

Despite its benefits, Pawnbroking raises ethical concerns, particularly regarding interest rates and potential debt traps. Regulatory oversight and policy reforms are necessary to ensure these services support the underprivileged without exploiting them, providing a vital lifeline for those excluded from traditional banking (Rhyne, 2001).

6. CASE STUDY SUMMARY

6.1. Pawnbroking in Bangladesh

In Bangladesh, access to formal credit is limited, especially in rural areas. Although microfinance institutions (MFIs) have improved financial inclusion, many individuals still rely on pawnbrokers for quick cash. Pawnbroking provides loans against movable collateral, such as jewelry, but operates without formal regulation.

6.2. Reasons for Using Pawnbrokers

Financial Exclusion: Many individuals lack access to banks due to illiteracy or inadequate collateral, and MFIs often reject high-risk applicants.

Immediate Needs: Pawnbrokers offer quick loans for emergencies without bureaucratic delays.

Common Collateral: Typical items pawned include jewelry, farming tools, and electronics.

6.3. Case Studies

i) *Shamsun Nahar - Sewing Business in Sylhet*

A widow pawned gold earrings to start a sewing business, earning BDT 8,000-12,000 monthly. This illustrates Pawnbroking as a viable option for low-income women entrepreneurs.

ii) *Abdul Karim - Medical Expenses in Rangpur*

A farmer pawned his power tiller for emergency surgery costs. Despite high interest, he repaid the loan after selling part of his harvest, highlighting pawn broking's role in health crises.

iii) Jamila Khatun - Village Shop in Khulna

An aspiring entrepreneur pawned smart phones to fund her shop, which now earns BDT 500-800 daily. This shows how Pawnbroking can support youth entrepreneurship and reduces rural unemployment.

iv) Rahima Begum - Poultry Farming in Patuakhali

A single mother pawned gold bangles to start a poultry business, achieving financial independence. This emphasizes pawn broking's potential for fostering micro-entrepreneurship.

6.4. Challenges

i) High Interest Rates: Monthly rates of 10-15% can lead to long-term debt.

ii) Unregulated Sector: Lack of oversight increases risks of exploitation.

iii) Asset Loss: Failure to repay can result in losing collateral.

6.5. Observations

i) Need for Regulation: Licensing and monitoring are essential for consumer protection.

ii) Integration with Microfinance: Recognizing pawn transactions can enhance credit histories.

iii) Financial Literacy: Educating borrowers on their rights and alternatives is crucial.

iv) Ethical Pawn Services: NGOs or cooperatives can provide fairer practices.

While Pawnbroking can enhance financial inclusion for marginalized groups in Bangladesh, the lack of regulation often leads to debt cycles and asset loss. Addressing these challenges is vital to ensure Pawnbroking serves as a beneficial financial tool rather than a trap.

7. Summary of Negative Impacts of Pawn Broking

Impact	Description
Debt Traps	High and compounding interest rates create lasting debt burdens.
Asset Loss	Sentimental or essential items are often permanently lost.
Lack of Regulation	Absence of legal protection or grievance mechanisms.
Exploitation of Illiteracy	Borrowers may be misled due to a poor understanding of loan terms.
Psychological Stress	Asset loss and debt lead to anxiety and social stigma.

(Prepared by the authors)

This summary highlights the significant negative consequences of pawn broking, emphasizing the need for regulation and borrower education.

8. MANAGERIAL IMPLICATIONS: PAWNBROKING IN INDIA

In India, Pawnbroking is regulated by state-level legislation rather than a single nationwide law. Various state Acts govern aspects such as licensing, interest rates, and pawn ticket issuance to

ensure transparency and protect pawners from exploitation. Pawn brokers lend money against collateral, typically jewelry or other valuables, with defined roles and responsibilities outlined in these laws.

The Pawnbroking process involves several key steps: assessing the value of the item to determine the loan amount, providing identification and ownership documents, signing a formal loan agreement detailing terms and repayment schedules, and securing the pledged items until repayment. Timely repayment allows borrowers to reclaim their collateral, while unpaid loans may result in the sale of these items by the broker.

Understanding these steps is crucial for borrowers in cities like Chennai, as it empowers them to make informed financial decisions. Additionally, financial literacy and responsible borrowing practices are essential for effective personal financial planning. Exploring the history and evolution of Pawnbroking in India, along with its legal framework and social impact, can provide valuable insights into its role in various communities.

9. CONCLUSION

This study concludes that pawnshops and pawn broking, despite concerns over high interest rates, are vital for improving economic access for the poor and aspiring entrepreneurs in Bangladesh. They play a significant role in social welfare and support the performance of social enterprises. Islamic pawn broking, or Ar-Rahnu, provides a Sharia-compliant option for individuals to pledge assets, typically gold, as collateral for interest-free loans based on profit-sharing principles. Kiva is a global non-profit organization that facilitates lending to entrepreneurs in developing countries through its online platform, connecting lenders with borrowers to promote micro-entrepreneurship and community development. Similarly, FINCA International offers financial services to low-income entrepreneurs through a network of microfinance institutions, focusing on social impact and financial literacy. Cooperative banks, present in various countries, operate on principles of mutual aid and community support, providing tailored financial services while prioritizing social and economic development over profit. The Self-Employed Women's Association (SEWA) in India acts as a trade union for women in the informal sector, offering microfinance services, savings, and insurance to empower women and enhance their livelihoods.

These initiatives demonstrate how societal banking effectively addresses financial needs while promoting social welfare and community development. Ali (2017) proposed a community banking model that channels micro savings into micro investments, which has evolved into "societal banking" in response to evolving economic contexts. Establishing a societal banking system based on this model could alleviate the negative impacts of pawn broking by serving small investors and fostering micro-entrepreneurship through rural post offices and specialized units of various banks and NGOs. This approach has the potential to reduce poverty and decrease reliance on pawn broking for financial needs, ultimately benefiting society as a whole. Additionally, technology plays a vital role in enhancing societal banking by improving accessibility, lowering costs, and promoting financial literacy. By leveraging technological advancements, societal banking initiatives can better serve underserved communities, promote economic empowerment, and contribute to poverty alleviation and community development.

In Bangladesh, Pawnbroking enables individuals to secure loans by offering personal items as collateral, impacting local communities in several ways:

Access to Quick Cash: Pawnbroking offers immediate financial relief for emergencies, helping low-income families cover urgent expenses like medical bills and education costs.

Economic Empowerment: Small business owners often use Pawnbroking to fund their ventures, stimulating local economies and creating jobs.

Social Stigma and Vulnerability: Engaging with pawn services can carry a stigma, leading to feelings of shame for borrowers. Additionally, some pawn shops may exploit vulnerable individuals with high interest rates.

Cultural Perceptions: In certain regions, Pawnbroking is seen as a traditional and accepted financial practice. As financial literacy increases, perceptions may evolve, prompting more individuals to explore alternative financial options.

Impact on Community Relationships: Reliable pawn services can foster trust within communities, while exploitative practices can damage relationships and lead to social fragmentation.

Regulatory Challenges: The Pawnbroking sector in Bangladesh is often under-regulated, creating opportunities for abuse. A stronger regulatory framework is needed to protect consumers and ensure fair practices.

10. RECOMMENDATIONS

Formalize Pawn Broking: Integrate Pawnbroking into microfinance frameworks to enhance regulation and support.

Enhance Consumer Education: Launch awareness campaigns in rural areas to improve understanding of pawn broking.

Promote Low-Interest Alternatives: Facilitate quick loans through cooperatives and microfinance institutions (MFIs).

Mandatory Documentation: Ensure all transactions are recorded and receipted to protect both borrowers and lenders.

11. FUTURE RESEARCH

Future studies should explore the link between Pawnbroking and financial literacy, particularly among young adults and girls who are often excluded from financial systems. Targeted financial education programs can empower young women and encourage family support for savings and entrepreneurship.

Sustainable community development requires a holistic approach that integrates financial literacy with micro-social enterprises. Enhancing financial literacy and management skills will promote economic independence, reduce inequality, and foster social entrepreneurship, ultimately aiding poverty reduction and community development.

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