

## **SHARIA-COMPLIANT MICROFINANCE AND LOCAL ECONOMIC DEVELOPMENT: THE ROLE OF BPRS UNDER ACEH'S SHARIA FINANCIAL INSTITUTION LAW (QANUN LKS)**

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**Abstract:** This study investigates the role of Sharia-compliant rural banks (BPRS) in fostering inclusive and sustainable economic development in Aceh, Indonesia, under the Sharia Financial Institution Law (Qanun LKS). Employing a mixed-methods design that combines semi-structured interviews with 20 stakeholders, surveys of 100 clients, and regulatory analysis, the research addresses the gap in empirical studies on BPRS within a region governed entirely by Sharia-based financial regulations. Findings indicate that BPRS significantly expand financial inclusion, with 75% of surveyed clients reporting income growth after receiving financing and regions with active BPRS experiencing a 20% decline in poverty rates over five years. The institutions not only provide capital but also strengthen entrepreneurship, job creation, and local resilience, while their profit-sharing model fosters trust and inclusivity, particularly benefiting women entrepreneurs, evidenced by a 30% increase in female-owned businesses. Beyond financial services, BPRS contribute to community empowerment through training and social initiatives, aligning their mission with the maqasid al-shariah and Sustainable Development Goals (SDGs). However, challenges remain in regulatory compliance, governance structures, human resource capacity, and limited digital infrastructure, which restrict outreach and operational efficiency. This study argues that while BPRS have proven transformative in promoting poverty alleviation, gender equity, and inclusive growth, their long-term sustainability depends on strengthening institutional capacity, integrating digital technologies, and forging stronger partnerships with government and community organizations. The case of Aceh illustrates the potential of Sharia-compliant microfinance to serve as a model for ethical and context-sensitive financial development strategies across Indonesia and beyond.

**Keywords:** Sharia-compliant microfinance, BPRS, Qanun LKS, local economic development, financial inclusion

**Abstrak:** Penelitian ini mengkaji peran Bank Perkreditan Rakyat Syariah (BPRS) dalam mendorong pembangunan ekonomi inklusif dan berkelanjutan di Aceh, Indonesia, dalam kerangka hukum Lembaga Keuangan Syariah (Qanun LKS). Dengan menggunakan desain metode campuran melalui wawancara semi-terstruktur terhadap 20 pemangku kepentingan, survei terhadap 100 nasabah, serta analisis regulasi, penelitian ini menjawab kekosongan studi empiris tentang BPRS di wilayah yang sepenuhnya berada di bawah regulasi keuangan berbasis syariah. Temuan menunjukkan bahwa BPRS secara signifikan memperluas inklusi keuangan, dengan 75% responden melaporkan peningkatan pendapatan setelah memperoleh pembiayaan, sementara wilayah dengan BPRS aktif mengalami penurunan angka kemiskinan sebesar 20% dalam lima tahun. BPRS tidak hanya menyediakan modal, tetapi juga memperkuat kewirausahaan, penciptaan lapangan kerja, dan ketahanan lokal, serta melalui model bagi hasil berhasil membangun kepercayaan dan inklusivitas, terutama bagi perempuan, yang ditunjukkan dengan peningkatan 30% jumlah usaha milik perempuan di daerah layanan BPRS. Selain layanan keuangan, BPRS berkontribusi pada pemberdayaan

masyarakat melalui pelatihan dan program sosial, sehingga selaras dengan maqasid al-shariah dan Tujuan Pembangunan Berkelanjutan (SDGs). Namun demikian, tantangan masih ada dalam hal kepatuhan regulasi, tata kelola, kapasitas sumber daya manusia, serta keterbatasan infrastruktur digital yang membatasi jangkauan dan efisiensi operasional. Penelitian ini berargumen bahwa meskipun BPRS terbukti transformatif dalam mendorong pengentasan kemiskinan, kesetaraan gender, dan pertumbuhan inklusif, keberlanjutan jangka panjangnya bergantung pada penguatan kapasitas institusional, integrasi teknologi digital, dan kemitraan yang lebih kuat dengan pemerintah serta organisasi masyarakat. Kasus Aceh menunjukkan potensi keuangan mikro syariah untuk menjadi model strategi pembangunan keuangan yang etis dan kontekstual di Indonesia maupun di tingkat global.

**Kata Kunci:** Keuangan mikro syariah, BPRS, Qanun LKS, pembangunan ekonomi lokal, inklusi keuangan

## Introduction

Microfinance has long been recognized as a critical instrument for promoting financial inclusion, poverty alleviation, and local economic development, particularly in regions facing socio-economic instability. In Aceh, Indonesia, the role of microfinance became especially important following the 2004 tsunami, which severely disrupted the economy and highlighted the vulnerability of small-scale enterprises. By providing financial services to communities traditionally excluded from formal banking systems, microfinance has facilitated entrepreneurship, improved resilience, and supported community recovery. In Indonesia, the World Bank (2020)<sup>1</sup> has emphasized the role of microfinance institutions in enabling low-income entrepreneurs to access capital and improve livelihoods. Within Aceh, the development of Sharia-compliant microfinance institutions, particularly Baitul Maal wat Tamwil (BMT) and Bank Perkreditan Rakyat Syariah (BPRS), has been central in aligning economic initiatives with the region's religious and cultural context. By 2021, approximately 70 BPRS were operating in Aceh, offering microloans, savings, and investment products, all structured under Islamic financial principles (OJK, n.d.)<sup>2</sup>. These institutions have not only enhanced access to finance but also contributed to employment creation and economic revitalization. However, their long-term effectiveness is tied to compliance with Aceh's Sharia Financial Institution Law (Qanun LKS), which governs financial activities to ensure conformity with Islamic principles.

The literature on Islamic microfinance underscores its unique dual purpose: fostering poverty alleviation and promoting social justice through interest-free, ethical, and risk-sharing mechanisms. Prohibitions against riba, emphasis on profit-and-loss sharing, and prioritization of equitable wealth distribution distinguish Islamic finance from conventional approaches and resonate strongly with Muslim-majority communities. (Alhammadi, 2024)<sup>3</sup> argue that Sharia-compliant products foster greater trust and participation, thereby expanding outreach and enhancing financial inclusion. Global studies further highlight the role of Islamic microfinance in advancing Sustainable Development Goals (SDGs), especially poverty reduction and inclusive economic growth, while aligning with Maqasid al-Shariah as a framework for ethical and sustainable development (Mauliansyah, 2024)<sup>4</sup>. Nonetheless, a consistent theme across the literature is the persistence of challenges such as limited product diversity, high

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<sup>1</sup> World Bank. (2020). Microfinance in Indonesia: A comprehensive analysis. World Bank Publications.

<sup>2</sup> Otoritas Jasa Keuangan. (2021). Annual report on Sharia financial institutions in Indonesia. OJK.

<sup>3</sup> Alhammadi, S. (2024). Islamic finance as a driver for enhancing economic sustainability and innovation in the GCC. *Journal of Science and Technology Policy Management*.

<sup>4</sup> Mohamed, E. F., & Fauziyyah, N. E. (2020). Islamic microfinance for poverty alleviation: A systematic literature review. *International Journal of Economics, Management and Accounting*, 28(2), 289–312.

transaction costs, weak governance structures, and regulatory gaps (Azizah et al., 2025; Putri amelia et al., 2024)<sup>5</sup>. In Indonesia, although Islamic social finance demonstrates significant potential given the country's large Muslim population, institutional limitations and low financial literacy—reported to be less than 9%—remain key barriers (Adinugraha et al., 2023)<sup>6</sup>. Empirical research highlights that targeted literacy programs, including mosque-based community initiatives, have proven effective in enhancing understanding and engagement with Islamic financial products (Mauliansyah et al., 2025; Saputra, 2025)<sup>7</sup>.

Aceh provides a particularly distinctive context for examining the relationship between Sharia-compliant microfinance and local economic development. Unlike other regions in Indonesia, Aceh operates under a comprehensive Sharia-based legal framework through the enactment of Qanun LKS, which reinforces the necessity of Sharia compliance across all financial institutions. This regulatory environment not only strengthens institutional legitimacy but also fosters community confidence and trust in Islamic microfinance. Yet, despite extensive global and national studies, there remains a lack of empirical research specifically focused on BPRS in Aceh and their operations under Qanun LKS. Addressing this gap is crucial for understanding how BPRS navigate governance, literacy, and regulatory challenges while attempting to integrate Islamic financial instruments such as qard al-hasan, musharakah, and mudarabah into their practices.

This study therefore seeks to evaluate the contribution of BPRS in fostering inclusive and sustainable economic development in Aceh. It examines their institutional strengths, operational challenges, and community perceptions to provide insights for policymakers, financial practitioners, and local entrepreneurs. For policymakers, the findings may inform regulatory adjustments to enhance institutional capacity while ensuring strict Sharia compliance. For financial institutions, they highlight strategies to strengthen outreach and governance. For entrepreneurs, they emphasize the potential of BPRS as accessible and trustworthy providers of capital. More broadly, this research enriches the academic discourse on Islamic microfinance by situating it within Aceh's unique post-conflict and Sharia-governed environment, thereby offering both theoretical and practical contributions to the field.

In conclusion, Sharia-compliant microfinance, as implemented by BPRS under Qanun LKS, represents a significant instrument for fostering inclusive and sustainable development in Aceh. While progress has been made in expanding access to finance and supporting community enterprises, challenges remain in governance, literacy, and institutional resources. Strengthening the role of BPRS in line with both Islamic principles and local development needs will be crucial to ensuring their long-term contribution as catalysts of economic growth and social stability in Aceh, while also providing lessons for other regions pursuing Islamic finance as a development strategy.

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<sup>5</sup> Azizah, U., Mardani, R. M., & Nurhidayah, N. (2025). The Effect of Increasing Digitalization of Islamic Banking and Digital Financial Literacy on Generation-Z Saving Behavior at Islamic Banks with the Mediating Role of Halal Lifestyle. *Electronic Journal of Education, Social Economics and Technology*, 6(1), 996-1006.

<sup>6</sup> Adinugraha, H. H., Shulhoni, M., & Achmad, D. (2023). Islamic social finance in Indonesia: Opportunities, challenges, and its role in empowering society. *Review of Islamic Social Finance and Entrepreneurship*, 2(1), 45–62.

<sup>7</sup> Saputra, W. (2025). Enhancing Sharia financial literacy through educational initiatives on Sharia microfinance institutions within the context of the Mujahadah Mosque vicinity in Rintis Village, Pekanbaru. *Aksi Kita: Jurnal Pengabdian kepada Masyarakat*, 1(3), 306–314.

## Methods

This study uses a mixed-methods design to analyze the contribution of Sharia-compliant rural banks (BPRS) to local economic development in Aceh under Qanun LKS. A qualitative approach was employed through semi-structured interviews with 20 stakeholders (managers, clients, and local government officials), providing insights into operational challenges, community impact, and regulatory adherence. For instance, one client stated that BPRS microloans enabled them to establish a small business, reflecting the institution's socio-economic impact.

Quantitative data were collected through surveys of 100 BPRS clients, focusing on income changes and business growth post-financing. Results showed that 75% experienced increased income, with a positive correlation between loan size and income growth. These findings align with Asmawati & Ahmad, (2017)<sup>8</sup>, who found that Islamic microfinance in Aceh significantly reduced poverty and increased microenterprise income.

The study also reviewed Qanun LKS as the regulatory framework. While it strengthens ethical compliance and public trust, it also introduces administrative challenges for BPRS. Suryaman et al. (2022)<sup>9</sup> note that Sharia rural banks still face limitations in fully aligning their operations with maqashid sharia, particularly in client training and risk management (Mauliansyah, 2024)<sup>10</sup>.

Limitations include potential bias in self-reported data, a limited sample size that may not represent all BPRS clients, and a narrow focus excluding other Islamic financial institutions. Nevertheless, the integration of qualitative and quantitative data provides a robust analysis of BPRS's role in supporting sustainable local economic growth within Aceh's unique regulatory environment.

## Results And Discussions

The implementation of Sharia-compliant microfinance institutions, particularly Baitul Mal wa Tamwil Syariah (BPRS), has expanded significantly in Aceh following the enactment of the Sharia Financial Institution Law (Qanun LKS) in 2018. By 2022, approximately 45 BPRS were operating across the province, serving small and medium enterprises (SMEs) as well as individual entrepreneurs (Bank Indonesia, 2022)<sup>11</sup>. Unlike conventional banks, BPRS adopt Sharia-based financing models rooted in profit-sharing and risk-sharing principles, thereby avoiding interest-based lending while fostering community trust and mutual support. Their financial products include working capital, investment financing, and savings schemes tailored to the needs of local businesses, particularly in agriculture and trade sectors. Since their

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<sup>8</sup> Asmawati, & Ahmad, S. (2017). Impact of Islamic microfinance on improving the income and poverty reduction on microenterprises in Province Aceh: Case study in Baitul Qirad. *Media Syari'ah*, 19(2), 195–214

<sup>9</sup> Suryaman, I. S., Mariyanti, T., & Anugrah, I. P. (2022). Strengthening MSMEs: Evaluating the impact of Sharia Rural Banks on welfare in accordance with Maqashid Sharia. *TEMALI: Jurnal Pembangunan Sosial*

<sup>10</sup> Mauliansyah, H. (2024). Good Corporate Governance In Islamic Financial Institutions: Ojk Compliance Challenges: Good Corporate Governance In Islamic Financial Institutions: Ojk Compliance Challenges. *Global Research in Economics and Advanced Theory (GREAT)*, 1(2), 10-19..

<sup>11</sup> Bank Indonesia. (2022). Annual report on microfinance institutions in Aceh.

inception, BPRS in Aceh have disbursed over IDR 1 trillion (USD 70 million) in financing, significantly addressing credit gaps in rural areas (OJK Aceh, 2022)<sup>12</sup>.

The governance of BPRS is subject to both local and national oversight, with supervision conducted by the Aceh government and the Indonesian Financial Services Authority (OJK). This dual structure ensures compliance with Sharia principles as well as national regulatory standards, enhancing transparency and accountability. Regular audits and Sharia compliance assessments strengthen client confidence, while capacity-building initiatives further extend BPRS contributions beyond financial services. Training programs, such as workshops on digital marketing and e-commerce, demonstrate an institution's commitment to improving the business skills of microentrepreneurs. Such initiatives are in line with broader financial inclusion and community empowerment and resilience (Anam et al., 2025)<sup>13</sup>. Such initiatives align financial inclusion with broader community empowerment and resilience.

The economic impact of BPRS in Aceh is considerable. Financing provided by these institutions has facilitated revenue growth, job creation, and increased local consumption. A study by the Aceh Development Institute (2022)<sup>14</sup> reported an average 30% increase in business revenues within one year of financing. Initiatives such as the "Women Empowerment Program" in agriculture have also demonstrated the transformative role of BPRS, with participants experiencing a 50% rise in household income, contributing to poverty alleviation and gender-inclusive development. Regional data confirm these outcomes: areas with higher concentrations of BPRS, such as Aceh Besar, recorded GDP growth above the national average and lower unemployment rates (Hamidi & Worthington, 2021)<sup>15</sup>. Beyond financial inclusion, BPRS actively fund social initiatives, including education and health programs, which further strengthen their role as agents of social as well as economic development <sup>16</sup>.

Despite their contributions, BPRS face several challenges. Regulatory compliance under Qanun LKS can be complex and resource-intensive, limiting institutional flexibility. Moreover, competition with conventional microfinance institutions and NGOs intensifies market pressures, as many clients prioritize lower rates and flexible repayment terms (IMFN, 2023)<sup>17</sup>. Accessibility remains another barrier, particularly in remote areas where digital infrastructure is limited. The digital divide restricts rural entrepreneurs' ability to utilize online services, undermining the reach of BPRS. Financial sustainability also poses risks, as reliance on external funding sources and government support creates vulnerabilities during economic downturns (OJK Aceh, 2022)<sup>18</sup>. In addition, a shortage of skilled human resources in areas such as risk management, Sharia compliance, and client services constrains operational efficiency. Addressing these structural challenges will be critical for sustaining growth and impact.

Stakeholder perspectives reinforce both the strengths and limitations of BPRS. Managers emphasize the dual mission of maintaining Sharia compliance while fostering community

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<sup>12</sup> OJK Aceh. (2022). Regulatory framework and challenges for BPRS in Aceh.

<sup>13</sup> Anam, B. S., Mauliansyah, H., Umma, Y. M., & Fitri, A. (2025). The Effect of Financial Literacy and QRIS Usage on MSME Financial Report Quality. *Jurnal Humaniora: Jurnal Ilmu Sosial, Ekonomi dan Hukum*, 9(2), 475-488.

<sup>14</sup> Aceh Development Institute (ADI). (2022). Impact of Sharia-compliant microfinance on local economies: A case study of Aceh.

<sup>15</sup> BPS Aceh. (2023). Economic indicators report.

<sup>16</sup> Hamidi, L., & Worthington, A. C. (2021). How social is Islamic banking?. *Society and Business Review*, 16(1), 51-70.

<sup>17</sup> Indonesian Microfinance Network (IMFN). (2023). Market trends in microfinance in Aceh.

<sup>18</sup> OJK Aceh. (2022). Regulatory framework and challenges for BPRS in Aceh.

development, highlighting that their role extends beyond lending to empowerment. Clients generally report improved financial security and appreciate Sharia-based financing principles that exclude interest, which they perceive as more ethical and culturally appropriate (ADI, 2022)<sup>19</sup>. However, concerns remain about outreach and accessibility, with rural clients requesting greater mobility and service coverage. Local government officials also recognize the importance of BPRS as partners in regional development, underscoring the need for stronger collaboration to align financial inclusion with provincial economic strategies.

Overall, BPRS have emerged as pivotal actors in Aceh's local economic development, advancing Sharia-compliant financial inclusion, supporting entrepreneurship, and contributing to social welfare. Yet, their long-term sustainability depends on addressing regulatory complexities, enhancing digital and physical accessibility, improving human capital, and fostering collaborative partnerships with government and communities. Strengthening these dimensions will ensure that BPRS continue to play a transformative role in building a resilient, inclusive, and Sharia-compliant economic system in Aceh.

### **Conclusion**

The integration of sharia-compliant microfinance into local economic development in Aceh has provided important insights into the role of Islamic financial institutions in post-conflict and developing regions. The implementation of the Sharia Financial Institution Law (Qanun LKS) has created a strong regulatory foundation for the establishment and operation of Bank Perkreditan Rakyat Syariah (BPRS), enabling them to serve the financial needs of small and medium enterprises (SMEs). According to government data, BPRS contributed to a 15% increase in SMEs accessing financing as of 2022, strengthening local economic resilience in Aceh's recovery process (Aceh Provincial Government, 2022)<sup>20</sup>.

Beyond access to finance, sharia-compliant microfinance has demonstrated considerable impact on poverty reduction. Statistics indicate that regions with active BPRS operations experienced a 20% decrease in poverty rates over a five-year period, showing that financial inclusion under Islamic principles can meaningfully improve socio-economic outcomes (BPS, 2021)<sup>21</sup>. This role extends beyond providing capital, as BPRS has also fostered entrepreneurship, encouraged job creation, and enhanced community well-being. The profit-sharing model central to Islamic finance has further increased inclusivity, drawing clients who may have been excluded from conventional banking. In particular, women have benefitted significantly, with female-owned enterprises increasing by 30% in areas served by BPRS, underscoring the link between sharia-compliant finance, gender equity, and community empowerment (UN Women, 2021)<sup>22</sup>.

The significance of BPRS in Aceh lies not only in their contribution to local economic development but also in their ability to align ethical financial practices with cultural and religious values. This has strengthened trust between institutions and clients, a factor essential for the sustainability of microfinance initiatives. BPRS has also become a reference point for other regions in Indonesia and beyond, illustrating that Islamic microfinance can be integrated into broader development strategies while remaining consistent with sharia principles. Policymakers and development practitioners increasingly regard Aceh's experience as a model

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<sup>19</sup> Aceh Development Institute (ADI). (2022). Impact of Sharia-compliant microfinance on local economies: A case study of Aceh.

<sup>20</sup> Aceh Provincial Government. (2022). Report on microfinance institutions in Aceh.

<sup>21</sup> Badan Pusat Statistik (BPS). (2021). Statistical report on poverty alleviation in Indonesia.

<sup>22</sup> UN Women. (2021). Gender equality and microfinance: The impact on women entrepreneurs.

for promoting inclusive, ethical, and culturally embedded financial practices (World Bank, 2022)<sup>23</sup>.

From an academic perspective, the evidence from BPRS operations enriches debates on the effectiveness of microfinance in advancing the Sustainable Development Goals (SDGs). The observed correlation between access to sharia-compliant financing and improved socio-economic indicators highlights the importance of context-specific approaches to poverty alleviation and inequality reduction (Khan & Bhatti, 2020)<sup>24</sup>. This contribution is particularly valuable to the literature on Islamic microfinance, where empirical evidence remains comparatively underdeveloped.

Looking forward, the trajectory of BPRS in Aceh appears promising. The growing demand for ethical and sharia-compliant financial services, supported by government policies, will likely expand their role in the regional financial system. Moreover, digital transformation, particularly mobile banking and fintech integration, offers opportunities to extend outreach and improve efficiency (McKinsey & Company, 2023)<sup>25</sup>. Nevertheless, challenges remain, including the need for continuous capacity building, regulatory compliance, and innovation to maintain competitiveness in Indonesia's evolving financial sector. Collaborations with local NGOs and community-based organizations may further enhance BPRS's ability to deliver inclusive and sustainable services.

In sum, the case of BPRS under the Qanun LKS illustrates the transformative potential of sharia-compliant microfinance for economic development in Aceh. By promoting financial inclusion, reducing poverty, empowering women, and fostering entrepreneurship, BPRS has emerged as a cornerstone of the region's development strategy. With continued innovation and institutional support, BPRS is well positioned to strengthen Aceh's financial ecosystem and contribute meaningfully to sustainable and inclusive development.

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<sup>23</sup> World Bank. (2022). Financial inclusion and economic development in Indonesia.

<sup>24</sup> Khan, A., & Bhatti, M. I. (2020). Islamic microfinance: A study of the impact on poverty alleviation. *Journal of Islamic Finance*.

<sup>25</sup> McKinsey & Company. (2023). Digital transformation in the financial sector: Opportunities for microfinance.

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