

## **FROM CONVENTIONAL TO ISLAMIC FINANCE: IMPLICATIONS FOR FINANCIAL INCLUSION IN ACEH**

**DIRA ABDI**

Universitas Islam Kebangsaan Indonesia, Aceh, Indonesia  
Email: [diraabdi16@gmail.com](mailto:diraabdi16@gmail.com)

**Abstract:** The transition from conventional to Islamic finance in Aceh represents a unique case of financial system transformation driven by religious, cultural, and regulatory imperatives. This study examines the drivers, challenges, and outcomes of this transition, with a specific focus on its implications for financial inclusion. Employing a mixed-methods design, the research integrates qualitative interviews with policymakers, bank managers, and community leaders, alongside survey data from 200 residents across urban and rural settings. Findings reveal that Islamic finance, anchored in Shariah principles, has expanded access to financial services for underserved groups, particularly women and micro-entrepreneurs, through microfinance programs and risk-sharing mechanisms. The establishment of the Aceh Shariah Financial Authority has strengthened governance, enhanced public trust, and facilitated a 30% increase in Islamic banks since 2020. However, challenges remain, including uneven literacy, misconceptions about Islamic finance, and gaps in technological adoption. The study contributes to the literature by highlighting Aceh's distinctive socio-religious context, while offering insights into the role of regulation, innovation, and education in advancing financial inclusion. The findings suggest that Aceh's experience can serve as a reference model for regions seeking ethical and culturally embedded approaches to inclusive financial development.

**Keywords:** Islamic finance, financial inclusion, Aceh, Shariah compliance, microfinance

**Abstrak:** Transisi dari keuangan konvensional ke keuangan syariah di Aceh merepresentasikan perubahan sistem keuangan yang dipengaruhi oleh faktor religius, budaya, dan regulasi. Penelitian ini bertujuan menganalisis pendorong, tantangan, serta implikasi transisi tersebut terhadap inklusi keuangan. Metode yang digunakan adalah mixed-methods dengan menggabungkan wawancara kualitatif bersama pembuat kebijakan, manajer bank, dan tokoh masyarakat, serta survei terhadap 200 responden dari wilayah perkotaan dan pedesaan. Hasil penelitian menunjukkan bahwa keuangan syariah yang berlandaskan prinsip-prinsip syariah telah memperluas akses layanan keuangan bagi kelompok yang kurang terlayani, khususnya perempuan dan pelaku usaha mikro, melalui program pembiayaan mikro dan mekanisme berbagi risiko. Pembentukan Otoritas Jasa Keuangan Syariah Aceh turut memperkuat tata kelola, meningkatkan kepercayaan publik, serta mendorong peningkatan jumlah bank syariah hingga 30% sejak 2020. Meski demikian, masih terdapat tantangan berupa rendahnya literasi, miskonsepsi terkait produk syariah, dan keterbatasan pemanfaatan teknologi. Kontribusi penelitian ini terletak pada penguatan pemahaman mengenai konteks sosio-religius Aceh, sekaligus memberikan rekomendasi kebijakan mengenai peran regulasi, inovasi, dan edukasi dalam meningkatkan inklusi keuangan. Temuan ini menegaskan bahwa pengalaman Aceh dapat menjadi model rujukan bagi wilayah lain yang ingin mengintegrasikan sistem keuangan etis dan berbasis budaya.

**Kata Kunci:** keuangan syariah, inklusi keuangan, Aceh, kepatuhan syariah, pembiayaan mikro.

## Introduction

The global financial system has long been dominated by conventional finance, which is characterized by interest-based lending, risk transfer, and profit maximization. While conventional banking provides essential services such as loans, savings, and investments, it has been criticized for contributing to inequality and for its limited outreach to low-income and rural populations (Zarif, 2020; World Bank, 2021)<sup>1</sup>. In Indonesia, conventional banks historically focused on urban centers, leaving rural regions such as Aceh underserved.

By contrast, Islamic finance—rooted in Sharia principles—prohibits *riba* (interest), emphasizes profit-and-loss sharing, and promotes ethical investment while avoiding *gharar* (excessive uncertainty) and *haram* (forbidden) activities. Globally, the industry has experienced rapid growth, with assets valued at approximately USD 2.88 trillion in 2021 (Islamic Financial Services Board [IFSB], 2022)<sup>2</sup>. In Indonesia, Islamic banking has expanded at an annual rate of around 10%, reflecting rising awareness and demand for Sharia-compliant products (Bank Indonesia, 2021)<sup>3</sup>. This development provides opportunities to enhance financial inclusion in Aceh, a province with strong Islamic values.

Financial inclusion—the equitable access to financial services such as credit, savings, insurance, and payment systems—is critical for reducing poverty and improving well-being. Yet, around 1.7 billion adults remain unbanked globally, with the majority concentrated in developing economies (Demirgüç-Kunt et al., 2021)<sup>4</sup>. In Aceh, only 49% of adults have access to formal financial services, significantly below the national average of 76% (Otoritas Jasa Keuangan [OJK], 2022)<sup>5</sup>. Barriers include geographical isolation, limited financial literacy, and a shortage of tailored products. The long-term economic effects of the 2004 tsunami have further constrained financial development (Haq, 2021)<sup>6</sup>. Islamic finance, by aligning with cultural and religious norms, has the potential to address these gaps and foster broader financial participation.

Against this backdrop, this study seeks to analyze the transition from conventional to Islamic finance in Aceh and its implications for financial inclusion. Specifically, it aims to (1) identify the key drivers, barriers, and opportunities in this transition, and (2) assess how Islamic finance can advance financial inclusion in the region. These objectives give rise to two central research questions: (a) what challenges and opportunities emerge in the transition from conventional to Islamic finance in Aceh, and (b) how does Islamic finance contribute to enhancing financial inclusion in the province?

By addressing these questions, this study contributes to the literature on financial inclusion and Islamic finance by offering insights relevant to policymakers, regulators, and financial institutions. It highlights the importance of regulatory frameworks, market dynamics, and consumer trust, while also emphasizing the role of financial education and technology in broadening outreach. Ultimately, Islamic finance in Aceh is not merely a shift in financial instruments, but a cultural and ethical realignment that could catalyze inclusive growth and economic resilience.

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<sup>1</sup> Zarif, A. (2020). The impact of conventional banking on economic inequality: A global perspective. *International Journal of Financial Studies*, 8(4), 35.

<sup>2</sup> Islamic Financial Services Board (IFSB). (2022). *Islamic financial services industry stability report 2022*. IFSB.

<sup>3</sup> World Bank. (2021). *Global financial development report 2021: Financial inclusion*. World Bank.

<sup>4</sup> Demirgüç-Kunt, A., Klapper, L. F., & Singer, D. (2021). *The global Findex database 2021: Financial inclusion, digital payments, and resilience in the COVID-19 pandemic*. World Bank Publications.

<sup>5</sup> Otoritas Jasa Keuangan. (2022). *Statistik inklusi keuangan Indonesia 2022*. OJK.

<sup>6</sup> Haq, F. (2021). Post-tsunami recovery in Aceh: A financial inclusion perspective. *Journal of Southeast Asian Economies*, 38(1), 45–60.

## Methods

This study employs a mixed-methods design to capture both the socio-cultural dimensions and measurable outcomes of the transition from conventional to Islamic finance in Aceh. The qualitative strand explores stakeholder perspectives—bank managers, policymakers, community leaders, and consumers—highlighting cultural and religious influences on financial behavior (Hassan & Lewis, 2020)<sup>7</sup>. The quantitative strand measures financial inclusion indicators such as access to banking, savings, and credit, thereby complementing qualitative insights and strengthening validity (Creswell & Creswell, 2022)<sup>8</sup>.

### *Data Collection and Sampling*

Primary data were obtained through semi-structured interviews with 15–20 stakeholders and surveys of about 200 adult residents across diverse demographics. Secondary data, including reports from government and international institutions, were used for triangulation and context (Ali & Rani, 2021; World Bank, 2021)<sup>9</sup>. Purposive sampling ensured that participants represented both practitioners and consumers of Islamic finance (Bakar & Rahman, 2021; Nurdin & Rahman, 2022)<sup>10</sup>.

### *Data Analysis*

Qualitative data were examined using thematic analysis with NVivo, while survey data were analyzed with SPSS using descriptive statistics, correlation, and regression (Bryman, 2021; Field, 2021)<sup>11</sup>. This integration enabled both contextual understanding and empirical assessment of Islamic finance's role in promoting financial inclusion.

## Results and Discussion

The financial system in Aceh has undergone a profound transformation shaped by historical, cultural, and socio-religious dynamics. Traditionally, Aceh's economy relied on agrarian activities and informal community-based lending networks. However, the introduction of conventional banks in the late 20th century marked a shift toward formalized financial services, although these systems often conflicted with the community's Islamic values (Hassan & Aliyu, 2020)<sup>12</sup>.

Following the 2004 tsunami, which reshaped the region's economic structure, the demand for financial services aligned with Sharia principles grew stronger. The establishment of Bank Aceh Syariah and other Islamic financial institutions represented a turning point, reflecting both regulatory encouragement and cultural-religious imperatives. By 2022, Islamic banking assets in Indonesia accounted for approximately 13% of the total banking sector, with Aceh displaying accelerated growth due to its unique socio-religious environment (OJK, 2022)<sup>13</sup>.

### *Drivers of the Transition*

The transition to Islamic finance in Aceh has been influenced by three interrelated drivers. First, there is a strong cultural and religious preference for Sharia-compliant products. Surveys indicate that more than 70% of the population in Aceh favors Islamic banking due to its ethical and faith-

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<sup>7</sup> Hassan, M. K., & Lewis, M. K. (2020). *Handbook of Islamic banking*. Edward Elgar Publishing.

<sup>8</sup> Creswell, J. W., & Creswell, J. D. (2022). *Research design: Qualitative, quantitative, and mixed methods approaches* (5th ed.). SAGE Publications.

<sup>9</sup> Ali, A., & Rani, F. (2021). Financial inclusion in Indonesia: A study of Islamic finance. *Journal of Islamic Finance*, 10(1), 45–58.

<sup>10</sup> Bakar, N. A., & Rahman, M. A. (2021). The role of Islamic finance in promoting financial inclusion in Aceh. *International Journal of Islamic Economics and Finance*, 4(2), 123–137.

<sup>11</sup> Bryman, A. (2021). *Social research methods* (6th ed.). Oxford University Press.

<sup>12</sup> Hassan, M. K., & Aliyu, S. (2020). Islamic finance and financial inclusion: Evidence from developing countries. *Journal of Islamic Accounting and Business Research*, 11(2), 215–230.

<sup>13</sup> OJK. (2022). *Financial inclusion in Indonesia: 2022 report*. Financial Services Authority of Indonesia.

based foundations (Indonesian Islamic Banking Association, 2021)<sup>14</sup>. Second, the expansion of product offerings, including microfinance programs and Maqasid Sharia-oriented services, has allowed Islamic banks to meet the needs of small entrepreneurs and marginalized groups (Zainuddin, 2021)<sup>15</sup>. Finally, supportive government policies—such as the establishment of the Aceh Financial Services Authority (AFSA)—have created a regulatory framework that fosters competition, compliance, and innovation within the Islamic finance ecosystem (AFSA, 2022)<sup>16</sup>.

#### *Implications for Financial Inclusion*

The shift to Islamic finance has substantially improved financial inclusion in Aceh. Data from Bank Indonesia shows that the proportion of unbanked individuals decreased from 40% in 2019 to 25% in 2022, largely driven by Islamic banking outreach (BI, 2022)<sup>17</sup>. Accessibility has expanded not only through microfinance but also through products emphasizing risk-sharing rather than risk-transfer, enabling households without collateral to participate in the financial system (Hassan & Aliyu, 2020)<sup>18</sup>.

The inclusivity of Islamic finance has had tangible impacts on underserved populations. Women, who have historically faced structural barriers, now benefit from tailored programs such as Bank Aceh Syariah's Women Empowerment Fund, which provides capital for women-led enterprises (Zainuddin, 2021)<sup>19</sup>. Similarly, Islamic banks have initiated financial literacy programs and CSR activities, including Zakat-funded education and healthcare, directly addressing poverty and inequality (OJK, 2022)<sup>20</sup>. These initiatives reflect the broader maqasid-oriented approach of Islamic economics, which prioritizes social justice and welfare alongside profit generation.

#### *Limitations and Future Directions*

Despite significant progress, several challenges remain. Public awareness of Islamic finance products is uneven, and misconceptions persist, particularly among rural communities. Strengthening financial literacy and outreach efforts will be critical to maximizing inclusivity. Furthermore, while regulatory frameworks are supportive, inconsistencies in implementation may hinder growth. Future studies should assess the impact of regulatory reforms and explore how technology—such as Islamic fintech—can further expand financial access in Aceh.

#### *Research Gap and Contribution*

This study contributes to the literature by providing empirical insights into the role of Islamic finance in advancing financial inclusion within a culturally unique setting. Unlike prior research that largely focuses on theoretical or macroeconomic dimensions, this study emphasizes Aceh's socio-religious drivers, regulatory frameworks, and community-level outcomes. By highlighting successful case studies, such as women's empowerment initiatives and literacy programs, the findings offer valuable lessons for policymakers and practitioners seeking to replicate Aceh's experience in other regions.

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<sup>14</sup> Indonesian Islamic Banking Association. (2021). Survey on Islamic banking preferences in Indonesia. Jakarta: IIBA.

<sup>15</sup> Zainuddin, A. (2021). Empowering women through Islamic microfinance: Evidence from Aceh. *Journal of Islamic Finance*, 10(1), 101–115.

<sup>16</sup> AFSA. (2022). Annual report 2022. Aceh Financial Services Authority.

<sup>17</sup> Bank Indonesia. (2022). Financial inclusion in Aceh. Jakarta: Bank Indonesia.

<sup>18</sup> Hassan, M. K., & Aliyu, S. (2020). Islamic finance and financial inclusion: Evidence from developing countries. *Journal of Islamic Accounting and Business Research*, 11(2), 215–230.

<sup>19</sup> Zainuddin, A. (2021). Empowering women through Islamic microfinance: Evidence from Aceh. *Journal of Islamic Finance*, 10(1), 101–115.

<sup>20</sup> OJK. (2022). Financial inclusion in Indonesia: 2022 report. Financial Services Authority of Indonesia.

## Conclusion

The shift from conventional to Islamic finance in Aceh has significantly advanced financial inclusion by aligning ethical Shariah principles with local socio-cultural values. Islamic banking assets in Indonesia grew 11.5% in 2022, with Aceh showing the strongest uptake (OJK, 2022)<sup>21</sup>. Microfinance institutions such as Baitul Maal wa Tamwil (BMT) have expanded access for small businesses, with 45% of micro-entrepreneurs reporting higher revenues after using Islamic financial services (World Bank, 2021)<sup>22</sup>.

The prohibition of *riba* and emphasis on risk-sharing have drawn in groups previously excluded from conventional banking. A local survey found that 62% of respondents preferred Islamic financial products for fairness and cultural relevance (Aceh Provincial Government, 2021). Institutional support has been equally important: since its establishment, the Aceh Shariah Financial Authority has ensured regulatory compliance, promoted literacy, and facilitated a 30% rise in Islamic banks since 2020 (OJK, 2022)<sup>23</sup>.

Looking ahead, longitudinal studies are needed to assess the sustainability of Islamic finance in reducing poverty and promoting growth. Digital innovations tailored to Shariah-compliant finance also present opportunities to reach rural and youth populations. Comparative analyses between Islamic and conventional systems, as well as behavioral studies on adoption barriers, will provide insights for policy and practice. Evaluating financial literacy initiatives remains crucial to enhance consumer engagement and inclusion.

In conclusion, Aceh illustrates how Islamic finance, supported by regulation, innovation, and literacy, can foster inclusive and sustainable development. Its experience offers a model for other regions seeking culturally aligned and ethical approaches to financial inclusion.

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<sup>21</sup> Financial Services Authority of Indonesia (OJK). (2022). Annual report 2022.

<sup>22</sup> World Bank. (2021). Microfinance and economic development in Aceh: A case study.

<sup>23</sup> Financial Services Authority of Indonesia (OJK). (2022). Annual report 2022.

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