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Economic Competitiveness in Aceh under the Islamic Financial System

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Abstract

The full implementation of the Sharia Financial Institutions (LKS) system in Aceh constitutes a unique regional policy in Indonesia, with potential implications for the economic structure and competitiveness. This study aims to examine whether the implementation of the LKS system contributes to improving Aceh's regional economic competitiveness through financing growth, constitutes a unique regional policy in Indonesia, and has potential implications for Gross Regional Domestic Product (GRDP) and financial inclusion. The research employs a descriptive quantitative approach using secondary data obtained from the Financial Services Authority (OJK), Statistics Indonesia (BPS) Aceh, and the Ministry of Finance for the period 2022–2024. The analysis focuses on financing trends, the regional economic structure, and the development of financial inclusion and the distribution of Sharia Microcredit (KUR Syariah). The findings reveal that Islamic banking financing in Aceh grew by 10.04% (May 2022–May 2023), reaching IDR 36.10 trillion in June 2023. Financial inclusion in Aceh reached 88.3%, exceeding the national average (83.5%), while the distribution of Sharia KUR increased to IDR 4.93 trillion in 2024. Nevertheless, Aceh's economic structure remains dominated by the primary sector (32.06%), indicating that the impact of financing expansion on structural economic transformation remains limited. The study concludes that the LKS system has strengthened financial intermediation and inclusion in Aceh; however, its contribution to enhancing regional competitiveness remains gradual. Strengthening productive financing, promoting sectoral diversification, and integrating financial and regional development policies are essential to achieve sustainable economic transformation.

Keywords: *Sharia Financial Institutions, Islamic financing, regional competitiveness, GRDP, financial inclusion.*

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Abstrak

Penerapan sistem Lembaga Keuangan Syariah (LKS) secara menyeluruh di Aceh merupakan kebijakan unik di Indonesia yang berpotensi memengaruhi struktur dan daya saing ekonomi daerah. Penelitian ini bertujuan untuk menganalisis apakah implementasi sistem LKS berkontribusi terhadap peningkatan daya saing ekonomi Aceh melalui pertumbuhan pembiayaan, kontribusi terhadap Produk Domestik Regional Bruto (PDRB), dan peningkatan inklusi keuangan. Penelitian ini menggunakan pendekatan kuantitatif deskriptif dengan analisis data sekunder yang bersumber dari Otoritas Jasa Keuangan (OJK), Badan Pusat Statistik (BPS) Aceh, dan Kementerian Keuangan periode 2022–2024. Analisis dilakukan melalui evaluasi tren pembiayaan, struktur ekonomi regional, serta perkembangan inklusi dan penyaluran Kredit Usaha Rakyat (KUR) Syariah. Hasil penelitian menunjukkan bahwa pembiayaan perbankan syariah di Aceh tumbuh 10,04% (Mei 2022–Mei 2023) dan mencapai Rp36,10 triliun pada Juni 2023. Tingkat inklusi keuangan mencapai 88,3%, lebih tinggi dari rata-rata nasional (83,5%), serta penyaluran KUR Syariah meningkat menjadi Rp4,93 triliun pada 2024. Namun demikian, struktur ekonomi Aceh masih didominasi sektor primer (32,06%), sehingga dampak pembiayaan terhadap transformasi struktural ekonomi masih terbatas. Temuan ini menunjukkan bahwa implementasi LKS berhasil memperkuat intermediasi dan inklusi keuangan daerah, tetapi kontribusinya terhadap peningkatan daya saing ekonomi masih bersifat gradual. Oleh karena itu, diperlukan penguatan pembiayaan produktif, diversifikasi sektor ekonomi, serta integrasi kebijakan keuangan dan pembangunan daerah untuk mendorong transformasi ekonomi yang lebih berkelanjutan.

Kata kunci: Lembaga Keuangan Syariah, pembiayaan syariah, daya saing ekonomi, PDRB, inklusi keuangan, Aceh.

INTRODUCTION

The full implementation of the Islamic Financial Institutions (IFI) system in the Province of Aceh represents a unique economic policy within the context of regional development in Indonesia. Through Qanun Aceh Number 11 of 2018, all financial institutions operating in Aceh are required to operate in accordance with sharia principles without exception. This policy makes Aceh the only province in Indonesia that comprehensively implements an Islamic financial system across banking, financing, and other financial instruments. The implementation of this policy not only reflects the region's special autonomy status but also has implications for the structure of financial intermediation and capital allocation behavior at the local level (Law Number 11 of 2006).

This topic is important to examine because the development of the Islamic financial system in Aceh affects various macroeconomic and microeconomic aspects, including regional economic competitiveness. Regional economic competitiveness refers to a region's ability to enhance economic growth, attract investment, increase productivity, and sustainably improve public welfare. According to Statistics Indonesia (BPS), Aceh's economy in 2024 grew cumulatively by 4.66 percent compared to the previous period (c-to-c), with Gross Regional

Domestic Product (GRDP) at constant 2010 prices reaching approximately IDR 40.85 trillion, and at current prices reaching IDR 65.36 trillion. This achievement indicates an acceleration compared to previous years (4.23 percent in 2023 and 4.21 percent in 2022), reflecting a post-pandemic economic recovery trend (BPS, 2025).

However, this moderate economic growth is still accompanied by several structural challenges. Aceh's economic structure remains dominated by the agricultural sector, which accounts for the largest share of GRDP (approximately 30.97 percent), followed by trade (14.99 percent) and public administration (9.08 percent). The financial services sector, which includes Islamic financing activities, exhibits high growth (approximately 22.04 percent), yet its scale remains relatively small within Aceh's overall economic structure (BPS, 2025).

Beyond economic growth, other welfare indicators also show notable developments. The poverty rate in Aceh declined to approximately 12.64 percent by the end of 2024, a decrease of 1.59 percentage points from March 2024. This decline also reflects a long-term trend over the past two decades, during which Aceh has been among the provinces with the fastest rates of poverty reduction in Indonesia.

Although the data above indicate positive economic progress, there remains a lack of comprehensive studies directly linking these macroeconomic indicators to the fully implemented Islamic financial system. Previous studies on Islamic banking in Indonesia and other countries have highlighted the role of Islamic financial institutions in supporting real-sector growth, MSME working capital, and banking stability (Abduh & Omar, 2012). Financial economics theory also emphasizes that an efficient financial system can optimally allocate resources, thereby enhancing productivity and economic growth (Levine, 1997). From a sharia perspective, profit-and-loss sharing financing schemes (such as musyarakah and mudharabah) are believed to provide stronger incentives for productive sectors compared to conventional interest-based systems (Chapra, 2000).

However, empirical studies at the provincial level, particularly in Aceh, remain relatively limited. Most local research focuses on consumer behavior and public preferences toward Islamic banking products, Islamic financial literacy, or micro-level impacts on MSMEs. Explicit analyses that consider regional economic competitiveness indicators—such as sectoral GRDP growth, investment contribution, labor productivity, and financial inclusion—within the context of Aceh's full implementation of IFIs are still rarely found. Yet, understanding this relationship is crucial for evaluating the effectiveness of public policy in promoting equitable and sustainable economic development.

Thus, there exists a significant research gap between micro-level studies limited to interactions between Islamic financial institutions and customers, and macro-level analyses mapping the relationship between Islamic financial system policies and overall regional economic outcomes. This gap presents an opportunity to assess whether the Islamic financial system has genuinely contributed to enhancing Aceh's economic competitiveness, whether through strengthening productive-sector activities, increasing regional investment, or developing financial-market capacity.

This study offers several contributions. First, it empirically examines the relationship between a comprehensive Islamic financial system and Aceh's economic competitiveness

indicators, rather than focusing solely on aggregate economic growth. Second, it utilizes Aceh as a policy laboratory—a unique case in Indonesia—to evaluate the real implications of implementing an Islamic financial system within a regional development context. Third, this study integrates macro-quantitative indicators such as GRDP, economic structure, poverty indicators, and financial inclusion with financial intermediation theory and the principles of maqashid al-shariah as a cohesive theoretical foundation.

Accordingly, the objectives of this research are: (1) to analyze the dynamics of Aceh's economic competitiveness indicators following the full implementation of Islamic Financial Institutions; (2) to examine the relationship between the development of Islamic financial institutions and Aceh's regional economic performance; and (3) to formulate policy implications for strengthening a more productive Islamic financial system that contributes to enhancing regional economic competitiveness. The findings of this study are expected to enrich the Islamic economics literature and provide evidence-based policy recommendations for local governments and financial sector policymakers.

THEORETICAL REVIEW

The study of the relationship between the Islamic financial system and regional economic competitiveness is rooted in two main strands of theory: financial intermediation theory in conventional economics and financial theory within Islamic economics. Both provide a conceptual foundation for explaining how the structure and characteristics of a financial system influence growth, productivity, and a region's competitive capacity.

1. Financial Intermediation Theory and Economic Growth

Financial intermediation theory positions financial institutions as key actors in efficiently allocating resources from surplus units to deficit units. A well-developed financial system reduces transaction costs, minimizes information asymmetry, and enhances the efficiency of capital allocation. Within this framework, financial sector development is positively correlated with economic growth and productivity (Levine, 1997).

King and Levine (1993) demonstrate that indicators of financial development—such as the credit-to-GDP ratio and the depth of the banking system—have a significant relationship with long-term economic growth. The mechanism operates through increased productive investment, technological innovation, and real sector efficiency. Thus, the financial system is not merely a "servant" of the real sector but also a catalyst for structural economic transformation.

Schumpeter earlier emphasized that banking plays a central role in supporting innovation through entrepreneurial financing (Schumpeter, 1911). In a regional context, the ability of financial institutions to provide productive financing determines regional competitiveness, particularly in promoting MSMEs and leading sectors. Therefore, if the Islamic financial system in Aceh effectively performs its intermediation function, it theoretically has the potential to enhance regional economic competitiveness.

2. The Concept of Regional Economic Competitiveness

Economic competitiveness generally refers to a region's ability to generate sustainable income and welfare under conditions of open competition. Porter (1990) explains that competitiveness is determined by factor productivity, innovation, institutional quality, and market efficiency. In a regional context, competitiveness indicators include GRDP growth, investment levels, labor productivity, infrastructure quality, and institutional stability.

The World Economic Forum (WEF, 2019), through the Global Competitiveness Index, emphasizes that a stable and inclusive financial system is a key pillar of competitiveness. An inclusive financial system expands access to financing for businesses, increases economic participation, and strengthens resilience to external shocks. In Aceh, the comprehensive implementation of an Islamic financial system can be viewed as an effort to build a more stable, value-based financial system.

3. Islamic Finance Theory and Its Fundamental Principles

Islamic finance is based on the prohibition of riba (interest), gharar (excessive uncertainty), and maysir (speculation), while emphasizing justice and partnership in economic transactions. Chapra (2000) argues that the Islamic financial system is designed to promote stability, distributive justice, and strong linkages with the real sector. Profit-and-loss sharing mechanisms such as mudharabah and musyarakah create a risk-sharing system that is believed to be more stable than conventional interest-based (risk-transfer) systems.

Iqbal and Mirakhor (2011) argue that the asset-backed financing principle in Islamic finance prevents credit expansion that is unsupported by real economic activity, thereby potentially reducing systemic crisis risk. In the context of regional development, profit-sharing-based financing can enhance local entrepreneurship and strengthen the productive economic structure.

Furthermore, the maqashid al-shariah framework—which encompasses the protection of religion, life, intellect, lineage, and wealth—serves as the normative foundation of Islamic economics (Al-Ghazali, 1993). In economic terms, maqashid emphasizes the attainment of public welfare (maslahah) and collective prosperity. Therefore, the Islamic financial system does not merely pursue economic efficiency but also social justice and equitable distribution.

4. Islamic Finance and Economic Growth: Empirical Evidence

Several empirical studies indicate a positive relationship between the development of Islamic banking and economic growth. Abduh and Omar (2012) find that Islamic bank financing has a long-term impact on economic growth in several countries. Another study by Beck, Demirgüç-Kunt, and Merrouche (2013) shows that Islamic banks were relatively more stable during the global financial crisis compared to conventional banks, highlighting their potential contribution to systemic stability.

However, some studies also show that the impact of Islamic finance on growth depends heavily on governance quality, industry scale, and integration with the real sector (Furqani & Mulyany, 2009). This implies that the success of the Islamic financial system in enhancing competitiveness does not automatically result from regulatory change alone but requires institutional strengthening and product innovation.

5. Conceptual Framework: Islamic Financial Institutions (IFI) and Aceh's Competitiveness

In Aceh, the comprehensive implementation of Islamic Financial Institutions (IFIs) through regional regulation has driven structural transformation in the banking and finance system. Theoretically, the relationship between the Islamic financial system and economic competitiveness can be explained through three main channels.

First, the productive intermediation channel: increased Islamic financing to MSMEs and leading regional sectors can raise output and productivity.

Second, the systemic stability channel: risk-sharing mechanisms and the prohibition of speculation can potentially reduce volatility and increase investor confidence.

Third, the financial inclusion channel: a value-based system with strong social proximity can increase public participation in the formal financial system, thereby expanding the productive economic base.

If these three channels operate effectively, the Islamic financial system can, in theory, strengthen Aceh's economic competitiveness by improving productivity, stability, and public welfare.

6. Theoretical Synthesis

Based on financial intermediation theory (Levine, 1997; King & Levine, 1993), competitiveness theory (Porter, 1990), and Islamic finance theory (Chapra, 2000; Iqbal & Mirakhor, 2011), it can be concluded that the financial system plays a strategic role in shaping a region's competitive capacity. The Islamic financial system, with its risk-sharing characteristics and strong linkage to the real sector, conceptually holds greater potential to support sustainable and inclusive development.

However, its effectiveness is largely determined by the quality of implementation, market depth, and integration with regional development policies. Therefore, an empirical analysis of the Aceh case is essential to examine whether these theoretical constructs are realized in actual policy implementation.

RESEARCH METHOD

This study employs a quantitative approach with an explanatory research design aimed at testing the causal relationship between the development of the Islamic Financial Institutions (IFI) system and the economic competitiveness of Aceh Province. A quantitative approach is chosen because the study focuses on examining statistically measurable relationships among variables and seeks to explain the impact of Islamic financial system policies on regional economic indicators (Creswell, 2014).

1. Research Design and Approach

In terms of design, this study applies a time series analysis approach by comparing Aceh's economic indicators before and after the full implementation of the IFI system based on Qanun Aceh Number 11 of 2018. Time series analysis is relevant for examining the dynamics of changes in economic variables over a specific period and for detecting trend patterns and long-term relationships (Gujarati & Porter, 2009).

Additionally, this research employs a quantitative policy impact evaluation approach to assess the policy's implications for economic outcomes (Wooldridge, 2013). In this context, the implementation of the IFI system is positioned as a policy intervention that may influence regional economic competitiveness variables.

2. Type and Sources of Data

This study uses secondary data obtained from official and credible sources. Regional economic indicator data are collected from Statistics Indonesia (BPS) for Aceh Province, including Gross Regional Domestic Product (GRDP) at constant and current prices, the poverty rate, the open unemployment rate, and the sectoral economic structure.

Meanwhile, data on the development of the Islamic financial system are obtained from the Financial Services Authority (OJK), Bank Indonesia (BI), and the annual reports of Islamic banks operating in Aceh. These include data on total assets, total financing, MSME financing, and Islamic financial inclusion levels. The use of official secondary data is essential to ensure the validity and reliability of the analysis (Sekaran & Bougie, 2016).

The observation period covers the years before and after full implementation of the IFI system (e.g., 2015–2024), enabling comparative analysis and identification of medium-term trends.

3. Research Variables and Operationalization

This study uses two main groups of variables: independent variables and dependent variables. Independent Variable (X): Development of the IFI System, measured by the following indicators:

- Total assets of Islamic banking in Aceh
- Total Islamic financing
- Financing to the MSME sector
- Financing-to-GRDP ratio

Dependent Variable (Y): Regional Economic Competitiveness, measured by the following indicators:

- Real GRDP growth
- GRDP per capita
- Regional investment level
- Open unemployment rate
- Poverty rate

The selection of these indicators is based on the concept of regional competitiveness, which emphasizes productivity, welfare, and investment capacity as key components (Porter, 1990; WEF, 2019).

4. Data Analysis Techniques

Data analysis is conducted in several stages. First, descriptive analysis is used to describe trends in the development of the research variables before and after the implementation of the IFI system. This analysis aims to provide an initial overview of economic growth patterns and the dynamics of the Islamic financial sector in Aceh.

Second, inferential statistical testing is conducted using multiple linear regression models to examine the influence of IFI development variables on economic competitiveness indicators. Regression analysis is used to estimate causal relationships among variables and measure the significance of both partial and simultaneous effects (Gujarati & Porter, 2009).

In general, the model used can be formulated as follows:

$$Y_t = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \varepsilon_t$$

Where:
Y_t = economic competitiveness indicator at period t
X_{1t}, X_{2t}, X_{3t} = IFI development indicators
ε_t = error term

Before conducting regression estimation, the data are tested using classical assumption tests, including normality, multicollinearity, heteroskedasticity, and autocorrelation tests to ensure model validity (Wooldridge, 2013). If the data exhibit long-term relationships and integration among variables, additional analyses such as the Error Correction Model (ECM) or cointegration tests may be employed to examine both long-term and short-term relationships simultaneously (Engle & Granger, 1987).

5. Validity and Reliability

Since this study uses secondary data from official government institutions, external validity is relatively assured. However, to ensure consistency of results, data triangulation is conducted by comparing data from multiple official sources, such as BPS, OJK, and BI. The reliability of the analysis is maintained through the use of appropriate statistical software and systematic analytical procedures as recommended in quantitative economic research (Gujarati & Porter, 2009).

6. Research Limitations

This study is limited by the use of aggregate provincial-level data, which may not fully capture micro-level dynamics at the district or municipal level. Furthermore, external factors such as central government fiscal transfers, commodity price fluctuations, and national economic conditions may also influence Aceh's competitiveness and therefore should be considered as control variables in the analysis. With this methodological approach, the study is expected to provide strong empirical evidence regarding the relationship between the IFI system and Aceh's economic competitiveness in an objective and measurable manner.

DATA RESULTS (FINDINGS)

This section presents the results of the empirical analysis covering three main aspects: (1) trends in Islamic financing in Aceh, (2) economic contributions to regional macroeconomic indicators, and (3) the development of Islamic financial inclusion. The analysis is based on secondary data from Statistics Indonesia (BPS), the Financial Services Authority (OJK), and regional Islamic banking reports for the period before and after the full implementation of the IFI system under Qanun Aceh Number 11 of 2018.

1. Trend of Islamic Financing in Aceh

Development of Islamic Banking Financing in Aceh. Data from the Financial Services Authority (OJK) indicate that banking financing in Aceh has shown positive growth in recent years:

- In May 2023, total financing in Aceh reached approximately IDR 35.57 trillion, growing 10.04% compared to the same period in the previous year (May 2022: IDR 32.32 trillion) (OJK, 2023).
- In June 2023, total financing disbursed by Islamic banks in Aceh was recorded at IDR 36.10 trillion, increasing by 1.49% from May 2023 (IDR 35.57 trillion) (OJK, 2023).

Table 1.
Development of Islamic Financing in Aceh (2022–2023)

Period	Total Financing (IDR Trillion)	Growth (%)
May 2022	32.32	—
May 2023	35.57	+10.04%
June 2023	36.10	+1.49%

Source: OJK Aceh – Financing Statistics

The data indicate continuous growth in financing. However, the share of productive financing (e.g., MSMEs and investment) still needs strengthening to contribute more significantly to economic transformation.

Market Share of Islamic Financing in Aceh. The market share of Islamic financing in Aceh is considered moderate at the national level, accounting for approximately 6.87% of total Islamic financing in Indonesia as of June 2023 (OJK Aceh).

This figure shows that although Aceh is the only province mandating a formal Islamic financial system, its contribution to total national Islamic financing remains limited. Strengthening regional capacity is needed to enhance its role.

2. Aceh's Economic Contribution (GRDP)

Gross Regional Domestic Product (GRDP) of Aceh. Statistics Indonesia (BPS) Aceh recorded the following GRDP figures:

- In the fourth quarter of 2024, Aceh's GRDP at current prices reached approximately IDR 65.36 trillion, increasing by around IDR 4.38 trillion compared to the third quarter of 2024 (BPS Aceh, 2025).
- At constant 2010 prices, GRDP for the same period reached IDR 40.85 trillion, indicating real economic growth.

Table 2.
GRDP of Aceh (Q4 2024)

Type of GRDP	Value (IDR Trillion)
Current Prices	65.36
Constant 2010 Prices	40.85

Source: BPS Aceh — GRDP Publication 2020–2024

It should be noted that GRDP figures fluctuate quarterly (for example, Q1 2025 declined to IDR 61.75 trillion), reflecting regional economic dynamics influenced by various internal and external factors.

Economic Structure of Aceh. According to the BSI Economic Outlook 2026, Aceh's economy remains heavily dependent on the primary sector, particularly agriculture, which contributes approximately 32.06% of total GRDP. This indicates that Aceh's economic structure remains largely agrarian and requires diversification into more productive sectors.

3. Financial Inclusion and Access to Finance in Aceh

Financial Inclusion Rate**.** OJK reported that the financial services inclusion rate in Aceh reached 88.3% in 2022, higher than the national rate of 83.5% during the same period. This means that nearly nine out of ten residents in Aceh use formal financial services—including sharia-based services—for transactions, savings, financing, and other purposes.

Table 3.

Financial Inclusion Rate: Aceh vs National (2022)

Region	Inclusion Rate (%)
Aceh	88.3
National	83.5

Source: OJK Aceh — Financial Inclusion Report

The higher inclusion rate reflects significant penetration of banking services in Aceh, which is an important condition for supporting capital access and productive financing.

Sharia People's Business Credit (KUR Syariah) in Aceh. According to the Ministry of Finance report, the disbursement of Sharia People's Business Credit (KUR Syariah) in Aceh in 2024 amounted to approximately IDR 4.93 trillion, distributed to 62,460 debtors, representing a 13.86% increase from 2023 (IDR 4.33 trillion).

Table 4. Sharia People's Business Credit (KUR Syariah) in Aceh (2023–2024)

Year	Sharia KUR Realization (IDR Trillion)	Number of Debtors
2023	4.33	(not specified)
2024	4.93	62,460

(Source: Ministry of Finance – Aceh)

The increase in KUR realization indicates improved access to financing for micro and MSME entrepreneurs, a key component of productive economic development.

Summary of Data Findings. Islamic Financing. Total Islamic financing in Aceh shows positive annual growth exceeding 10%. The national market share remains relatively small (approximately 6.87%). Economic Contribution. Aceh's GRDP reached tens of trillions of rupiah, with moderate annual growth. The economic structure remains dominated by the primary sector, necessitating diversification to achieve stronger growth.

Financial Inclusion. Aceh's financial inclusion index reached 88.3%, above the national average. Sharia KUR disbursement increased significantly, supporting local financing capacity.

The data indicate that although the IFI system in Aceh has encouraged growth in financing and expanded access to financial services, its contribution to the regional macroeconomic structure has been gradual. GRDP values show growth, but the share of productive sectors and the financing directed to the real sector require further strengthening to substantially enhance Aceh's economic competitiveness. Financial inclusion and KUR data indicate increased capital flows to micro and small enterprises; however, the sustainability of their long-term impact on regional economic performance requires further strategic support.

DISCUSSION

Based on the empirical findings presented earlier, three main conclusions emerge: (1) Islamic financing in Aceh has experienced significant growth, (2) regional economic performance has improved but remains structurally dominated by the primary sector, and (3) the level of financial inclusion is relatively high, supported by an increase in Islamic People's Business Credit (KUR Syariah). This section analyzes these findings theoretically and comparatively with previous studies in the literature to strengthen the analytical foundation.

1. Growth of Islamic Financing and Intermediation Effectiveness

Data from OJK indicate that Islamic banking financing in Aceh increased from IDR 32.32 trillion (May 2022) to IDR 35.57 trillion (May 2023), growing by 10.04% (OJK, 2023). The figure continued to rise to IDR 36.10 trillion in June 2023. This double-digit growth suggests that the Islamic Financial Institution (LKS) system has maintained stable expansion in financial intermediation.

In financial development theory, financing growth reflects the strengthening of the intermediation function, which channels funds from surplus units to deficit units (Levine, 1997). Growth exceeding 10% indicates that Aceh's Islamic banking system remains relatively dynamic and has not experienced stagnation following the full conversion to a Sharia-based financial system.

However, Aceh's share of national Islamic financing is approximately 6.87% (OJK, 2023). This implies that although Aceh formally implements a comprehensive Islamic financial system, its contribution to the national Islamic finance industry remains limited. Institutional transformation does not automatically generate economies of scale.

This finding aligns with the study of Beck, Demirgüç-Kunt, and Merrouche (2013), which shows that Islamic banking expansion does not necessarily correlate directly with improvements in regional competitiveness, particularly when financing structures are not predominantly directed toward high-value-added productive sectors. Therefore, financing growth in Aceh can be categorized as quantitative expansion, but it does not yet fully reflect structural economic transformation.

2. GRDP Growth and Economic Structure: The Challenge of Transformation

Data from BPS show that Aceh's GRDP in the fourth quarter of 2024 reached IDR 65.36 trillion (current prices) and IDR 40.85 trillion (constant 2010 prices) (BPS Aceh, 2025). These figures indicate both nominal and real regional economic growth. However, the economic structure remains dominated by the agricultural sector at 32.06% (BSI Economic Outlook, 2026).

From the perspective of endogenous growth theory, the financial sector significantly influences growth when it fosters innovation and sectoral diversification (Aghion & Howitt, 1992). The continued dominance of the primary sector suggests that transformation toward an industry- and high-value service-based economy remains limited.

This implies that although financing has increased, its impact on economic structure is not yet optimal. Several factors may explain this condition:

- The scale of productive financing is not yet sufficient to stimulate industrialization.
- Aceh's dependence on the primary sector results in relatively low growth elasticity to financing expansion.
- The regional economy remains heavily influenced by government spending and central fiscal transfers.

Levine (2005) emphasizes that the impact of the financial system on growth depends strongly on institutional quality and financial depth. In Aceh's context, the Islamic system is formally comprehensive, yet regional financial depth remains limited compared to provinces with stronger industrial bases.

Thus, the contribution of Islamic financial institutions to GRDP appears gradual rather than accelerative.

3. Financial Inclusion: High Access, Productivity Challenges

Aceh's financial inclusion rate reached 88.3%, higher than the national average of 83.5% (OJK, 2022). This figure indicates thebroad penetration of formal financial services. Theoretically, financial inclusion contributes to economic growth and poverty reduction through improved access to capital and consumption smoothing (Demirgüç-Kunt et al., 2018). However, inclusion must be evaluated not only by access but also by productive utilization. The increase in KUR Syariah from IDR 4.33 trillion (2023) to IDR 4.93 trillion (2024), involving 62,460 debtors, reflects expanded microfinance access (Kemenkeu, 2024). This serves as a positive indicator for the MSME sector.

In Islamic economic theory, financing for micro and small enterprises plays a strategic role because it relates to distributive justice and the strengthening of the real sector (Chapra, 2000). The growth of KUR Syariah suggests that the Islamic financial system is beginning to generate tangible impacts on micro-enterprises. Nevertheless, to enhance regional competitiveness, microfinance must evolve into medium-scale productive financing and industrial investment. Otherwise, its impact will remain limited to household economic stabilization rather than macroeconomic transformation.

4. Implications for Aceh's Economic Competitiveness

Regional competitiveness relates to the capacity to generate added value, improve productivity, and attract investment (Porter, 1990). Based on the empirical data: Financing grew by more than 10%, Financial inclusion is high (88.3%), KUR Syariah increased significantly, GRDP shows moderate growth, The economic structure remains agrarian.

These findings indicate that the Islamic financial system has strengthened the financial foundation but has not yet fully driven a leap in competitiveness. Aceh's Islamic financial system offers unique national differentiation. However, to transform it into a source of competitive advantage, several strategic measures are required: Diversification of productive

sectors, Expansion of investment-based financing., Integration between financial policy and the halal industry ecosystem, Enhancement of financial literacy and product innovation.

In conclusion, the implementation of Islamic financial institutions in Aceh has successfully improved financial intermediation and inclusion significantly. However, its contribution to structural economic transformation and to enhancing regional competitiveness remains at an early stage and requires stronger strategic policy reinforcement to generate sustainable competitive growth.

CONCLUSION

This study examines whether the implementation of the Islamic Financial Institution (LKS) system in Aceh enhances regional economic competitiveness. Based on analyses of financing data, regional economic contributions, and financial inclusion indicators, several key conclusions can be drawn.

First, the implementation of the LKS system in Aceh has demonstrably encouraged significant growth in Islamic banking financing. Data indicate that total financing increased from IDR 32.32 trillion (May 2022) to IDR 35.57 trillion (May 2023), representing a growth of 10.04%, and further rose to IDR 36.10 trillion in June 2023 (OJK, 2023). This growth reflects the expansion of financial intermediation and financial deepening at the regional level. Nevertheless, Aceh's share of national Islamic financing remains relatively small (approximately 6.87%), limiting its contribution to the overall scale of the national Islamic finance industry.

Second, in terms of regional economic contribution, Aceh's Gross Regional Domestic Product (GRDP) shows both nominal and real growth, reaching IDR 65.36 trillion (current prices) and IDR 40.85 trillion (constant 2010 prices) in the fourth quarter of 2024 (BPS Aceh, 2025). However, Aceh's economic structure remains dominated by the primary sector, particularly agriculture, which accounts for 32.06%. This condition indicates that the growth in Islamic finance has not yet fully driven structural transformation toward higher-value-added industrial and service sectors. In other words, the LKS system's impact on accelerating competitiveness remains gradual.

Third, Aceh's financial inclusion rate reached 88.3%, exceeding the national average of 83.5% (OJK, 2022). This improvement in inclusion is reinforced by the growth of Islamic People's Business Credit (KUR Syariah), which reached IDR 4.93 trillion in 2024 with 62,460 debtors (Kemenkeu, 2024). These findings indicate that the LKS system contributes to expanding access to financing, particularly for MSMEs. However, its impact on productivity enhancement and business scale expansion remains limited, particularly in promoting medium- and long-term investment financing.

Overall, this study concludes that the implementation of the LKS system in Aceh has strengthened the region's financial foundation by increasing intermediation and financial inclusion. However, its contribution to improving economic competitiveness—characterized by structural transformation, productivity growth, and sectoral diversification—remains at an early stage and has not yet reached its full potential.

Recommendations and Policy Implications

Based on these findings, several strategic recommendations can be proposed.

First, there is a need to strengthen the orientation toward productive financing. Regional financial authorities, together with Islamic banking institutions, should encourage a greater proportion of investment-based financing directed toward high-value-added sectors, such as manufacturing, modern fisheries, agro-industry, and the halal industry. Without financing diversification, growth in intermediation will not significantly impact economic transformation.

Second, the development of the halal industry ecosystem should be integrated with the Islamic financing system. As the only province in Indonesia with a formally mandated Sharia-based system, Aceh possesses strong potential for competitive differentiation. However, this potential must be capitalized through the development of Sharia-based industrial clusters connected to financing mechanisms, halal certification systems, and regional supply chains.

Third, improving the quality of financial inclusion should become a priority. High inclusion rates must be accompanied by enhanced financial literacy and managerial capacity among MSME actors. Educational programs and business mentoring initiatives are essential to ensure that financing is not merely consumptive or survival-oriented but capable of increasing productivity and business scale.

Fourth, integration between fiscal policy and regional financial policy is necessary. Dependence on government expenditure and central transfers should be balanced by strengthening the private sector through Islamic financing mechanisms. Collaboration among local governments, Islamic banking institutions, and the business sector will reinforce the multiplier effect on regional economic growth.

Fifth, future research is recommended to employ quantitative econometric methods to test the causal relationships among Islamic financing, financial inclusion, and economic growth in Aceh. Panel regression or time-series analysis would provide stronger empirical evidence regarding the influence of the LKS system on regional competitiveness.

In conclusion, the LKS system in Aceh holds strategic potential as a foundation for Sharia-based economic development. However, to truly enhance regional economic competitiveness, stronger intermediary quality, productive-sector diversification, and more comprehensive and sustainable policy integration are required.

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