

From Local Wisdom to Regulatory Practice: The Socio-Economic Dynamics of Implementing Qanun LKS in Aceh's Islamic Banking Transformation

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Abstract

This study investigates the implementation of the Qanun Lembaga Keuangan Syariah (Qanun LKS) in Aceh as a strategic integration of Islamic local wisdom into public regulation of the economic system. Moving beyond its role as a financial instrument, Qanun LKS is examined as part of the Islamisation of the economy grounded in Aceh's long-standing Islamic cultural heritage. Adopting a socio-economic perspective, this qualitative library research employs social change theory and institutional economics to analyse how the policy influences community behaviour, institutional structures, and patterns of financial inclusion. The findings identify three main dynamics: (1) Aceh's Islamic cultural capital serves as a key source of legitimacy for modern Islamic banking regulation; (2) tensions arise between regulatory ideals and practical realities, leading to social resistance, institutional adaptation, and cross-bank customer migration among both Muslim and non-Muslim clients; and (3) a phased policy implementation model is essential to address socio-cultural diversity while achieving regulatory objectives. This study offers a conceptual framework for gradual policy implementation in regions with strong religious cultural capital and underscores the socio-economic importance of local wisdom in shaping sustainable Islamic economic governance.

Keywords: Financial Inclusion, Institutional Economics, Islamic Banking, Local Wisdom, Policy Implementation



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INTRODUCTION

The transformation of Aceh's financial system through the enactment of the Qanun on Islamic Financial Institutions (Qanun LKS) represents one of the most significant socio-economic phenomena in Indonesia over the past decade. This policy, which came into full effect in 2021, mandates that all financial institutions operating in Aceh adopt Islamic banking principles. Normatively, the Qanun LKS stems from the aspiration to uphold Islamic values in all spheres of life, including the economy, in line with Aceh's special autonomy in matters of religion, customary law, and education (Mubarrak et al., 2024; Nurdin et al., 2021; Siregar & Munandar, 2025). In practice, however, its implementation extends beyond merely converting conventional systems into Islamic ones; it fundamentally reshapes economic behavior, banking institutional structures, and even the broader landscape of social interaction in the region.

The significance of examining the Qanun LKS lies not only in its role as a legal instrument but also in its function as an agent of change in constructing an Islamic value-based economic ecosystem rooted in local wisdom (Amanatillah, 2022; Zulkarnaini et al., 2023). Behind this policy lies a vision to harmonize religious values with the demands of modern economic development. Yet, such a transformation does not come without challenges, ranging from resistance among segments of society reluctant to adapt, to shifting dynamics between banks and clients, and issues of financial inclusion for non-Muslims or communities with limited access to Islamic banking. The phenomenon of customer fund migration from Aceh to other regions or to non-bank financial institutions signals that this policy carries complex socio-economic implications.

Kurniawan et al. (2023) document a decline in the number of accounts at conventional banks compelled to convert to Islamic operations, while Islamic banks themselves face substantial adjustment burdens, including capital requirements, human resources, and technological readiness. Small business owners, though ideologically aligned with Islamic principles, often express confusion in navigating Islamic financing mechanisms. This underscores that even policies grounded in religious values require adaptive implementation strategies sensitive to local socio-economic realities.

Research on the integration of Islamic local wisdom into public policy, particularly in banking, has garnered scholarly attention. Faizi (2024) and Muryanto (2022) emphasize that Islamic banking in Indonesia thrives under supportive regulation, but its effectiveness depends heavily on public financial literacy. Meanwhile, Janah et al. (2020) and Junaidi et al. (2022) highlight how local cultural differences shape perceptions of Islamic banking practices, necessitating contextualized policy approaches.

Specifically in Aceh, Muyasaroh (2022) and Yahya et al. (2023) analyze the Qanun LKS from a legal perspective, arguing that its success hinges on synergy between local government, financial authorities, and society. However, such studies remain focused on legal-formal dimensions, with limited exploration of sociological implications. Conversely, Aziz et al. (2023) and Hakim et al. (2024) interpret the Qanun LKS as an expression of identity politics, reinforcing Islam's role in Aceh's public sphere and directly shaping the legitimacy of local governance.

From a socio-economic sociology perspective, Granovetter (1985) underscores the notion of embeddedness, namely that economic practices are always embedded within social networks and cultural values. In Aceh, long-entrenched Islamic values provide a moral foundation for the Qanun LKS. Yet, as Feener (2021) and Sebastian & Alkaff (2024) note, the Islamization of the economy often encounters tensions between religious idealism and pragmatic economic needs.

Institutional economics literature is also relevant to this discussion. Gërkhani & Cichocki (2023) argue that institutions comprise not only formal rules but also informal norms that shape economic behavior. In Aceh, the Qanun LKS represents a formal regulatory framework that seeks to reorient behavior through deeply embedded religious norms. Nonetheless, as Nason & Bothello (2023) contend, institutional transformation is typically

protracted, requiring both structural and cultural adaptation.

Comparative studies in Malaysia (Abueid, 2021; Rahim et al., 2023) suggest that the success of Islamic banking depends on financial institutions' ability to adapt to local needs while adhering to sharia principles. In Pakistan, M. Akbar et al. (2023) and Khan et al. (2023) find that full adoption of Islamic banking can generate financial exclusion if not accompanied by inclusive product innovation. These lessons are instructive for Aceh, given its religiously diverse society.

The broader literature on religiously-inspired policy also provides critical context. Menezes & Batista (2024) caution that such policies often blur the boundary between private and public spheres. However, in Aceh, these policies are widely perceived as an expression of collective identity, constitutionally recognized through special autonomy (Al-Fairusy et al., 2024; Alkaf et al., 2022; Sari et al., 2022).

From these diverse scholarly discussions, it becomes evident that while much research has examined Islamic banking, relatively little has addressed the interplay between Islamic local wisdom, socio-economic dynamics, and institutional adaptation within an integrated analytical framework. Most studies emphasize legal, political, or technical dimensions, while fewer explore how Islamic local wisdom operates as a source of legitimacy for modern regulation and how this interacts with socio-economic phenomena such as client migration, community resistance, and institutional adaptation strategies. This study thus contributes uniquely by conceptualizing the Qanun LKS not merely as a legal text but as a dynamic social process characterized by negotiation and cultural meaning-making.

Based on this framework, the objectives of this study are threefold: (1) to identify the socio-economic dynamics emerging from the implementation of Qanun LKS in Aceh, (2) to examine how Islamic local wisdom reinforces the legitimacy of Islamic economic policy, and (3) to propose a conceptual model of gradual policy implementation relevant for regions with strong religious cultural capital. This study advances not only theoretical contributions to socio-economic sociology and institutional economics but also practical recommendations for policymakers in other regions seeking to integrate religious values into economic regulation.

RESEARCH METHOD

This study employs a qualitative approach through library research. This choice is not merely pragmatic but is necessitated by the phenomenon under investigation, the implementation of the Qanun on Islamic Financial Institutions (Qanun LKS) in Aceh, which is inherently historical, normative, and cultural, and thus rich in textual references. Library research enables the collection, analysis, and synthesis of a wide range of sources, including legal texts, policy documents, prior research reports, news coverage, and relevant academic works. Such an approach allows the phenomenon to be viewed not from a singular perspective but as a mosaic of complementary viewpoints (Dewi, 2022).

The qualitative character of this study is appropriate given its focus on the meanings and socio-economic dynamics embedded in religiously-inspired public policy. As Mäder (2023) notes, qualitative research is particularly effective for exploring the "how" and "why"

of complex phenomena, rather than merely quantifying impact. In the context of Qanun LKS, this approach enables a deep examination of the interrelations between Islamic values, public regulation, and community responses, dimensions that quantitative data alone cannot adequately capture.

Aceh is chosen as the locus of analysis for compelling reasons. It is the only Indonesian province with special autonomy to enforce Islamic law, including in the financial sector. This creates a unique social laboratory in which economic policy is not merely guided by market logic or national regulation but is also shaped by a deeply rooted religious cultural capital. From a Weberian perspective, this is particularly salient, as it illustrates the interplay between religious ethics and rationalization in the structuring of economic systems (Etzrodt, 2024; Vermeer, 2022).

The analytical method adopted is a descriptive-analytic approach. The descriptive stage details the contents of the Qanun LKS, its implementation processes, and the socio-economic dynamics it generates across society and financial institutions. This stage draws on diverse sources, including official documents from the Aceh government, publications from Bank Indonesia and the Financial Services Authority, media reports, and scholarly studies.

The subsequent analytic stage is guided by two theoretical frameworks. First, economic sociology, particularly Max Weber's insights on religious ethics and economic behavior, and Granovetter's (1985) concept of embeddedness, which emphasizes that economic practices are always situated within social and cultural networks. Second, institutional economics, as articulated by Engerman & Sokoloff (2025), which views institutions as both formal and informal rules that shape economic interactions. Combining these perspectives allows this study to conceptualize the Qanun LKS as a formal institution that seeks to reorient economic behavior through the legitimacy of Islamic values entrenched in society.

The analysis proceeds through content analysis of collected documents and literature, with emphasis on three dimensions: (1) the relationship between Islamic cultural values and the legitimacy of public regulation, (2) the policy's impact on economic behavior and patterns of financial inclusion, and (3) adaptation strategies employed by financial institutions in Aceh. This analysis is conducted inductively, linking empirical findings from the literature to theoretical frameworks to develop a comprehensive understanding.

RESULTS AND DISCUSSION

Islamic Local Wisdom as a Source of Legitimacy for Sharia Banking Regulation

Religious cultural capital (Islamic cultural capital) in Aceh holds a strategic position in shaping the legitimacy of public policy, including the Qanun on Sharia Financial Institutions (Qanun LKS). In this context, cultural capital is not only understood as religious knowledge or ritual competence, but also as a network of symbols, norms, and social practices that have been internalized into the daily life of society. This capital functions as a source of moral authority that strengthens the acceptance of policies founded upon Islamic values. As emphasized by Stoffelen (2022), cultural meaning constitutes an important arena in the

process of shaping economic policy, where local values and symbols provide both legitimacy and direction for the implementation of such policies.

Historically, the implementation of Islamic law in Aceh did not emerge in a vacuum. Islamic legal traditions have been an integral part of societal governance since the era of the Aceh Darussalam Sultanate in the 16th century. Historical records indicate that the existence of the Qadhi Malikul Adil and the Sharia Court institution demonstrates that economic regulation, including the management of trade, zakat, and waqf, has always referred to sharia principles. This pattern continued into the modern era, when Aceh obtained special autonomy status following the 2005 peace agreement, which enabled the integration of Islamic values into public policy, including in the banking sector. In other words, society's acceptance of Qanun LKS represents a continuation of the long-standing history of embedding Islamic values within the economic sphere.

Religious symbols, norms, and practices serve as a "policy language" that facilitates the socialization of Qanun LKS. For instance, the use of terms such as akad, mudharabah, musyarakah, and riba is not only understood in technical terms but also carries strong moral weight for the people of Aceh. The dissemination of the policy is often linked to religious arguments and the historical struggle of Muslims in Aceh, such that the regulation is not merely perceived as an administrative rule, but as part of a collective moral commitment. Here, the relevance of Granovetter's concept of embeddedness (1985) becomes evident, in which economic actions are deeply intertwined with social relations and cultural values.

Secondary data show that sharia banking in Aceh began to grow rapidly after the enactment of Law No. 11 of 2006 concerning the Governance of Aceh, which formally legitimized the implementation of a sharia-based financial system. According to the findings of Maulana et al. (2024), the market share of sharia banking in Aceh reached more than 97% in 2021, the highest in Indonesia. This figure illustrates that Qanun LKS has successfully driven the conversion of the banking system, despite the persistence of technical and social challenges. This growth was not only triggered by regulation but also supported by religious groups, Islamic boarding schools (dayah), and Islamic community organizations actively campaigning for the importance of a sharia-compliant financial system.

These findings are consistent with the perspective of Jailani et al. (2024), which asserts that economic policy is not shaped merely through technical calculations, but also through the process of selecting and articulating cultural meanings relevant to collective identity. In the case of Aceh, the legitimacy of Qanun LKS was reinforced because the policy was successfully presented as a continuation of Islamic cultural heritage, rather than as a bureaucratic construct alien to the society. The success of Qanun LKS is thus measured not only by the extent of bank conversion from conventional to sharia, but also by its ability to harmonize religion, history, and social practices into a coherent economic policy framework widely accepted by the public. This is what distinguishes Aceh from other regions in Indonesia, religious cultural capital has become a strategic resource in steering the transformation of the economic system toward sustainable sharia principles.

To illustrate the interconnection between Islamic local wisdom, cultural legitimacy, and public acceptance of Qanun LKS, the following summary table is presented based on secondary data:

Table 1 The Role of Islamic Local Wisdom in the Legitimacy of Qanun LKS in Aceh

Aspect of Islamic Local Wisdom	Manifestation in Aceh	Impact on Acceptance of Qanun LKS
History of sharia application	Legal system of the Aceh Sultanate, Sharia Court	Strengthens the narrative of historical continuity of Islam-based regulation
Religious symbols	Terms such as akad, prohibition of riba, values of justice	Reinforces the moral resonance of policy at the community level
Social norms	Obligation of zakat, prohibition of non-halal transactions	Creates harmony between policy and social practices
Socio-religious movements	Role of dayah, Islamic organizations, religious scholars	Provides socio-political support for policy implementation
Religious cultural capital	High level of religious knowledge among society	Accelerates literacy in sharia financial policies

Source: Processed from related academic literature, 2025

Tensions between Regulatory Idealism and Implementation Realities

The implementation of the Qanun on Sharia Financial Institutions (Qanun LKS) in Aceh was envisioned as an instrument to build an economic system fully compliant with sharia principles. The normative vision of this policy places Islamic values as the foundation of all financial activities, ranging from fund mobilization, business financing, to transaction governance. Within this framework, successful implementation is measured by the extent to which all financial institutions operate without riba, gharar, or practices contradicting Islamic law, while still maintaining regional economic growth.

However, the reality of implementation in the field reveals a significant gap between this normative vision and the actual conditions faced by society and financial institutions. This gap can be understood through the perspective of Charway et al. (2023), which posits that the divergence between policy design and implementation outcomes is often influenced by the capacity of implementing institutions as well as the responses of target communities.

One of the most prominent forms of this gap is social resistance from certain groups. At the level of micro, small, and medium enterprises (MSMEs), many report confusion in navigating sharia financing procedures and requirements. Although ideologically supportive of Islamic economic principles, the transition from a conventional to a sharia system requires new knowledge about contractual mechanisms, profit-sharing, and margin calculations. In many cases, low levels of sharia financial literacy cause MSME actors to perceive the financing process as more complicated than the previous system. H. Akbar et al. (2024) demonstrate that most MSMEs in Aceh require intensive assistance to understand sharia financial products and financing schemes, particularly in small trade and service sectors.

Additionally, a sense of compulsion exists among bank customers who had to transition from conventional banks to sharia banks due to Qanun LKS mandating the cessation

of conventional banking operations in Aceh. For some customers, this transition was experienced as an obligation that did not leave room for choice. This group includes individuals accustomed to conventional banking services and products, as well as those who perceive that the costs and requirements in sharia banks are not always more favorable. Such feelings of coercion may affect customer loyalty and public trust in the new banking system, especially if their initial experiences are unsatisfactory.

This dynamic becomes even more complex for non-Muslim communities in Aceh. Although Qanun LKS does not explicitly restrict their access to banking services, concerns arise regarding the limited availability of products that align with their needs. Some non-Muslims fear facing cultural or administrative barriers, leading them to move their funds to banks outside Aceh or to non-bank financial institutions. This phenomenon illustrates that faith-based public policy requires special strategies to ensure inclusivity, so as not to generate financial exclusion for minority groups.

Meanwhile, from the perspective of financial institutions, the implementation of Qanun LKS necessitates non-trivial institutional adaptation. Major changes are required, including product innovation to comply with sharia principles, capacity-building for human resources, and the development of information technology infrastructure. Sharia banks in Aceh must develop competitive products to meet customer needs, such as murabahah-based consumer financing, musyarakah for business, as well as digital-featured sharia savings and deposits. Moreover, staff training is urgently needed as the systemic shift demands a deep understanding of fiqh muamalah principles.

The development of information technology infrastructure also becomes a critical focus, as modern banking services require fast, secure, and integrated digital systems. Sharia banks in Aceh face the challenge of upgrading core banking systems, integrating mobile applications, and ensuring compliance with electronic transaction security standards. This process requires significant investment and extended implementation time, contributing to delays in achieving the ideal targets of Qanun LKS.

Customer migration is another indicator of the tension between regulatory idealism and implementation realities. Data from the Financial Services Authority (OJK) and Bank Indonesia show that at the onset of Qanun LKS's full implementation, there was an outflow of public funds from Aceh to banks in other regions, particularly North Sumatra and Jakarta. The reasons for this migration varied, ranging from the limited investment products available in local sharia banks to considerations of convenience and service accessibility. This migration not only affected local banking liquidity but also posed challenges to achieving the vision of regional economic self-reliance promoted by Qanun LKS.

The following table summarizes the forms of tension found in the implementation of Qanun LKS in Aceh:

Table 2 Forms of Tension between Qanun LKS Idealism and Implementation Realities

Aspect of Regulatory Idealism	Implementation Reality	Main Impact
All financial transactions in compliance with sharia principles	Low sharia financial literacy among MSMEs	Confusion, procedural errors, slow adaptation
Voluntary transition from conventional to sharia banks	Some customers feel compelled to switch	Potential decline in loyalty and trust
Inclusive services for all residents	Non-Muslim concerns about product access	Migration of funds outside Aceh or to non-bank institutions
Adaptive and innovative financial institutions	Limited product innovation and human resource capacity	Less competitive services compared to previous system
Local liquidity stability and growth	Migration of funds to other regions	Declining liquidity and potential financing constraints

Source: Processed from related academic literature, 2025

These findings confirm the perspective of Charway et al. (2023), that the success of public policy implementation is not solely determined by the quality of regulatory design, but also by the capacity of implementers and the responses of society. In the case of Qanun LKS, the tension between idealism and reality is not merely a technical failure, but rather a natural consequence of systemic socio-economic transformation. Changes affecting economic behavior, institutional structures, and social relations require time to reach a new equilibrium point.

From the perspective of economic sociology, this tension reflects the process of negotiation between religious norms and economic rationality. The people of Aceh, despite their strong religious cultural capital, remain influenced by considerations of efficiency, convenience, and financial gain. Financial institutions, meanwhile, are positioned to balance compliance with sharia principles while providing services equal to, or even better than, the previous system.

Stepwise Implementation Model for Contexts with Strong Religious Cultural Capital

The implementation of the Qanun on Islamic Financial Institutions (Qanun LKS) in Aceh provides an important lesson that the success of regulation in regions with strong religious cultural capital cannot be separated from implementation strategies that are sensitive to the social context. Aceh, with its long history of Islamic law enforcement and a collective identity deeply rooted in religious values, possesses unique social characteristics. Its diverse social structure, including Muslim communities with varying levels of understanding of Sharia, non-Muslim groups, micro and small entrepreneurs, as well as large-scale business entities, requires a non-uniform approach to policy implementation. In this context, a stepwise implementation model (gradual policy implementation) becomes a more effective strategy than direct and comprehensive enforcement. This aligns with the view of Assche et al. (2021), who emphasize the importance of flexible policies capable of adapting to social dynamics and interacting responsively with environmental change.

A gradual approach in public policy implementation can help minimize social resistance and enhance societal acceptance. In the initial phase, the preparation process serves as a crucial foundation. Literacy programs and policy socialization for all segments of society, including economically vulnerable groups, are necessary to ensure that the public understands not only the substance of the regulation but also the normative and practical reasons behind its enforcement. The socialization carried out by the Aceh government together with Islamic financial institutions during the early phase of Qanun LKS, although uneven, demonstrated that direct engagement with MSMEs, religious leaders, and local communities can reduce misunderstandings regarding the policy. This preparatory stage can be equated with the sense-making process in adaptive governance, wherein policy actors construct narratives that are culturally and socially acceptable.

Entering the transition phase, the policy requires intensive technical support. In the context of Islamic banking, technical assistance includes training MSMEs in the use of Sharia-compliant products, adjusting small business accounting systems to comply with Sharia principles, and providing customer-friendly account migration services. Several Islamic banks in Aceh have developed internal training programs for staff to enable them to explain product features in simple and contextualized ways. This effort resonates with findings from earlier studies that institutional transformation success depends on enhancing the capacities of human resources directly involved in public service. Without technical support, the transition phase risks widening the gap between policy goals and field realities, as highlighted by contemporary public policy implementation literature.

The consolidation phase marks the strengthening of institutional capacity to ensure regulatory sustainability. At this stage, the focus lies on the full integration of Sharia principles into banking operational systems, strengthening information technology infrastructure, and developing innovative products tailored to local market needs. Some Islamic financial institutions in Aceh have utilized this phase to expand digital services, such as Sharia mobile banking that is more accessible to rural communities, while also developing more inclusive microfinance products. This strategy reflects the application of adaptive governance in which policies do not stop at normative compliance but evolve in response to feedback emerging throughout the implementation process.

Aceh's experience shows that gradual adaptation creates space for negotiation among policy actors, financial institutions, and the public. For example, during the early implementation of Qanun LKS, there was a phenomenon of non-Muslim clients and some MSMEs shifting to conventional banks outside Aceh or to non-bank financial institutions. However, through ongoing socialization and more inclusive product innovations, some of these groups began returning to Islamic banking services. This demonstrates that initial resistance can be transformed into acceptance when policies allow time and room for social and economic adjustment.

The following table presents an overview of the ideal stages of the stepwise implementation model relevant to the Aceh context, based on the findings of this research.

Table 3 Stepwise Implementation Model of Qanun LKS in the Context of Strong Religious Cultural Capital

Stage	Main Focus	Key Activities	Expected Outcomes
Preparation	Literacy and socialization	Public education, media campaigns, community dialogues	Improved policy understanding and strengthened public legitimacy
Transition	Technical assistance	Bank staff training, account migration support, small business system adjustments	Reduced social resistance and smoother adaptation
Consolidation	Institutional capacity building	Product innovation, IT integration, digital service enhancement	Operational sustainability and expanded financial inclusion

Source: Processed from relevant academic literature, 2025

This model has strategic value not only for Aceh but also for other regions with strong religious cultural capital, such as certain areas in the Middle East or countries with hybrid legal systems combining religious and state law. The success of this model lies in its ability to manage transition adaptively, taking into account social forces, cultural networks, and the economic needs of society. Referring to Adaptive Governance Theory, policy flexibility and responsiveness to change are key to navigating the complexities of implementation in diverse social contexts (Assche et al., 2021).

The stepwise implementation model derived from Aceh's experience may be seen as a conceptual framework that combines cultural sensitivity with policy pragmatism. In situations where regulatory legitimacy is derived from religious cultural capital, this approach not only maintains normative alignment with local values but also ensures socio-economic sustainability through an inclusive and measured transition process. Aceh illustrates that the success of public policy in such contexts is determined more by the quality of adaptive processes than by the speed of enforcement.

From Local Wisdom to Regulatory Practice: The Socio-Economic Dynamics of Implementing Qanun LKS

This research positions the Qanun on Islamic Financial Institutions (Qanun LKS) in Aceh as a concrete example of how local wisdom can transform into a driving force for modern economic policy. In this context, local wisdom does not merely refer to customary traditions, but encompasses religious cultural capital that has shaped worldviews, economic practices, and institutional legitimacy in Aceh for centuries. As the only province in Indonesia that formally implements Islamic law, Aceh possesses a socio-cultural landscape that allows religious values to serve as a strong foundation in public policy formulation, including in the financial sector. Thus, Qanun LKS stands not only as a technical regulation of Islamic banking but also as a manifestation of the close interrelation between religious values, social norms, and formal institutions, as understood within the perspective of economic sociology. Weber's notion of the role of religious values in driving economic behavior is relevant here, where

Sharia principles function not only as normative instructions but also as a collective motivation shaping economic interactions.

From a theoretical standpoint, this study enriches the discourse of economic sociology by demonstrating that the relationship between religious values and formal institutions is not necessarily conservative or obstructive to economic modernization, as often assumed in classical modernization narratives. On the contrary, in the Aceh context, religion has acted as a catalyst accelerating institutional transformation toward a more structured system with broad social legitimacy. Institutional economics, as articulated by Douglass North, helps explain that effective institutions are shaped not only by economic incentives and legal design but also by norms and values internalized by society. Qanun LKS illustrates that regulatory strength increases when it aligns with dominant cultural capital, thereby smoothing the internalization of rules and reducing social friction during implementation.

Furthermore, this research contributes to the study of the Islamization of the economy by emphasizing the interaction between formal structures and local cultural capital. Many studies on the Islamization of the economy focus either on the normative formulation of Sharia concepts or on the technical operationalization of Islamic financial institutions. However, this study shows that the success of policies such as Qanun LKS depends largely on the degree to which local religious values are integrated into policy design and implementation strategies. In other words, success lies not only in “what” is regulated but also in “how” such regulations are translated into practice, taking into account the surrounding social structures.

In terms of practical implications, this research underscores the need for policy designs sensitive to social diversity. While Aceh indeed possesses strong religious cultural capital, internal heterogeneity remains, in terms of economic backgrounds, financial literacy levels, and openness to innovation. Therefore, the formulation of similar policies in other regions must begin with a comprehensive mapping of the local socio-cultural context to avoid resistance or misunderstandings that may undermine policy objectives. This is consistent with the argument of Menezes & Batista (2024) regarding the importance of aligning policy design with implementation capacity and social response.

Moreover, the findings highlight the necessity of strengthening Sharia financial literacy, both among the general public and within the financial sector. Even well-designed regulations will struggle to achieve their goals if actors on the ground lack adequate understanding of the system’s principles and mechanisms. In Aceh, the success of Qanun LKS has been partially supported by outreach programs conducted by the regional government and banks, although challenges remain in reaching underserved groups such as MSMEs in remote areas. Strengthening financial literacy not only enhances formal compliance but also broadens active participation in the Sharia-compliant financial system.

Another practical implication is the need to build adaptive capacity within financial institutions. Aceh’s experience shows that transitioning to a fully Sharia-based banking system requires product innovation, improvements in human resource quality, and strengthened IT infrastructure. The ability to adapt to the needs of diverse customer

segments is key to maintaining and expanding the client base. Adaptive Governance Theory, as noted by Assche et al. (2021), underscores that flexibility in responding to social dynamics and environmental changes is critical to policy sustainability. In this regard, the Islamic banks in Aceh that managed to maintain public trust were those able to tailor services to the specific needs of communities without compromising Sharia principles.

The findings of this study also hold relevance for other regions in Indonesia or abroad that share socio-cultural similarities with Aceh, particularly those with majority Muslim populations strongly committed to religious traditions. Policy strategies grounded in deep understanding of local cultural capital, combined with gradual and flexible implementation approaches, have the potential to enhance the effectiveness of similar regulations. Hence, Aceh's experience may serve as a reference, though each context requires specific adjustments in accordance with its social structure and local challenges.

This research acts as a bridge between theory and practice. Academically, it enriches the literature of economic sociology and institutional economics by demonstrating that religion and local wisdom can synergize with the objectives of economic modernization. Practically, it provides concrete guidance for policymakers to design strategies that are not only normative and technical but also attuned to the socio-cultural realities of implementation. By critically analyzing Aceh's experience as a case study, this research affirms that the success of public policy in the economic sector depends not merely on regulatory strength but on the depth of understanding of the webs of meaning, symbols, and values embedded in society.

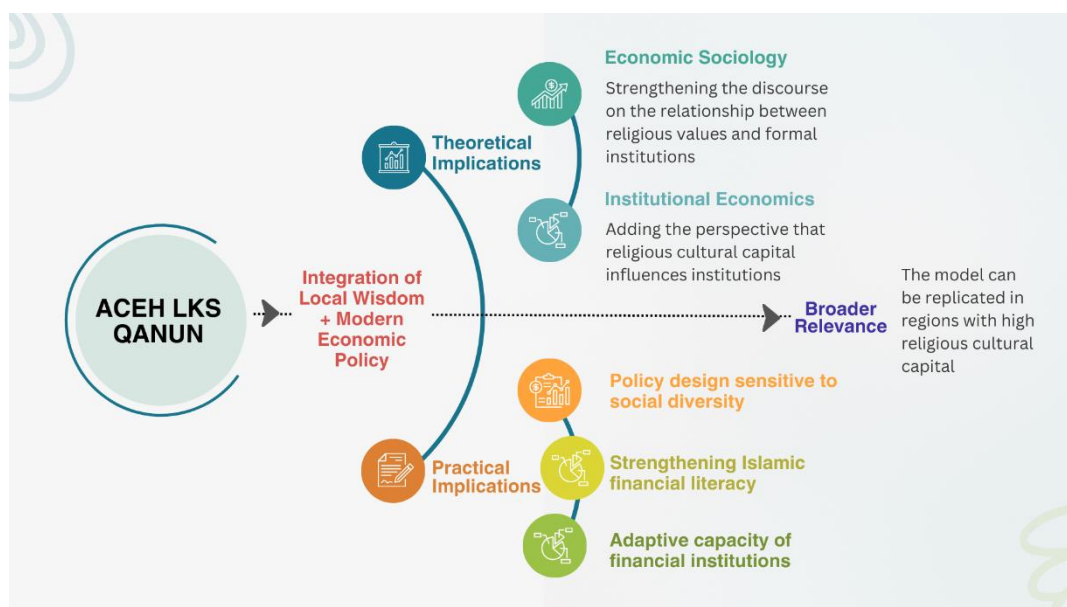


Figure 1 Mapping Theoretical and Practical Implications of the Study on Qanun LKS in Aceh, 2025

CONCLUSION

Based on the analysis, this study affirms that the implementation of Qanun LKS in Aceh not only represents the transformation of economic policy toward a Sharia-based banking system but also demonstrates how strong religious cultural capital can function as a source of social legitimacy for modern regulation. The integration of Islamic local wisdom into the formal legal framework establishes a foundation that strengthens public acceptance while shaping new interaction patterns between society, financial institutions, and regulatory authorities. The findings confirm that policy effectiveness in societies with high religious cultural capital depends heavily on implementation designs that are sensitive to social dynamics. Thus, the proposed stepwise model, based on literacy, transitional support, and institutional consolidation, proves capable of bridging regulatory idealism with field realities. The main contribution of this study lies in developing a conceptual framework for stepwise implementation that integrates perspectives from economic sociology and institutional economics, offering strategic references for other regions seeking to incorporate religious cultural values into modern economic governance in an inclusive and sustainable manner.

ETHICAL STATEMENT AND DISCLOSURE

This study was conducted in accordance with established ethical principles, including informed consent, protection of informants' confidentiality, and respect for local cultural values. Special consideration was given to participants from vulnerable groups to ensure their safety, comfort, and equal rights to participate. No external funding was received, and the authors declare no conflict of interest. All data and information presented were collected through valid research methods and have been verified to ensure their accuracy and reliability. The use of artificial intelligence (AI) was limited to technical assistance for writing and language editing, without influencing the scientific substance of the work. The authors express their gratitude to the informants for their valuable insights, and to the anonymous reviewers for their constructive feedback on an earlier version of this manuscript. The authors take full responsibility for the content and conclusions of this article.

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