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The Sharia Paradox: Formal Islamic Banking, Financial Exclusion, and the Rise of Digital Usury in Post-Qanun Aceh

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ABSTRACT

The formalization of Islamic finance in Aceh under Qanun No. 11 of 2018 transformed the province's formal financial system and strengthened the institutionalization of Sharia-compliant financial practices. Yet the extent to which this formalization provides practical financial inclusion for vulnerable groups remains insufficiently understood. This study examines how grassroots communities and micro-enterprises experience access to formal Islamic financing and how these experiences relate to illegal digital lending. Using a qualitative field-study design, the research was conducted in selected suburban communities in Aceh Besar and Pidie through semi-structured interviews with 18 informants and institutional stakeholders, focus group discussions, and documentary analysis. The findings indicate that formalizing Sharia finance has not necessarily ensured practical financial inclusion. Collateral requirements, administrative procedures, repayment-capacity assessments, and mismatches between formal financing mechanisms and informal economic activities constrained access for some vulnerable borrowers. These conditions were associated with a financing gap in which illegal digital lending emerged as an accessible, albeit problematic, source of liquidity. Borrowers remained aware of the religious concerns surrounding interest-based lending, while their accounts are interpreted through ḍarūrah as a lens for understanding financial decisions made under perceived necessity. Drawing on Merton's structural strain theory, the study conceptualizes this tension as the Sharia Paradox and extends anomie theory into the analysis of Islamic financial governance.

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INTRODUCTION

The formalization of Islamic finance in Aceh represents a significant socio-legal transformation following the enactment of Qanun Aceh No. 11 of 2018 concerning Sharia Financial Institutions (LKS). The Qanun reshaped the province's formal financial landscape by requiring conventional banking operations to transition and establishing Sharia-compliant institutions as the dominant framework for banking and financial services. The policy has been understood as an effort to reduce interest-based transactions (*ribā*) and strengthen Islamic principles in economic life, including through the development of the Sharia capital market and institutional financial compliance (Amanatillah, 2022). It also reflects the growing role of Islamic jurisprudence in regulating business and financial transactions according to ethical and Sharia principles (Ade Zuki Damanik, 2024). More broadly, Islamic economic scholarship links Sharia-based financial formalization with ethical entrepreneurship and equitable access to financial resources, particularly for Small and Medium Enterprises (SMEs) (Ali Keya Anami, 2024). From this perspective, formalization is expected not only to strengthen Sharia compliance but also to provide legitimate and accessible financing for economically productive communities.

At the grassroots level, however, the institutional availability of Sharia-compliant financing does not necessarily translate into practical access (Arianty et al., 2025). In this study, financial exclusion refers specifically to limited access to formal financing that is affordable, timely, and compatible with borrowers' economic circumstances (Cuéllar & llar, 2024; Mutale & Mayanja, 2026). Barriers may include collateral, documentation, creditworthiness assessments, administrative procedures, and other institutional requirements (Lye et al., 2025; Mutale & Mayanja, 2026). Borrowers may therefore participate in the formal financial system while remaining unable to obtain financing for urgent household or productive needs. The analysis consequently focuses on credit or financing exclusion rather than financial access in its broader institutional sense.

Following the restructuring of the financial system, vulnerable households, micro-enterprises, and informal economic actors may encounter difficulties when formal financing requirements do not correspond to unstable incomes, limited assets, or time-sensitive financial needs (Chamdimba et al., 2026; Pira, 2026). These constraints do not establish a direct causal link between the Qanun and illegal digital lending (Kamal et al., 2022, 2024). Rather, the interaction between institutional requirements and broader socioeconomic pressures may make alternative sources of liquidity more attractive. Illegal digital lending can provide relatively rapid access with fewer collateral and administrative requirements, although it may involve high costs, coercive collection, or other exploitative practices. The resulting tension lies between immediate financial accessibility and Islamic financial ethics (Ceasario & Fauzatul Laily Nisa, 2025).

This tension is particularly significant in Aceh, where Islamic norms are institutionally embedded, and religious values remain important in everyday social life. Existing scholarship on the Qanun LKS has largely focused on normative legal evaluation, Sharia compliance, regulatory implementation, and institutional performance. Less attention has been given to how economically vulnerable borrowers experience financing constraints within the formal Sharia financial system and how they respond through alternative financial practices (Bertillo & Bertillo, 2022; Saifurrahman & Kassim, 2023). This leaves an empirical gap concerning the lived experience of credit exclusion and the circumstances in which borrowers turn to digital lending. A related theoretical gap concerns the limited integration of Islamic financial formalization, credit exclusion, and Merton's social anomie theory to explain how constrained access to legitimate financial means may shape adaptive behavior. The literature also pays insufficient attention to borrowers' religious knowledge, perceptions of digital lending, and moral reasoning when economic necessity conflicts with the prohibition of riba. This study addresses these gaps by conceptualizing the resulting tension as the Sharia Paradox: a condition in which efforts to formalize Islamic finance may coexist with limited practical access, making non-Sharia alternatives more attractive to some economically vulnerable groups. The concept does not assume that formalization inevitably produces exclusion or that exclusion automatically leads to illegal digital lending; rather, it draws attention to the tension between normative institutional objectives and practical financial accessibility.

Religious knowledge is therefore examined as a dimension of financial decision-making rather than as a simple distinction between knowing and not knowing the prohibition of riba (Asari, 2024; Awal Kindzeka Wirajing & Ali, 2026). The study considers how borrowers understand Islamic financial principles, perceive the religious status of digital lending, distinguish such lending from other forms of financing, and make sense of their decisions under financial pressure. This perspective allows religious commitment and problematic financial practices to be examined as potentially coexisting when legitimate financing is perceived as inaccessible.

Merton's social anomie theory provides a framework for interpreting this tension. Anomie emerges when socially valued goals remain important while legitimate institutionalized means of achieving them are constrained or unevenly accessible. In Aceh, households and micro-enterprises may continue to pursue economic security, business continuity, education, health needs, or debt repayment while encountering barriers to formal Sharia financing. Digital lending may then become one adaptive response to structural strain, even when borrowers recognize its potential incompatibility with Islamic principles.

Against this background, the study examines how Islamic financial formalization under Qanun Aceh No. 11 of 2018 is associated with credit exclusion among economically vulnerable communities and how such conditions may create pathways toward reliance on illegal digital lending. It also examines borrowers' religious knowledge, perceptions, and moral reasoning concerning digital lending and riba. By connecting institutional transformation with lived financial experiences and socio-religious reasoning, the study develops the Sharia Paradox as a framework for understanding the tension between formal Sharia governance and the practical accessibility of legitimate financing in Aceh after the implementation of the Qanun.

METHODS

This study employed a qualitative field-study design to examine the Sharia Paradox among economically vulnerable communities in Aceh. The approach focused on participants' financial experiences within their social and institutional contexts through engagement with affected borrowers and relevant institutional actors (Hadari Nawawi, 2015). Data credibility was strengthened through triangulation of participant accounts, institutional perspectives, and documentary evidence (Ratnaningtyas et al., 2023).

Fieldwork was conducted in selected suburban communities in Aceh Besar and Pidie. These areas were selected as transitional settings between urban and rural environments, where informal economic activities coexist with increasing interaction with formal financial institutions and digital services. Primary data were collected through semi-structured interviews with 18 grassroots informants, including micro-SME operators, traditional market vendors, and housewives who had experienced difficulties accessing formal Islamic financing and subsequently used illegal digital lending services. Purposive sampling was based on residence in the study areas, experience of financing barriers following the implementation of the Qanun LKS, experience using illegal or unlicensed digital lending, and willingness to discuss financial decision-making. Additional institutional informants were purposively selected from OJK, the Legal Aid Foundation (LBH), Islamic banking practitioners, and village leadership (*Keuchik*). FGDs with market association representatives and Tuha Peut members complemented individual narratives by exploring community perceptions of digital debt, financial vulnerability, religious interpretations, and informal support mechanisms.

The interview protocol addressed access to formal financing, collateral and administrative requirements, financial pressures, digital lending experiences, and religious knowledge concerning riba and Islamic financial principles. Participants were also asked how they perceived the Sharia status of digital lending and how they reconciled borrowing decisions with their religious values. Informed consent was obtained, participation was voluntary, and participants' identities were anonymized through pseudonyms.

Documentary materials, particularly OJK reports, were used to contextualize institutional and regional financial conditions. The analysis distinguished macro-level evidence concerning the formal financial environment from micro-level accounts of lived financial experiences. Data analysis proceeded through iterative familiarization, coding, reduction, comparison, thematic development, and interpretation (Miles et al., 2014). Inductive coding identified themes emerging from the data, while theory-informed coding examined them through Merton's concepts of culturally prescribed goals, institutionalized means, structural strain, and modes of adaptation. The analysis did not assume that financial exclusion produces anomie or that Qanun LKS directly causes illegal digital lending; instead, it examined how financing constraints may generate structural strain and shape financial adaptation.

FINDINGS AND DISCUSSION

Financing Constraints and Structural Financial Exclusion

The implementation of Qanun LKS reconfigured Aceh's formal financial landscape by requiring conventional banking operations to transition toward Sharia-compliant institutions. Field evidence indicates that some economically vulnerable groups experienced this transformation as reduced practical access to formal financing. The issue was not the absence of financial institutions but the limited accessibility of their financing mechanisms for borrowers with informal businesses, unstable incomes, limited assets, or insufficient conventional collateral. Rather than demonstrating a direct causal relationship between the Qanun and digital lending, the findings point to a sequence in which changes in the formal financial environment coincided with financing difficulties, making alternative sources of liquidity more attractive.

Grassroots interviews identified collateral, documentation, administrative procedures, business verification, and repayment-capacity assessment as major barriers. These requirements serve legitimate institutional functions related to risk management and financing sustainability, but they may be difficult for borrowers whose businesses operate informally or depend on daily cash turnover. Informant B, a 43-year-old fishmonger in a traditional market in Pidie, described how his previous access to small working capital differed from his experience seeking Sharia financing:

"*Back when conventional banks still existed, I could quickly borrow five to ten million rupiah in capital, relying solely on my daily market records and my integrity in business. Now that everything has shifted to*

Islamic banks, I've tried applying for microloans, but the requirements are very strict. They demand land certificates or vehicle registration certificates as standard collateral, and the verification process takes weeks. For us small merchants who have to turn over our capital every morning, the bureaucracy of these Islamic banks feels far too complicated. We don't have any assets to use as collateral, so we're held back by their system." (Informant B, personal communication, 2026).

His account illustrates three interconnected dimensions of financing exclusion: limited access to acceptable collateral, burdensome administrative and verification procedures, and a mismatch between financing approval times and daily liquidity needs. The account does not demonstrate that all Islamic banks apply identical requirements or that applicants are uniformly rejected. Instead, it illustrates how standardized procedures may become practically exclusionary for borrowers whose assets, records, or income patterns do not fit formal financing criteria.

A community-level perspective emerged from Informant R, a 51-year-old *Keuchik* in suburban Aceh Besar, who described residents engaged in seasonal agriculture and traditional handicrafts:

"*I have seen the local economy slow down drastically since the LKS Regulation took full effect. The residents of this village are traditional weavers and seasonal farmers who fall into the poor or destitute categories. When they need urgent funds to buy raw materials, formal banks are completely unresponsive to the needs of villagers. There are no instant, flexible, unsecured microloan products available. The bureaucracy is extremely exhausting; villagers must fill out confusing forms, and their applications are often rejected because their businesses are considered high-risk. I believe this formalization has been successful at the top level, but it has left a significant capital gap at the grassroots level*." (Informant R, personal communication, 2026).

R's account complements B's experience by highlighting the combined effects of collateral limitations, administrative complexity, informal business status, risk assessment, and the urgency of financial needs. Institutional informants similarly indicated that financing procedures were primarily structured around documentation, eligibility, risk management, and repayment capacity rather than an intention to exclude low-income borrowers. The contrast between institutional and grassroots perspectives nevertheless shows that formal availability and practical accessibility are not equivalent. A Sharia-compliant financing product may exist institutionally while remaining inaccessible to borrowers who cannot satisfy its conditions.

Market observations and community discussions further indicated that the central problem was liquidity rather than the disappearance of banking facilities. Traders requiring rapid working capital reported considering alternative sources when formal financing was perceived as lengthy, uncertain, or difficult to obtain. Some participants viewed digital lending as comparatively accessible because of simplified applications and rapid processing. This accessibility did not necessarily reflect religious acceptance or economic desirability; rather, it reflected the practical importance of immediate liquidity under financial pressure.

The findings point to a financing gap between the formal availability of Sharia-compliant products and the practical needs of vulnerable borrowers. The gap was most visible among those requiring small amounts of working capital, lacking formal collateral, operating informally, receiving irregular income, or needing funds quickly. The evidence does not establish that Qanun LKS directly caused illegal digital lending. Instead, institutional changes and financing constraints formed part of the circumstances in which some vulnerable borrowers considered alternative sources of liquidity, alongside broader factors such as household financial pressure, business instability, technological accessibility, and convenience.

The significance of this financing gap lies in the divergence between normative financial transformation and practical access. Although Qanun LKS strengthened the formal Sharia orientation of Aceh's financial system, some borrowers continued to experience difficulties obtaining financing suited to their socioeconomic circumstances. This coexistence provides the empirical basis for the Sharia Paradox.

Illegal Digital Lending and the Financing Gap

The experiences of grassroots and institutional informants indicate that the financing gap created circumstances in which digital lending became an accessible alternative for some economically vulnerable borrowers. The findings do not establish that Qanun LKS directly caused the expansion of illegal digital lending. Instead, they point to an interaction among difficulties accessing formal financing, urgent liquidity needs, expanding digital accessibility, and the availability of unlicensed platforms. Digital lending could therefore appear attractive because of its speed and limited procedural requirements. This interpretation is consistent with warnings from the Financial Services Authority (OJK), which characterizes illegal online lending by the absence of OJK licensing, rapid and easy loan processes, high or unclear interest and penalties, requests for personal data, and unethical collection practices involving threats or intimidation.

The broader institutional context reinforces the significance of this phenomenon. OJK's Illegal Financial Activities Eradication Task Force (Satgas PASTI) reported that 2,263 illegal online lending entities were identified and stopped during 2025, while thousands of debt-collector contact numbers associated with illegal lending were submitted for blocking. These records show that illegal digital lending constitutes a broader regulatory and consumer-protection problem in Indonesia, although they do not establish its prevalence within the research sites. OJK documentation also shows that illegal lenders may use simplified digital applications, request access to contacts and other mobile-device data, and employ unethical collection practices. The attraction of digital lending may therefore stem less from its financial desirability than from the immediate accessibility of liquidity.

Informant D, a 35-year-old single mother operating a home-based clothing business in suburban Pidie, described this experience:

> "*When Islamic banks reject loan applications because borrowers lack collateral such as land or vehicles, people's businesses are, of course, at risk of coming to a complete halt. Faced with such circumstances, people turn to online loans. However, they don't realize that this marks the beginning of their economic ruin. The interest rates they charge compound daily at an unreasonable rate, far exceeding the principal amount within a matter of weeks. If they're even one day late on a payment, the system begins to bombard all the contacts in their cell phones with threats*." (Informant D, personal communication, 2026).

Her account connects digital borrowing with restricted access to formal financing and the financial and social burdens that followed. Her experience of lenders contacting people in her phone contacts is consistent with OJK warnings concerning personal-data access and unethical collection. Because the study did not independently obtain the relevant application records, agreements, or transaction histories, her account is treated as participant evidence rather than as a general claim about all illegal lenders.

The institutional perspective of Informant L, a 29-year-old human rights advocate at the Legal Aid Foundation (LBH) in Banda Aceh, further illustrates these consequences:

> "*Recently, the number of complaints regarding illegal online lending schemes received by the Legal Aid Institute (LBH) has surged, particularly those originating from rural areas, such as the border region between Aceh Besar and Pidie. We have observed a very clear sociological correlation: when access to conventional credit is cut off and Islamic banks enforce overly rigid rules, the public experiences severe financial panic. Illegal fintech companies view this panic as an extraordinary business opportunity. They exploit the vacuum left by the state. These online lending platforms are digital and cross-border in nature; the Qanun LKS law in Aceh is completely powerless to curb their operations. Local law enforcement struggles to track down their servers, while people at the grassroots level fall victim to extortion, psychological intimidation, and threats to disclose personal data—all of which severely disrupt the social fabric of the gampong*." (Informant L, personal communication, 2026).

His account is broadly consistent with OJK's characterization of illegal lending, particularly regarding personal-data misuse and unethical collection. At the same time, it represents contextual qualitative evidence rather than a statistical measure of prevalence in Aceh Besar or Pidie. Its analytical value lies in showing how legal-aid practitioners encounter and interpret the consequences of digital lending within affected communities.

Taken together, grassroots narratives and institutional documentation point to a common decision-making context. Borrowers facing urgent liquidity needs may compare an immediately accessible digital loan not with an ideal Sharia-compliant product, but with a formal financing process perceived as difficult, uncertain, or slow. The use of illegal lending should therefore not be interpreted as evidence that borrowers regard it as economically or religiously desirable. Instead, it reflects the interaction of urgency, accessibility, limited alternatives, and perceived financial constraints.

The findings also reveal a regulatory tension between territorially organized Islamic financial governance and digitally mediated financial services. Qanun LKS operates within a specific territorial and institutional framework, whereas digital lending platforms can reach borrowers through technological infrastructures without maintaining a conventional physical presence. The continued identification and blocking of illegal lending entities by OJK illustrates why these activities cannot be addressed solely through local institutional arrangements.

These findings provide an empirical basis for the Sharia Paradox. The concept refers to the coexistence of expanded Sharia-compliant financial institutions with circumstances in which vulnerable borrowers remain unable to obtain financing compatible with their immediate needs. Digital lending may occupy the space between formal financial norms and everyday economic necessity, although its economic, legal, and religious implications require further empirical examination. This explanation is summarized in Table 1 below.

Table 1. Financing Gap and the Emergence of Digital Lending

Stage	**Empirical Finding**	**Evidence**	**Analytical Interpretation**
Formal financial transformation	Conventional banking operations transitioned toward Sharia-compliant institutions	Qanun LKS implementation	Financial landscape was formally reconfigured
Access barriers	Collateral, documentation, verification, and repayment-capacity requirements limited access for some borrowers	Informants B & R	Formal financing remained practically inaccessible to vulnerable groups
Liquidity pressure	Traders and small businesses required rapid working capital	Community observations & interviews	Immediate liquidity became a critical consideration
Alternative financing	Digital lending was perceived as faster and procedurally simpler	Grassroots evidence	Digital lending became an accessible alternative
Risk exposure	Illegal lenders were associated with high/unclear charges, personal-data access, and unethical collection	OJK documentation & Informant D	Accessibility could coexist with significant consumer risks
Regulatory tension	Territorial Islamic financial governance confronted digitally mediated lending	Institutional evidence	Local financial regulation had limited reach over cross-border digital platforms

Religious Commitment and Financial Necessity

The use of illegal digital lending in suburban Aceh also reveals a socio-religious tension among vulnerable borrowers. In this study, the term digital usury refers specifically to illegal or predatory digital lending characterized by excessive or opaque charges, coercive collection, and the exploitation of financially vulnerable borrowers. The term is used analytically to distinguish such practices from digital lending more generally, particularly where technological accessibility intersects with exploitative practices and restricted access to formal financing. This distinction is significant in Aceh, where interest-based borrowing is commonly associated with riba and understood by many Muslims as religiously problematic.

Interviews indicate that borrowers generally recognized the religious concerns surrounding interest-based digital lending, yet this awareness did not always prevent its use when urgent household or business needs arose. Rather than indicating an absence of religious commitment, their accounts suggest that some borrowers attempted to reconcile religious norms with immediate economic pressures. This tension can be understood as a piety–survival dilemma, in which religious norms and material necessity coexist uneasily. The dilemma reflects the difficulty of translating normative commitment into practice when lawful financial alternatives are perceived as inaccessible.

Informant M, a 47-year-old mother of four who operates a small traditional food stall in an outskirts market of Aceh Besar, described this tension:

"*Actually, I often hear at village religious gatherings and in the media that online lending is usury and that those who engage in it are opposed by Allah. However, sometimes when I'm in a very tight spot and under immense pressure, I have no other choice. Sharia-compliant lenders sometimes refuse to help because they* *believe our businesses—which cannot provide collateral—will be unable to repay the loan. So, I'm forced to take out these interest-based loans to ensure my family's survival*." (Informant M, personal communication, 2026).

Informant M explicitly identifies pinjol with riba and recognizes its prohibition, but explains her decision in terms of the perceived absence of viable alternatives for sustaining her family. Her account illustrates the distinction between religious knowledge and financial behavior: awareness of the prohibition remained intact. At the same time, economic circumstances influenced her decision to engage in a practice she regarded as impermissible.

Her narrative can be interpreted through the Islamic jurisprudential concept of ḍarūrah, or necessity. This is an analytical interpretation by the researchers rather than evidence that Informant M consciously invoked a developed jurisprudential doctrine. Her account suggests that she perceived borrowing as an action undertaken under severe constraint to preserve her family's livelihood. From an Islamic legal perspective, ḍarūrah provides a framework for examining moral reasoning when ordinary lawful options are perceived as unavailable. It does not mean that every financial difficulty automatically renders a prohibited transaction permissible; rather, it helps explain how borrowers may reconcile religious prohibition with actions undertaken under perceived necessity.

A similar tension appears in the account of Informant T, a 63-year-old member of the Tuha Peut in a traditional suburban hamlet in Pidie:

"*We, the parents in the village, view this phenomenon as a severe blow to our collective dignity. Religious life in Aceh is very strong, its rituals are grand, and the enforcement of Sharia law against violators is very strict. However, there is structural hypocrisy occurring beneath the surface. Residents are forced to hide their digital debts and bear their inner suffering alone for fear of being socially ostracized as usury enthusiasts. They are forced to borrow from online lenders because traditional mutual aid systems—such as "interest-free lending among neighbors"—have collapsed due to widespread economic hardship. These residents are not irreligious; they deeply love Sharia. But they have been forced to develop their own logic—that Allah will surely forgive them because the state's formal system has failed to provide them with a halal and humane solution*." (Informant T, personal communication, 2026).

Informant T shifts the analysis from individual decision-making to community-level consequences. His account links digital borrowing with the weakening of informal mutual assistance and the stigma attached to interest-based debt. The concealment of digital debts suggests that religious norms continue to shape borrowers' self-perception and social relationships even when their financial behavior departs from those norms. Religious commitment and problematic financial practices may therefore coexist under conditions of constrained choice.

The combined narratives can be interpreted through Merton's theory of social anomie. Financial exclusion does not automatically produce anomie. Rather, restricted access to institutionalized financial means may generate structural strain when individuals continue to pursue culturally valued goals such as sustaining family welfare, maintaining small businesses, or meeting urgent needs. Informant M illustrates this strain at the individual level, while Informant T shows how weakened traditional mutual assistance may reduce community capacity to absorb financial pressures. Digital lending consequently becomes an alternative means of pursuing legitimate social goals through an economically and religiously problematic instrument.

Taken together, these experiences form an important part of the Sharia Paradox. The concept concerns the coexistence of an increasingly formalized Sharia financial system with continuing financial exclusion among vulnerable groups. When formal Islamic financing is perceived as difficult to access, and informal support mechanisms weaken, a practical gap may emerge between the ideal of halal finance and the instruments available during periods of urgent need. Digital lending becomes significant within this gap because it offers immediate accessibility while exposing borrowers to financial, legal, and religious risks.

Religious commitment, therefore, does not necessarily prevent vulnerable borrowers from entering problematic financial arrangements. Religious knowledge may instead become part of the moral reasoning through which borrowers interpret and sometimes justify their decisions. The resulting tension among religious norms, institutional financial access, community support, and livelihood needs constitutes an important sociological dimension of the Sharia Paradox. Addressing illegal digital lending consequently requires not only prohibition and religious awareness but also practical, timely, affordable, and genuinely accessible financial alternatives. This explanation is summarized in Table 2 below.

Table 2. Religious Commitment and Financial Necessity among Vulnerable Borrowers

Analytical Dimension	**Informant M: Individual Level**	**Informant T: Community Level**	**Emerging Finding**
Religious awareness	Recognizes that digital lending involving interest is associated with *riba* and considered religiously prohibited	Describes strong religious identity and commitment to Sharia among community members	Religious norms remain strongly recognized
Financial pressure	Urgent household and business needs created a perceived lack of alternatives	General economic pressure and weakening community support increased financial vulnerability	Economic necessity constrained available choices
Access to Islamic financing	Perceived rejection because of lack of collateral and limited business capacity	Formal financial institutions were perceived as failing to provide accessible and humane alternatives	Formal access did not necessarily translate into practical accessibility
Financial behavior	Used interest-based digital lending despite recognizing its religious prohibition	Community members concealed digital debts because of religious and social stigma	Religious commitment and problematic financial behavior coexisted
Moral reasoning	Borrowing was understood as necessary for family livelihood	Borrowers developed their own justification that necessity might be forgiven	Borrowers attempted to reconcile religious norms with economic necessity

Social consequences	Financial survival became the primary immediate concern	Debt was associated with shame, concealment, and fear of social exclusion	Financial problems extended beyond individual economic consequences
Interpretation	Piety–survival dilemma	Community-level religious and economic tension	Religious commitment did not automatically prevent problematic financial practices

Reconsidering the Sharia Paradox: Financial Formalization, Anomie, and Islamic Financial Governance

The empirical findings reveal a tension between Islamic financial formalization and the expectation of broader financial inclusion. The formalization of Aceh's Sharia financial system through Qanun No. 11 of 2018 was driven by a state-led effort to strengthen Islamic compliance in financial and commercial transactions (Lestari et al., 2021). Within contemporary legal discourse, such institutionalization is considered important for operationalizing Sharia economic law and strengthening ethical standards in financial transactions (Ade Zuki Damanik, 2024). This architecture is reinforced by the institutional authority of National Sharia Board (DSN-MUI) fatwas within Indonesia's financial and statutory framework, providing recognized fiqh-compliant foundations for financial activities (Alamudi & Hasan, 2023); (Amin, 2017). Previous studies further show that this legal architecture has supported Islamic financial-market development and strengthened the distinctive identity of Islamic financial governance (Amanatillah, 2022); (Kurniawan et al., 2023). The present findings qualify this institutional achievement by showing that formal Sharia compliance does not necessarily translate into practical financial inclusion. For some grassroots borrowers and micro-SMEs, particularly those operating informally, institutional financing requirements remained difficult to reconcile with their socioeconomic circumstances. This tension provides the empirical foundation for the Sharia Paradox.

The central issue was not the absence of Islamic financial institutions but the gap between Sharia-compliant financing and practical accessibility. The transition toward Islamic banking was expected to support SMEs and other productive economic groups (Ali Keya Anami, 2024); (M. R. Jailani et al., 2024). Yet informants identified collateral requirements, administrative procedures, repayment-capacity assessments, and processing times as significant barriers. These constraints were particularly consequential for informal traders and micro-enterprises whose businesses generated income but whose assets were undocumented or insufficient to meet formal financing requirements.

This mismatch is partly related to the risk-management characteristics of contemporary Islamic banking. Islamic financial institutions operate within regulatory frameworks that encourage careful financing-risk assessment, and previous research notes that their conservative organizational behavior may resemble that of conventional banking (Asniar, 2022); (Huswatun, 2022). Debt-based financing, including *murābaḥah*, has also become prominent because profit-and-loss-sharing arrangements involve greater informational, monitoring, and operational complexity, whereas debt-based financing tends to rely more heavily on guarantees and collateral (Ascarya & Yumanita, 2011); (Itona, 2022). The findings do not suggest that such requirements are inherently incompatible with Sharia. Rather, they indicate that their application may constrain access when institutional risk-management practices are poorly aligned with informal economic realities.

Financial-system transformation can further intensify these difficulties. Previous research identifies operational costs and systemic inefficiencies as challenges in banking transformation and institutional restructuring (Ibrahim & Law, 2020)while consumer satisfaction may remain uneven when formal procedures fail to accommodate marginalized users (Kurnia & Suwiknyo, 2018). The present findings similarly indicate that informants did not necessarily perceive Islamic financing as unavailable in principle; instead, they experienced it as difficult to access because of documentation, collateral, timing, and repayment conditions. The problem is therefore better understood as an institutional mismatch between formal finance and the informal economy than as an intentional policy of excluding poor borrowers.

Merton’s theory of structural strain provides a useful framework for interpreting this mismatch. The theory emphasizes the relationship between culturally valued goals and the institutionalized means available to achieve them. In Aceh, household welfare, business continuity, education, health needs, and basic economic security constitute legitimate social goals. Yet vulnerable actors may encounter restricted access to legitimate financing because of collateral, administrative, and institutional requirements. Structural strain emerges when these goals remain pressing while institutionally legitimate means are perceived as inaccessible or insufficiently responsive. The analysis therefore treats strain as an interaction between valued goals and constrained means rather than as an automatic consequence of Qanun No. 11 of 2018.

This framework also helps explain why illegal digital lending may become attractive. Previous scholarship identifies regulatory challenges and exploitative practices within the rapidly expanding fintech environment (Darnela & Rusdiana, 2025); (Ceasario & Fauzatul Laily Nisa, 2025); (Jannah & Abidin, 2025). The present study does not treat digital lending as an inevitable outcome of Islamic financial formalization. Instead, it identifies digital borrowing as one possible adaptive response to structural constraints. When legitimate financing is perceived as inaccessible, alternative means may become attractive despite their legal, financial, and religious risks.

The Aceh case also extends conventional applications of anomie theory by introducing a religious dimension. Some borrowers remained aware that interest-based digital lending was associated with riba, yet economic necessity influenced their behavior. Their narratives reveal a tension between religious commitment and material survival. The researchers do not claim that informants explicitly applied a developed jurisprudential doctrine of ḍarūrah. Rather, their accounts are interpreted through ḍarūrah as an analytical lens for understanding decisions made under perceived severe necessity. This interpretation is consistent with broader discussions of religious norms, social change, and adaptive public interpretations in Aceh, where state-led legal engineering interacts with everyday religious practices in complex ways (Feener, 2021). Religious awareness may therefore coexist with economically constrained behavior rather than automatically determining financial choices.

The weakening of community-based financial support adds another dimension to this process. Islamic principles of mutual assistance (*ta’āwun*) and interest-free lending (*qarḍ*) provide normative foundations for grassroots financial support (Bramayuda et al., 2025). Field evidence suggests, however, that such mechanisms may lack sufficient capacity to absorb the pressures faced by vulnerable households and micro-enterprises. Islamic social finance could potentially address part of this gap. Institutions such as Baitul Mal can mobilize zakat, infak, sedekah, and cash waqf for economically vulnerable and non-bankable groups (Hastuti, 2017). Nevertheless, challenges in scaling and integrating these instruments with contemporary digital financial systems may limit their reliability as alternatives (Ibnu Syawali et al., 2023). Public trust, transparency, and institutional governance may further constrain the capacity of regional philanthropic institutions to collect and distribute resources effectively (Fadilah et al., 2025); (Lubis & Albahi, 2025).

Taken together, the findings define the Sharia Paradox as a tension between normative financial formalization and practical accessibility. The concept does not suggest that Islamic banking is inherently exclusionary or that Islamic regulation inevitably generates illegal digital lending. Instead, it describes a situation in which institutional compliance is strengthened while vulnerable groups continue to experience limited access to suitable financing. Structural financial constraints may then coexist with religious commitment, producing responses that are economically understandable, legally problematic, and religiously contested. In this sense, the Aceh case shows how anomie-related tensions can emerge within a financial system explicitly organized around religious norms.

The theoretical contribution lies in extending anomie theory to Islamic financial governance. Merton explains tensions between culturally prescribed goals and institutionalized means; the Aceh case shows that these means may possess explicit religious legitimacy while remaining unevenly accessible. Vulnerable borrowers therefore confront a multidimensional form of structural strain involving economic goals, institutional access, and religious legitimacy. Islamic financial governance can consequently be assessed not only by formal Sharia compliance but also by its capacity to provide accessible and socially responsive means for legitimate economic participation.

Sharia compliance should therefore not be treated as synonymous with financial inclusion. Strengthening Sharia standards remains important, but these standards need to be accompanied by flexible financing mechanisms, community-based interest-free lending, and better-integrated Islamic social-finance instruments (Agustini et al., 2021); (N. Jailani, 2024); (M. R. Jailani et al., 2024). Institutional protection is likewise important for vulnerable groups facing financial and socioeconomic risks (Achmad & Daulay, 2017); (Aziz et al., 2023). Such mechanisms may help ensure that financial formalization advances not only institutional Sharia compliance but also human dignity, socioeconomic protection, and equitable access to financial resources (Balahmar, 2024); (Hubeis et al., 2019); (Latifah et al., 2021).

The contribution of this study is not to reject formal Islamic financial governance but to identify the structural conditions under which its normative objectives may coexist with unintended financial exclusion. By connecting credit exclusion with Merton's theory of structural strain, the Sharia Paradox provides a framework for understanding the tension between religiously formalized financial institutions and the practical needs of vulnerable communities. A resilient Islamic financial system consequently requires not only regulatory and Sharia compliance but also institutional flexibility and complementary social-finance mechanisms that can reduce structural vulnerability and limit dependence on exploitative digital lending.

CONCLUSION

This study finds that formalizing Islamic finance in Aceh through Qanun No. 11 of 2018 has strengthened Sharia compliance but has not necessarily ensured practical financial inclusion. Some grassroots actors and micro-SMEs continue to face barriers to formal financing, particularly when collateral requirements, administrative procedures, repayment-capacity assessments, and processing mechanisms do not align with informal economic activities. Under such conditions, illegal digital lending may become an accessible source of liquidity for borrowers facing urgent economic needs. Their use of such services does not necessarily indicate a rejection of Islamic values; participants remained aware of the religious concerns surrounding riba and described their decisions in relation to severe economic constraints. The findings are interpreted through ḍarūrah as an analytical lens and through Merton's structural-strain theory as a framework for understanding the gap between culturally valued economic goals and the legitimate means available to achieve them. This tension constitutes the Sharia Paradox: the coexistence of strengthened formal Sharia compliance and continuing financial exclusion among vulnerable groups.

Theoretically, the study extends Merton's structural-strain perspective into Islamic financial governance by showing how strain may emerge from a mismatch between religiously sanctioned institutional means and their practical accessibility. From a policy perspective, Sharia compliance needs accessible, flexible, and socially responsive financing mechanisms, including community-based interest-free financing and better-integrated Islamic social-finance instruments. Such measures may reduce credit exclusion and dependence on exploitative digital lending without weakening Sharia standards or regulatory safeguards. The study is limited by its qualitative focus on selected communities in Aceh Besar and Pidie, reliance on participants' accounts, and the absence of quantitative measurement of the prevalence of financial exclusion and digital lending across Aceh. Future research should employ mixed-methods, comparative, and longitudinal designs to examine the applicability of the Sharia Paradox across different communities and Islamic financial policy contexts.

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