

CONVERTING CONVENTIONAL BANKS TO SHARIA BANKS IN ACEH: AN EFFORT TO MAINTAIN A STABLE ECONOMY IN THE COVID-19 OUTBREAK

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ABSTRACT – Based on Aceh *Qanun* (sharia law) No.11 of 2018 concerning Islamic Financial Institutions, it is required to carry out financial activities based on sharia principles. The decline of the global economy during the Covid-19 outbreak did not dampen the Aceh Government, which declared itself a special province practicing sharia values. Apart from aiming to make a purely Sharia-based region, the conversion of conventional banks to sharia banks is also to stabilize the economy. This study aims to analyze (1) the growth conditions of Islamic banking in Indonesia, (2) the legalization of the Aceh Government *Qanun* in determining financial institutions operating in Aceh, and (3) the resilience of Islamic banking in facing the global economic downturn during the Covid-19 pandemic. The analysis method used is literature and regulation review. The conclusion that the decentralization system implemented by the Indonesian Government in Islamic banking has not been able to maximize the growth of Islamic banking in Indonesia. Aceh Province, the only province in Indonesia that implements Sharia Law through special autonomy, has its own economic system. The Aceh government issued a *Qanun*, which obliged economic activities based on sharia principles. Based on *Qanun* No. 11 of 2018, the operation of Banks in Aceh must be in accord with Sharia. Therefore, entering 2020, the Islamic economy has been running almost perfectly in Aceh by changing conventional banking operations into Islamic banking. Furthermore, Islamic banking in Indonesia can still maintain stable growth when the Indonesian economy slides sharply in the second quarter of 2020 to minus 5.32 percent. This fact proves that increasing the growth of Islamic banking is an important thing to do. The Government should be serious and more consistent in maintaining economic stability and achieving the purposes (*maqashid*) of Sharia in human life.

Keywords: Sharia Banking, Aceh Province, Covid-19 Pandemic.

ABSTRAK – *Konversi Bank Konvensional Menjadi Bank Syariah di Aceh: Upaya Menjaga Stabilitas Perekonomian dalam Wabah Covid-19.* *Qanun (undang-undang syariat (Islam)) Aceh No 11 Tahun 2018 tentang Lembaga Keuangan Syariah, secara tegas telah mewajibkan lembaga keuangan yang beroperasi di Aceh untuk melaksanakan kegiatannya berdasarkan prinsip syariah. Penurunan ekonomi global di masa pandemi covid-19 tidak menyurutkan langkah Pemerintah Aceh dalam mengimplementasikan kebijakan mensyariatkan seluruh lembaga dan institusi yang berada di Aceh. Walaupun berada di dalam sebuah negara yang tidak menganut paham syariah, Provinsi Aceh telah menyatakan dirinya sebagai sebuah wilayah berkedaulatan syariah Islam. Selain bertujuan untuk menjadikan wilayah yang murni berbasis syariah Islam, konversi bank konvensional menjadi syariah juga bertujuan untuk menstabilkan perekonomian. Penelitian ini bertujuan untuk menganalisis (1) kondisi pertumbuhan perbankan syariah di Indonesia, (2) legalisasi Qanun Pemerintah Aceh dalam menentukan lembaga keuangan yang beroperasi di Aceh, dan (3) ketahanan perbankan syariah dalam menghadapi penurunan perekonomian global di masa pandemi Covid-19. Studi ini menggunakan metode kajian literatur dan analisis regulasi yang menghasilkan kesimpulan yaitu sistem desentralisasi yang dilakukan Pemerintah Indonesia pada perbankan syariah belum dapat memaksimalkan pertumbuhan perbankan syariah di Indonesia. Provinsi Aceh sebagai satu-satunya provinsi di Indonesia yang menjalankan Syariat Islam melalui otonomi khusus mempunyai sistem perekonomian tersendiri. Pemerintah Aceh mengeluarkan qanun yang mewajibkan seluruh kegiatan perekonomian harus berlandaskan prinsip syariah. Berdasarkan Qanun No. 11 Tahun 2018, setiap perbankan yang beroperasi di Aceh haruslah berbentuk syariah. Oleh sebab itu memasuki tahun 2020, perekonomian Islam hampir sempurna telah berjalan di Aceh salah satunya dengan berubahnya operasional perbankan konvensional menjadi perbankan syariah di Provinsi Aceh. Selanjutnya, Perbankan syariah di Indonesia masih mampu menjaga kestabilan pertumbuhannya di saat perekonomian Indonesia meluncur tajam di kuartal II 2020 hingga minus 5,32 persen. Hal ini membuktikan bahwa meningkatkan pertumbuhan perbankan syariah merupakan hal yang penting dilaksanakan, memerlukan keseriusan dan konsistensi terus menerus dari pemerintah demi menjaga kestabilan ekonomi makro dan akan tercapai maqashid syariah pada semua lini kehidupan.*

Kata Kunci: Perbankan Syariah, Provinsi Aceh, Pandemi Covid-19.

INTRODUCTION

Aceh is the only province in Indonesia with the privilege of special autonomy in implementing Islamic Sharia—starting from the enactment of Islamic Sharia law for civil cases until determining types of financial institutions operating in Aceh. *Qanun* (provincial sharia law) No.11 of 2018 concerning Sharia Financial Institutions, which is the follow-up of *Qanun* No. 8 of 2014 concerning the principles of Islamic Sharia explicitly requires that financial institutions operating in Aceh obliged to carry out their activities based on Sharia principles. Amid the exposure of the Covid-19 pandemic and the necessity to change the operations of conventional financial institutions into Islamic financial institutions, especially in the banking sector, it turned out to be well accepted.

It is evidenced by the readiness of commercial banks to convert the status of their (conventional) commercial bank offices to sharia-based banks, such as BRI, Mandiri, BNI, and conventional private banks operated in Aceh (Nadia, Ibrahim, & Jalilah, 2021). Global economic depression during the Covid-19 pandemic did not dampen the steps of the Aceh Government to requiring the implementation of Sharia law to all institutions in Aceh. Even though Aceh is in a country that does not adhere to Sharia, Aceh Province has declared itself an Islamic Sharia sovereign territory. Apart from aiming to make a purely based region based on Islamic Sharia, the conversion of conventional banks to Sharia ones also aims to stabilize the economy. Moreover, the impact of the ongoing covid-19 pandemic has also made Aceh's economy slow down (Bank Indonesia, 2020).

However, the dualism system in regulating the economic system in Indonesia, the conventional and Sharia system, becomes a barrier for the people, especially the Acehnese, to implement Islamic law in their economic life freely. Although Islamic banks also exist and are free to carry out their activities outside the Aceh Province, the growth of Islamic banking decreased (Ibrahim, 2014; Wardiah & Ibrahim, 2013; Nisak & Ibrahim, 2014). This is because the Government regulation that requires all banks operating in Indonesia to follow the system of Bank Indonesia as the central bank, which some of them still collide with Sharia systems.

Moreover, the limited facilities at Islamic banks, such as ATMs, debit machines that Islamic banks do not support for merchandise in shopping centers, make



people think twice about becoming customers of Islamic banks. In contrast, an economic system based on Islamic law is completely capable of changing the country's economic condition, which is currently below other countries in the Southeast Asian region such as Malaysia, the Philippines, and even Vietnam. Why? Because the principle of Islamic economics is to improve the welfare of society with a profit-sharing system, not to set interest without seeing the progress of the community.

The impact of the Covid-19 pandemic, which is currently attacking this country, has made several community businesses bankrupt. Business people must be harder to market their products amid the global economic downturn. This is not to mention the extra expenditure for daily expenses such as electricity and water bills, which afflicts most Indonesians since people carry out daily activities at home only. So that stimulus for business actors is urgently needed, such as providing Sharia financing, which is more pro-businessman. So, this study has several problems that arise to be analyzed to conclude the answer: how is the growth of Islamic banking in Indonesia? How is the legalization of the Aceh government's sharia law (*qanun*) in determining which financial institutions operate in Aceh? In addition, how is the resilience of Islamic banking to face the global economic downturn during the Covid-19 pandemic?

LITERATURE REVIEW

Islamic banks in Indonesia have not been efficient for five years (2012-2016), as seen from the range of banking efficiency ratios (Puteh, Rasyidin, and Mawaddah, 2018). The quantitative method is used to analyze the efficiency of Islamic Banking by calculating the comparison formula of Operating Expenses to Operating Income (BOPO), this inefficiency ranging from 89.73% to 94.16%. Bank Muamalat, which had a value of 94.16%, showing the highest average efficiency ratio compared to other Islamic banks. It was inversely proportional to Bank Mega Syariah, which has the lowest average efficiency ratio of 89.37%. Five other Islamic banks (Muamalat, Bank Syariah Mandiri, Bukopin Syariah, BRI Syariah, and Bank Mega Syariah) had high efficiency ratios exceeding 80%. This inefficiency was due to the high operational costs of the bank compared to the operating income of the bank. So based on the research, banks must be able to create good product innovations to increase fundraising from the public, such as competitive income, prizes, and other programs that can attract public interest to use Islamic banking services.



Beck, Demirgüç-Kunt, and Merrouche examined the differences between Islamic and conventional banks controlling for the time-variant state fixed effects; they found some significant differences in business orientation (Beck, Demirgüç-Kunt, and Merrouche, 2013). Their research found that Islamic banks had better capital, higher asset quality, and are less likely to be disintermediated during the crisis. However, they found evidence that Islamic banks were less cost-effective. Zahra, Ascarya, and Huda tried to analyze the influence of macro and microeconomic variables on the stability of multiple banking systems in Indonesia and compares the stability level of two banking systems using a comparison of two stability measurement models, namely the Z-score and the Banking Stability Index (Zahra, Ascarya, and Huda, 2018). When the components of the Z-score and BSI compilers are equated, the results show that Islamic banking was more stable than conventional banking.

Cham examined the determinants of growth rate in Islamic banking. The results that he found support the view that high oil prices, stable domestic prices, a more educated population, and the presence of larger capital resources had a positive effect on the growth of Islamic banking. However, instability was affecting the growth of Islamic banking. He found no clear conclusions about the impact of economic growth, the presence of a larger Muslim population, and the presence of Sharia in the country's legal system on the growth of Islamic banking. The main obstacles hindering Islamic banking regulations were regulations, taxes, and skilled labor (Cham, 2018).

Hamza (2013) examined the relationship between Sharia compliance, the form of Sharia supervision, and the effectiveness of Sharia governance. This paper compares two models of sharia governance frameworks; the first is the decentralized model in the Gulf Cooperation Council (GCC), and the second is the centralized model in Malaysia. Findings - Independence of the Sharia Board (SB) in its supervisory mission and consistency of Sharia decisions are key components of an efficient Sharia governance structure. The centralized system of Sharia government in Malaysia appears to be of benefit to the industry in terms of the effectiveness and credibility of Islamic banks. This study focuses exclusively on qualitative analysis of SB and Sharia governance in Islamic countries. Practical implications were that the centralized model is able to strengthen the position and independence of SB and can better examine the subject of differences between all SB in order to promote, in the long run, consistency of fatwas and interpretation between banks and regions.



Gheeraert and Weill (2015) had studied whether the development of Islamic banking affects macroeconomic efficiency. In doing so, they contribute to the analysis of the relationship between Islamic finance and economic growth by applying a stochastic frontier approach to estimating technical efficiency at the country level for a sample of 70 countries. Using a unique hand-gathered database covering Islamic banks worldwide over the period 2000 to 2005 identifies the evidence that the development of Islamic banking supports macroeconomic efficiency. In addition, there is a non-linear relationship between efficiency and development of Islamic banking, as measured by credit or deposits. Although increasing the development of Islamic banking increases efficiency to a certain point, the expansion of Islamic banking becomes detrimental to efficiency beyond this point.

Setyowati, Abubakar, and Rodliah (2017) examine Sharia Governance on Islamic Banking: Spiritual Rights Perspective on Consumer Protection in Indonesia. In Islamic banking institutions, the concept of governance is broader and more complex when compared to conventional banks. This is because 'Islam,' 'sharia,' and 'governance' s have a very close philosophical relationship. Thus, Islamic banking institutions that philosophically aim to apply sharia principles have juridical consequences must also apply sharia governance. These requirements are in line with the duties of every banking institution as stipulated in the law to apply the concept of corporate governance so that every banking operation runs soundly and in a stable manner. Regulations related to governance and the Islamic Banking Law that include implementing regulations have legally reinforced their applications in the Islamic banking industry in Indonesia. Sharia governance, when viewed from a banking perspective, is an obligation that should be carried out based on the provisions of laws and regulations. However, from a consumer protection perspective, it can be considered as a manifestation of the spiritual rights of Islamic banking customers. As a right, that spiritual right needs to be guaranteed protection from the implementation of sharia governance—attention to the protection of spiritual rights needed to build industry. With regard to governance, it requires fundamental legal guarantees supported by a stable and adequate legal environment. In improving the quality of sharia governance effectively, it is necessary to develop self-regulation for each Islamic banking institution.

Aliyu et al. (2017) reviewed the literature on the sustainability of Islamic banking and provided directions for future research. This article examines the views of scholars and practitioners on two perspectives of sustainability about



the objectives of Islamic banking and finance. The limited studies on the sustainability of Islamic banking were among the main issues presented in this article. This study highlights important issues regarding sustainability without in-depth empirical analysis. The need for long-term economic, social, and environmental sustainability is not a complex problem. Therefore, Islamic banks must strike a balance between institutional, social, and environmental sustainability to achieve the objectives of Sharia.

Simanjuntak (2015) evaluated the Implementation of the Decentralization Policies in Indonesia, and concluded that it had not been yet completed. Until 2015, its implementation had not been optimal or had not been successful. The essence of decentralization is "internalizing costs and benefits" for people and how to bring the Government closer to its people. That is the most important essence of the slogan "decentralization." However, the implementation of decentralization in Indonesia is still far from this expectation. This fact has shown that decentralization only benefits local elites and rulers, decentralization is a neoliberal octopus, decentralization of public services that lack character; decentralization without institutional efficiency, decentralization fosters corruption in the regions and pseudo fiscal decentralization (Ibrahim, 2011). This paper aims to provide an overview of implementing decentralization policies in Indonesia from 1999 to 2015. The method used was literature and regulatory studies with descriptive qualitative discussions.

Ben Bouheni, Ammi, and Levy (2016) examined Banking Governance. Islamic banking can use the same governance mechanisms as conventional banks, in addition to the Sharia board, sharia review unit, the Islamic International Rating Agency (IIRA) and, the Islamic Financial Services Board (IFSB) as the main body monitoring the Islamic banking industry. Unlike conventional banks, Islamic banks are based on the active participation of public policy institutions, supervisory authorities, and sharia authorities. Islamic banking refers to banking activities following Islamic law (Sharia) and guided by Islamic economics (Ibrahim & Fitria, 2012). In particular, Islamic law prohibits usury and interest payments (*Riba*); it also prohibits investing in businesses that are considered illegal. Islamic banking denotes banking activities, which are in accordance with Islamic law (Sharia) and guided by Islamic economics.

Wafa (2017) explained in his article "Banking Law in the Operational System of Conventional Banks and Sharia Banks" about the differences in regulations



and operations of two banking systems that run in Indonesia. The two banking systems running in Indonesia provide various choices for people to save and invest. The Indonesian Government also provides flexibility and protection for customers, both for conventional banking and Islamic banking. Conditionally, the new Islamic banking system in Indonesia has not been able to optimally raise funds and distribute financing to the public. Generally, it must be socialized for the people by the Government and by the legal institution of economic and finance via mass media or social media.

RESEARCH METHOD

This research was conducted using observational data from researchers' experiences as members of the Sharia Economic Community (MES) as the chief coordinator for Langsa City, Aceh. While the major of Banda Aceh from 2017 to 2022, namely Aminullah Usman, is currently the general chairman of MES from 2015 to present (2020).

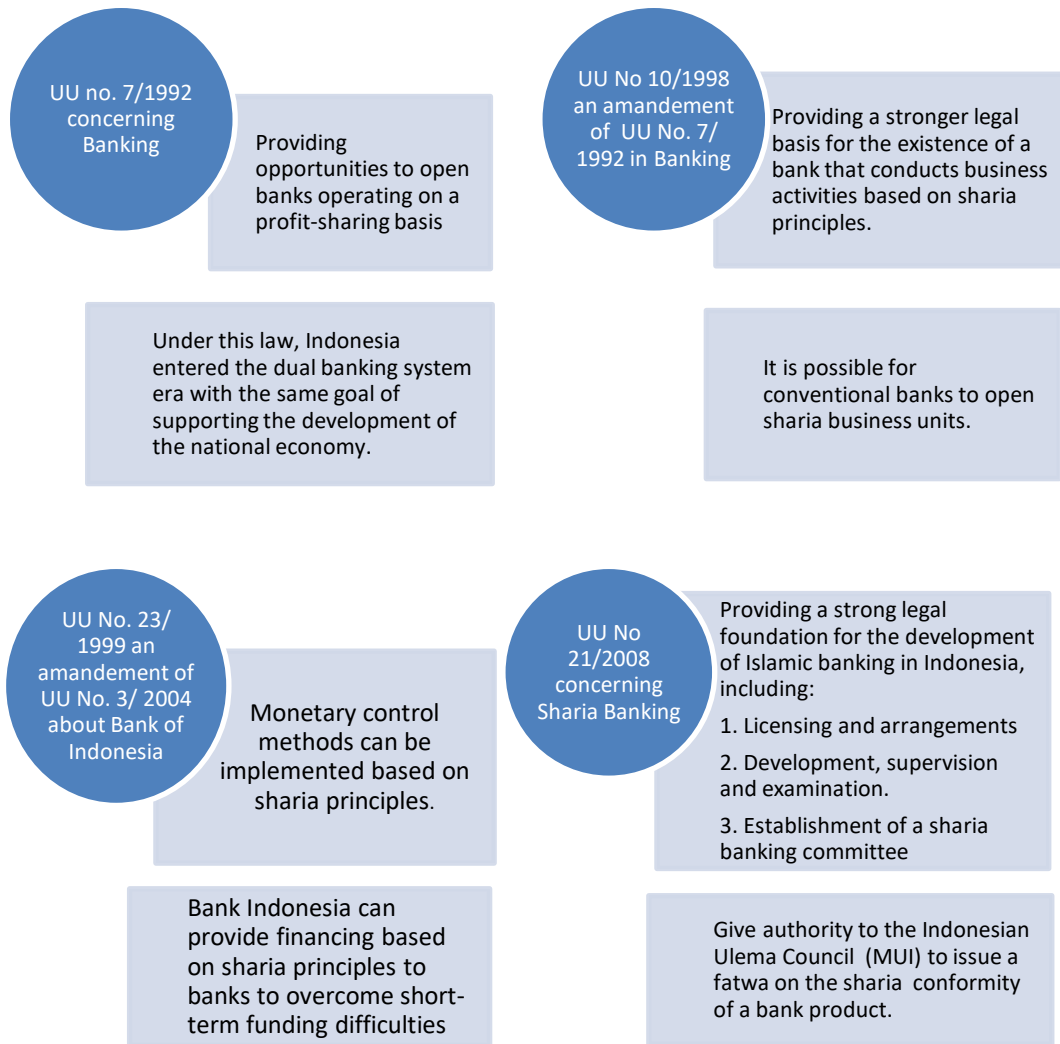
As part of MES, researchers are actively involved both directly and indirectly in realizing Aceh's *Qanun* No. 11 of 2018 concerning Sharia Financial Institutions, which is a follow-up of *Qanun* No. 8 of 2014 concerning the principles of Islamic Sharia. MES also has the main task in socializing every level of society for the change in financial companies, especially conventional banking to Islamic banking. So that the interaction of researchers with each social layer in the community in knowing the benefits and constraints of being a sharia bank customer can be known as an evaluation material and academic paper on the central Government (Aceh Province). This study uses literature and regulatory studies with descriptive qualitative discussions, as was done by Simanjuntak (2015).

RESULT AND DISCUSSION

Growing Conditions of Islamic Banking in Indonesia Among Dual Banking Systems

Regulation of the sharia banking system and its operations in Indonesia is based on several laws which continue to be refined over time and the development of Islamic banking itself, such as (Yumanita and Ascarya, 2005):





The change of law above is a positive implication of the growth of Islamic banking in Indonesia, which shows a positive trend every year. It could be seen in the latest data as in Table 1. From these data, it can be concluded that the Covid-19 pandemic that hit Indonesia from the beginning of 2020 did not reduce the growth of Islamic banking in Indonesia, only the total assets of Islamic Commercial Banks (BUS) and Sharia Business Units (UUS) on May decreased, but not significant. However, increasing the growth of Islamic banking in Indonesia is still far behind compared to Malaysia, with a Muslim population that is far less than Indonesia, which has the largest Muslim population in the world. As a comparison, as of December 2019, the total assets of Islamic banking in Malaysia were 835.19 billion ringgit or IDR 2,789 trillion



(Puspaningtyas, 2020), compared to the total assets of Islamic banking in Indonesia, which only reached IDR 524,564 billion. This is in line with Cham's research results that the presence of a large Muslim population is not the main determinant of the growth of Islamic banking.

Table 1. Sharia Banking Growth in Indonesia

Indicator	2016	2017	2018	2019	2020			
					Jan	Mar	April	May
Sharia Commercial Bank								
Total Assets (in billion Rupiah)	254,184	288,027	316,691	350,364	346,373	349,950	348,294	347,108
Number of Banks	13	13	14	14	14	14	14	14
Number of Offices	1,869	1,825	1,875	1,919	1,922	1,923	1,942	1,946
ATMs/ ADMs	3,127	2,585	2,791	2,827	2,825	2,827	2,830	2,835
Number of Employees	51,110	51,068	49,516	49,654	49,723	49,923	50,345	49,950
Total Asset of BUS & UUS (in billion)	356,504	424,181	477,327	524,564	515,324	522,560	521,230	517,250

Source: OJK (2020)

Legalization of Aceh Government's Law (*Qanun*) in Determining Financial Institutions Operating in Aceh

The implementation of governance in Indonesia is decentralized with Act No. 22 of 1999 concerning Regional Government, which previously was centralized. This change began with demands from several parts of Indonesia to separate from the Republic of Indonesia (Simanjuntak, 2015). However, from Simanjuntak's (2015) evaluation results, decentralization in Indonesia had not been maximized or still far from expectations due to the emergence of sharp gaps between regions. Likewise, the Islamic banking system in Indonesia also refers to the decentralized system, especially in Act No. 10 of 1998, one of which states the freedom of conventional banks in opening sharia business units. Meanwhile, the Financial Services Authority (OJK), namely the supervisory agency for the financial services industry in Indonesia with the Financial Services Authority Regulation No. 64 / POJK.03 / 2016 concerning Changes in Business Activities of Conventional Banks into Sharia Banks, carries out the implementation of the regulatory and supervisory functions of



Sharia bank. However, based on the results of research by Puteh, Rasyidin, and Mawaddah (2018), it is stated that Islamic banks in Indonesia were not efficient by research period in 5 years from 2012-2016 with Operational Costs to Operating Income (BOPO) as the comparison tool. From the results of this analysis, the inefficiency of Islamic banking in Indonesia had been strongly influenced by the decentralized system of Islamic banking governance. Hamza (2013) stated that the effectiveness of decentralized sharia governance applied to the Gulf Cooperation Council (GCC / The Gulf Cooperation Council) was less efficient in Sharia governance which was focused on the mission of monitoring and consistency of Sharia decisions which were the main components of the Sharia governance structure, efficient. This is in contrast to Malaysia that implemented a centralized system which was more beneficial in terms of the effectiveness and credibility of Islamic banks. The centralized model can strengthen the position and independence of the Sharia Board (SB) in examining differences between Islamic boards, especially in the long term, consistency of fatwas and interpretation between banks and regions.

In implementing its governance, Indonesia adheres to a regional autonomy system. The legal basis for implementing regional autonomy begins with Act No. 22 of 1999 concerning Regional Government, which was then revised by Act No. 32 of 2004. It was then revised back into Act No. 23 of 2014. From the observations of Simanjuntak (2015) in Act No. 23 of 2014, the term regional government authority had changed to regional government affairs, which means that there was more limited control over the regions in managing their territorial independence. However, in Aceh Province, one of the provinces granted special autonomy rights from the Indonesian Government based on the Law of the Republic of Indonesia No. 18 of 2001 concerning Special Autonomy for the Province of Aceh, a derivative of Act No. 22 of 1999. It has the authority, one of which is to have a *Qanun* (regional sharia regulation) as the implementer of laws in the Aceh Province in implementing special autonomy.

The implementation of the special autonomy privileges for Aceh Province is by issuing Regional Regulation No. 5 of 2000 concerning the Implementation of Islamic Sharia (Pemerintah Aceh, 2020). This regional regulation gave birth to several *qanuns* related to strengthening the implementation of Islamic law, such as *Qanun* No. 8 of 2014 concerning the Principles of Islamic Sharia, one of the articles regulating finance is section No. 21, which states that financial institutions operating in Aceh must be based on sharia principles. So that conventional financial institutions that are already operating must open a Sharia



Business Unit (UUS). The Aceh government's financial transactions must also use Sharia's principle or go through a Sharia Financial Institution process. So that the continuation of more detailed rules regarding Islamic Financial Institutions led the Aceh government to issue the *Qanun* No. 11 of 2018 concerning Sharia Financial Institutions. *Qanun* No. 11/2018 clearly states that financial institutions operating in Aceh must be based on Sharia principles, and the same is applied for the transactions carried out. One of the Islamic financial institutions that are regulated in operation in this *qanun* is a Sharia bank. In section No. 7, paragraph 2, Furthermore, Section 18 states that Sharia Banks operating in Aceh and related regulators are required to coordinate at least twice a year in maintaining the commitment of Islamic banks to fulfill the functions of Islamic Financial Institutions (LKS) in Aceh. Section 46 concerning the Aceh Sharia Council (DSA) states that the DSA functions as a representative for the National Sharia Council at the Aceh's level, consisting of five members, consisting of three permanent members and two ex-officio plenary members representing the OJK and BI. Ben Bouheni, Ammi, and Levy (2016) stated that the difference between conventional banks and Islamic banks is based on the active participation of public policy institutions, supervisory authorities, and sharia authorities. The activities of Islamic banking must be in accordance with Islamic law and under the Islamic economy.

In addition to the financial, operational system, especially banking in Aceh, Aceh Government also issued policies on customer protection, partners, LKS, and guarantees in Chapter VIII *Qanun* No. 11 of 2018, which states that protection for customers and partners of LKS that is not regulated by the OJK (Indonesian State financial guarantee authority) or other authorized institutions can be regulated by Aceh's Government. Wafa (2017) examined how two banking systems, namely conventional and Sharia, operated in Indonesia. In his research, he found positive things, including opening various options to the public in saving and investing. From his point of view, the Indonesian Government had provided sufficient flexibility and protection for customers. However, more specifically, Setyowati, Abubakar, and Rodliah (2017) seen consumer protection in Islamic banking as a manifestation of consumer rights, namely spiritual rights. Their research results suggested that Islamic banking institutions have broader and more complex governance than conventional banking. This is because there is a very close philosophical relationship between Islam, Sharia, and the Government. So that the management of Islamic banking and the protection of customers requires strong legal guarantees. The implementation of their research can be seen from the researcher's description



of the Aceh Government's *qanuns* that are consistent with the implementation of Islamic law, which is not found in central government regulations (Indonesia). Finally, from mid-2019 to 2020, all financial institutions and transactions in Aceh had transformed into Sharia. Conventional financial institutions have steadily activated their Sharia units and have not operationalized their conventional institutions. All agencies and institutions, both Government and private, also migrated financial transactions to Sharia. This proves that the economic centralization system implemented by the Government of Aceh, in particular, aims to make all financial institutions, including banks, succeed.

The resilience of Islamic Banking to Face a Decline of the Global Economy During the Covid-19 Pandemic

Currently, when the Covid-19 pandemic attacks the world, the resilience of the economies of all countries has been tested. The downturn in the economies of the world's countries has directly or indirectly impacted the resilience of Islamic banking assets. Previously, Gheeraert and Weill (2015) had evaluated the relationship between Islamic finance and economic growth. He found evidence that the development of Islamic banking supports macroeconomic efficiency, but the expansion of Islamic banking is detrimental beyond the point of efficiency. Likewise, Beck, Demirgüç-Kunt, and Merrouche (2013) found that Islamic banks had higher intermediation ratios and better capitalization during the crisis. However, they were still less efficient in terms of cost due to significant differences in business orientation between bank sharia and conventional banks.

Indonesia's economic growth in the second quarter of 2020 was minus to 5.32 percent, and it is the deepest since the first quarter of 1999. However, in Table 1 data, it can be seen that the total assets of Islamic commercial banks (BUS) and Islamic business units (UUS) increased from January to April 2020, only in May there was a decrease. However, it was not significant even though the covid-19 pandemic began to enter Indonesia in January. Starting from that month to May 2020, the Indonesian economy has continued to decline.

Meanwhile, the market share of Islamic banking in Indonesia during its establishment until early 2019 only touched 6 percent. It is inversely proportional to seeing the Malaysian state, which has reached 35 percent, even Oman, which just started sharia banking operations in early January 2013, has



touched 14 percent in early 2020. (Mihajat, 2020). The profitability of Islamic commercial banks compared to conventional commercial banks in Indonesia when economic conditions are declining shown in table 2 below (Badan Pusat Statistik, 2020; Otoritas Jasa Keuangan, 2020)

Table 2. Data of Economic Growth, Financial Ratio for Islamic Commercial Banks and Sharia Business Units, and Conventional Commercial Banks in Indonesia during 2020 (in percentage)

Period	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Economic growth		2.97			-5.32			-3.49			-2.19	
Islamic Commercial Bank												
ROA	2.44	2.32	2.35	2.15	2.00	1.95	2.01	2.03	2.02	1.97	1.86	1.81
Conventional Commercial Bank												
ROA	2.70	2.49	2.57	2.34	2.06	1.94	1.90	1.90	1.76	1.70	1.64	1.59

Source: OJK (2020)

Based on the data on Indonesia's economic growth throughout 2020, it can be seen that a sharp decline occurred in the second quarter, namely -5.32 percent. In the fourth quarter, the economy's condition improved, although it was still not stable. A decline in economic growth due to the Covid-19 pandemic also affected the bank's profitability (ROA) in Indonesia. Tabel 2 shows the profitability of banks also shown a scale of negative spread. From the two types of banking, conventional commercial banks and Islamic commercial banks, the table revealed that profitability of Islamic commercial banks was higher than its conventional counterparts.

The pandemic of Covid-19 has a direct impact on real sector activities; it also impacts the performance of Islamic banking, which operational activities rely on the real sector. According to the Head of the Sharia Banking Division of the National Committee for Sharia Economics and Finance (KNEKS), Yosita Nur Widiyanti, the real impact could be minimized through the official regulation issued by the Government, OJK (Financial Services Authority), BI (Bank Indonesia), and other authorities in dealing with Covid-19. The Sharia Financial Services Director of KNEKS, Taufik Hidayat, said that in terms of assets, financing and Third Party Funds (Dana Pihak Ketiga/DPK), Islamic banking experienced respectively growth up to 11.2 percent, 9.5 percent, 11.7 percent year on year (YoY). The NPF level has also decreased due to relaxation from the OJK and the relatively limited exposure of sharia banking to industrial



sectors such as transportation, accommodation, and restaurants. The growth of sharia banking is also supported by the conversion process for the implementation of the *Qanun* in Aceh, funds from the *Hajj* Financial Management Agency (BPKH), and the conversion effect of the Regional Development Banks (BPD) (Andika & Aldi, 2020)

In several phenomena discussed above, the condition of economic shock has appeared on the conventional commercial banks. Otherwise, the Islamic commercial banks stand up stronger and more stable. Even though its operational period is no longer than commercial banks in Indonesia, it continuously moves forward and tries to finance based on Islamic law. There is also the special autonomy of Islamic law's effect in Aceh to improve the performance of Islamic banking as the agency for maintaining economic stability by achieving the goals of *Maqashid Sharia* in all aspects of human life.

CONCLUSIONS

From all data description and analysis of research results based on a literature review and regulation approach with a qualitative descriptive discussion, the researchers have the conclusion that:

1. The growth of Islamic banking in Indonesia has experienced a positive upward trend every year. This has been seen from the sharia banking growth data accessed on the OJK website. However, when juxtaposed with the growth of Islamic banking from neighboring countries such as Malaysia, the growth of Islamic banking in Indonesia has not increased significantly. Even in the State of Oman, which recently operationalized its Islamic banking in 2013, it is much more developed when viewed from the market share of the two countries. Based on a literature review, the slow growth of Islamic banking in Indonesia could be due to the decentralization system implemented by the Indonesian Government on sharia governance and state financial transaction activities that do not involve Islamic banking. So that, the largest Muslim population in Indonesia does not have a major influence on the growth of Islamic banking.
2. Legalization of Aceh government law (*qanun*) in determining which financial institutions to operate in Aceh is based on Act No. 22 of 1999 concerning Regional Government as the gateway to implementing special autonomy for the Aceh region. As a derivative of this law, the Aceh Government issued the *Qanun* No.11 of 2018 concerning Sharia Financial



Institutions, explicitly stating that financial institutions operating in Aceh must be based on Sharia principles and the transactions carried out. From mid-2019 to 2020, all financial institutions and transactions in Aceh transformed into Sharia. The activities of Islamic banking must be following Islamic law and Islamic economics territories. Centralization system of economy that the Government of Aceh implemented, in particular, to ensure that all financial institutions, including banks, proved successful.

3. The resilience of Islamic banking in the face of a global economic downturn during the Covid-19 pandemic directly or indirectly impacts the assets of Islamic banking globally. However, in Indonesia, until May 2020, the decline in Islamic banking assets has not shown a significant negative impact. This means that Islamic banking in Indonesia can still maintain stable growth when the Indonesian economy slides sharply in the second quarter of 2020 to minus 5.32 percent. This proves that increasing the growth of Islamic banking is an important thing to do, it requires seriousness and continuous consistency from the Government in order to maintain the stability of the macroeconomic of the State. In the end, there will be *Maqashid Syariah* in all lines of the life of the Indonesian nation.

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