



Enhancing Repayment Discipline in Islamic Microfinance Through Mosque-Based Social Networks: The Case of Bank Aceh Syariah

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ABSTRACT

Islamic microfinance institutions (IMFIs) face persistent challenges in identifying trustworthy borrowers among low-income communities, often resulting in elevated non-performing financing (NPF) levels. Bank Aceh Syariah, a municipally supported Islamic microfinance entity, seeks to address this issue by leveraging mosque-based social networks to strengthen borrower screening, monitoring, and repayment commitment. This study explores the potential of a cooperative framework between Bank Aceh Syariah and mosque consortia in Banda Aceh to enhance Islamic microfinance sustainability. The concept utilizes moral-religious capital, social cohesion, and community-based trust mechanisms inherent within mosque congregations (jamaah) to incentivize honesty and strengthen repayment discipline. The proposed framework is expected to reduce NPF rates through enhanced character-based financing assessment and communal accountability. The paper contributes to the growing discourse on Islamic social finance innovations by demonstrating how religious institutions can support ethical borrowing behavior and financial inclusion in Muslim-majority contexts.

Kata Kunci:

Mikrofinans Islami,
Model Berbasis
Jamaah, Modal Sosial
Masjid, Pembiayaan
Bermasalah (NPF)

ABSTRAK

Meningkatkan Disiplin Pembayaran dalam Pembiayaan Mikro Syariah Melalui Jaringan Sosial Berbasis Masjid: Studi Kasus Bank Aceh Syariah. Lembaga keuangan mikro Islam (IMFI) menghadapi tantangan yang terus-menerus dalam mengidentifikasi peminjam yang dapat dipercaya di kalangan masyarakat berpenghasilan rendah, yang seringkali mengakibatkan tingginya tingkat kredit macet (NPF). Bank Aceh Syariah, sebuah lembaga keuangan mikro Islam yang didukung pemerintah kota, berupaya mengatasi masalah ini dengan memanfaatkan jaringan sosial berbasis masjid untuk memperkuat penyalangan, pemantauan, dan komitmen pembayaran peminjam. Studi ini meneliti potensi kerangka kerja sama antara Bank Aceh Syariah dan konsorsium masjid di Banda Aceh untuk meningkatkan keberlanjutan keuangan mikro Islam. Konsep ini memanfaatkan modal moral-religius, kohesi sosial, dan mekanisme kepercayaan berbasis komunitas yang melekat dalam jamaah masjid untuk mendorong kejujuran dan memperkuat disiplin pembayaran. Hasil yang diharapkan adalah penurunan tingkat NPF melalui peningkatan penilaian pembiayaan berbasis karakter dan akuntabilitas komunitas. Makalah ini berkontribusi pada wacana yang berkembang tentang inovasi keuangan sosial Islam dengan menunjukkan bagaimana lembaga keagamaan dapat mendukung perilaku peminjaman yang etis dan inklusi keuangan dalam konteks mayoritas Muslim.

INTRODUCTION

The global Islamic microfinance sector aspires to provide dignified and interest-free financial services to the underserved, yet it struggles with repayment discipline and governance challenges (Boussetta, 2022). In Indonesia, one recurring issue is borrower dishonesty, which leads to rising non-performing financing (NPF) ratios and threatens institutional sustainability (Salsabilla, 2024). Despite these challenges, Islamic microfinance continues to play an essential role in achieving the Sustainable Development Goals (SDGs) (Abdul Wahab, 2025), particularly in poverty reduction and financial inclusion. Within this national landscape (Jamaludin et al., 2023), Bank Syariah Banda Aceh represents a local initiative that integrates Shariah-compliant financing with community empowerment. By exploring partnerships with mosque-based networks, the institution seeks to strengthen governance, improve repayment discipline, and demonstrate how faith-based social structures can reinforce the ethical foundations of Islamic microfinance (Yanuar et al., 2023). Research on collaboration between Bank Aceh Syariah and mosques in Aceh is still scarce. To address the problem of non-performing financing (NPF), mosques are another factor that can help banks address this issue and build confidence among jamaah who wish to transact with the bank. Mosques can serve as intermediaries between the bank and borrowers (Hasnita et al., 2025).

However, Bank Aceh Syariah operates under the municipal government with a mandate to empower low-income communities through Shariah-compliant financing (Riza & Arifin, 2025). Despite its promising outreach, the institution faces the classic microfinance dilemma: how to effectively identify honest borrowers who will fulfill their repayment obligations without resorting to exploitation, coercion, or interest-based penalties (Defa Poenna, 2023).

Given that mosques serve as centers of worship, education, and moral development, the proposed collaboration between Bank Aceh Syariah and mosque consortia in Banda Aceh introduces a novel governance structure grounded in religious ethics and social commitment. This paper explores how mosque-based social capital can function as a moral guarantor, improving borrower selection and repayment behavior.

LITERATURE REVIEW

Bank Aceh Syariah operates with Social Accountability

Bank Aceh Syariah operates under a governance model that integrates Shariah compliance, ethical finance, and community responsibility. As an Islamic financial institution, it not only serves as an intermediary for financial transactions but also functions as a socially accountable entity that upholds the moral and developmental objectives of *Maqāsid al-Sharī'ah*: justice (*ʿadl*), welfare (*maṣlaḥah*), and transparency (*amānah*). Through its institutional operations (Rizki Jailani, 2022), Bank Aceh Syariah ensures that every financing decision aligns with social justice and community welfare principles. The bank's policies emphasize ethical lending, honest borrower evaluation, and inclusive financial access to support the poor and small entrepreneurs (Azwar et al., 2024).

Social accountability in this context extends beyond financial reporting; it encompasses ethical responsibility, transparency, and public trust. By engaging local communities, especially through mosque-based partnerships, Bank Aceh Syariah fosters a culture of mutual oversight where borrowers, religious leaders, and financial officers collectively uphold ethical financing behavior (Listyorini et al., 2024).

Non-Performing Financing Challenges

In this regard, the challenges of Non-Performing Loans (NPLs) in microfinance remain closely related to asymmetric information, limited monitoring, and moral hazard (Zaina et al.,



2024). For Islamic microfinance institutions (MFIs), therefore, maintaining a trust-based system and community-based monitoring mechanisms is crucial to mitigate NPF risks while upholding the ethical and developmental goals of Islamic finance (Zia Ulhaq et al., 2023). Overall, these insights suggest that both the external financial environment and the internal moral framework play a crucial role in shaping the sustainability and repayment discipline of microfinance institutions.

Mosque as a Socio-Religious Institution

Mosques have historically served as the center of Muslim communities, serving not only as a place of religious worship but also as a center for community administration, welfare coordination, and dispute resolution (Fanani & Siregar, 2024). Studies indicate that mosques play a crucial role in the daily lives of Muslims, making them natural spaces for social monitoring, moral development, and reputation-based motivation. In particular, mosque committees have the capacity to foster trust and strengthen social cohesion within their congregations, thereby reinforcing both ethical conduct and communal accountability.

Religious and Social Capital in Finance

Islamic social capital promotes institutional strengthening, fosters innovation and community development, and enhances welfare (Hidayah et al., 2023). All of which contribute to sustainable economic and social progress. This concept integrates spiritual and social values into financial activities, ensuring that growth benefits the community as a whole rather than focusing solely on individual gains. The Islamic Social Capital (ISC) model is often understood through three key dimensions: relational capital, structural capital, and intellectual capital (Jofani et al., 2023). Relational capital focuses on trust, cooperation, and mutual respect; structural capital involves networks and institutional connections that facilitate collective action, and intellectual capital encompasses shared values, beliefs, and moral understandings derived from Islamic teachings (Fanani A, Siregar S, 2024).

Research highlights that religious affiliation and social ties enhance trust and repayment rates in faith-based financial programs. This aligns with the role of mosques in fostering shared values and communal accountability.

Conceptual Framework

The proposed model integrates

This study proposes a mosque-based Islamic social capital framework to enhance repayment discipline and institutional sustainability within Islamic microfinance institutions (IMFIs), using Bank Aceh's Shariah-based practices in Banda Aceh as a contextual case study. The model integrates social, moral, and institutional mechanisms grounded in Islamic principles and community structures to address persistent challenges such as moral hazard and weak borrower monitoring, which are key determinants of non-performing financing (NPF).

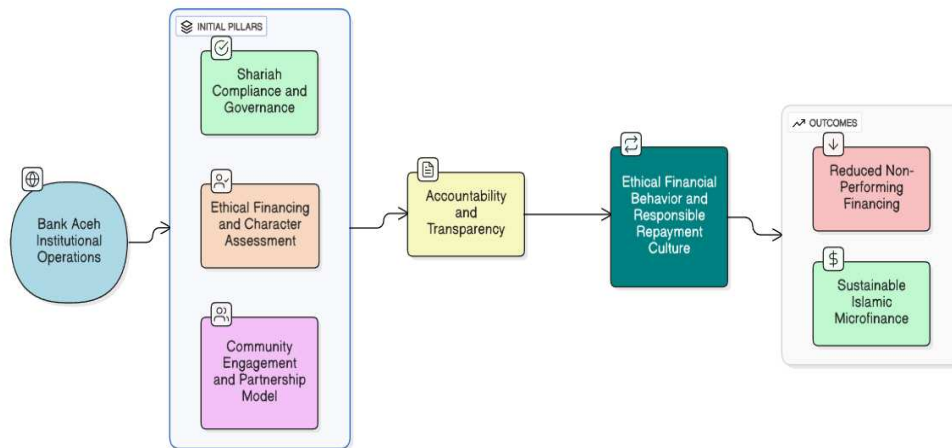
Bank Aceh's institutional operations

Bank Aceh's institutional operations reflect the practical application of Shariah principles and ethical governance in Islamic finance. As a regional Islamic financial institution, Bank Aceh operates not only as a commercial intermediary but also as a development-oriented institution that aims to promote financial inclusion, social welfare, and moral responsibility. This operational model emphasizes compliance with *Maqāṣid al-Sharī'ah*—the higher



objectives of Islamic law, particularly the preservation of wealth (*hifz al-māl*), social justice (*‘adl*), and community welfare (*maṣlahah*).

Figure 1. Conceptual Framework Bank Aceh’s Institutional Operations Model for Enhancing Repayment Discipline in Islamic Microfinance



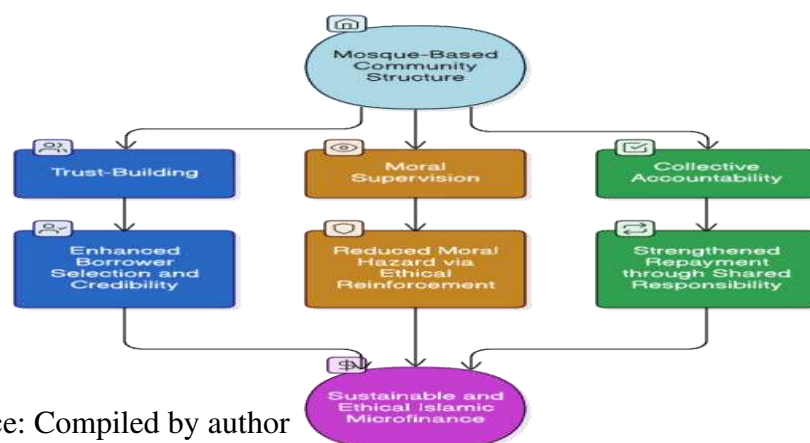
Source : Source: Compiled by author

In essence, this conceptual model highlights that Bank Aceh Syariah’s institutional ethics, rooted in *Shariah* principles and reinforced through community trust, create a self-regulating system of financial discipline. Ethical governance and social accountability work hand in hand to ensure responsible financing behavior, institutional sustainability, and economic justice within the Islamic financial ecosystem.

Mosque-Based Community Structures

Mosque-based community structures function as the core socio-religious platforms through which Islamic moral and social values are operationalized in economic life. Historically, mosques have served not only as centers for worship but also as spaces for community governance, welfare coordination, education, and dispute resolution. In the context of Islamic microfinance, these structures provide a trust-based ecosystem where religious ethics, social networks, and moral accountability converge to shape borrower behavior and institutional governance.

Figure 2. Mosque-Based Community Structures as Socio-Religious Platforms



Source : Source: Compiled by author

Building trust through mosque leaders (*imams* and committees) act as moral gatekeepers that can endorse borrowers based on integrity and reputation, ensuring that financing decisions are grounded in ethical credibility.

Moral supervision occurs informally through the *jamaah* (congregation), where community members collectively observe and reinforce ethical behavior, thus reducing tendencies toward moral hazard and financial misconduct.

Meanwhile, collective accountability is cultivated through communal mechanisms of *ta'āwun* (mutual support) and *ukhuwah* (brotherhood), where borrowers perceive repayment not only as a contractual obligation but also as a moral duty (*amanah*) tied to their social and religious identity.

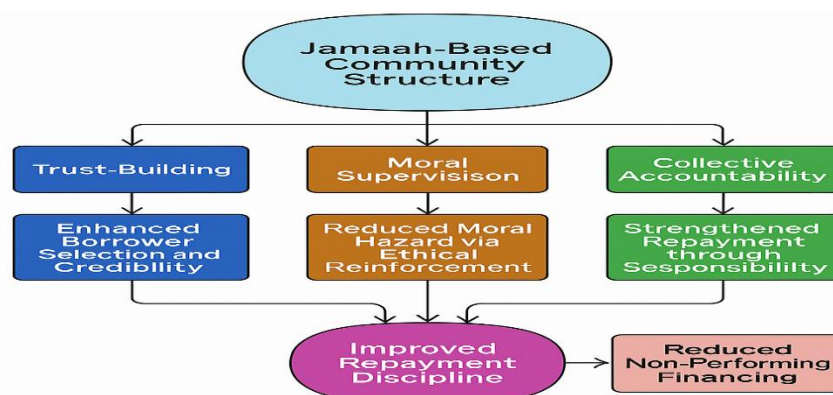
By embedding financial interactions within the mosque's moral ecosystem, Islamic microfinance institutions (IMFIs) such as Bank Aceh can leverage existing social capital to improve borrower selection, strengthen repayment discipline, and foster sustainable community-based finance aligned with *Shariah* objectives.

Partnership & Jamaah (Borrowers)

Microcredit has expanded rapidly worldwide, increasing from 7.6 million borrowers in 1997 to nearly 140 million in 2018, and is widely promoted as a tool for poverty reduction. However, recent randomized control trials show only modest and inconsistent welfare effects, raising concerns about over-borrowing and multiple loan-taking in contexts where credit information systems are weak or absent. These findings indicate that the effectiveness of microcredit depends heavily on borrower behavior, institutional design, and mechanisms that prevent moral hazard and excessive indebtedness (Mwirigi et al., 2024).

In this case, mosque-based social capital—through *jamaah* networks the challenge becomes highly relevant for Islamic microfinance institutions such as Bank Aceh Syariah, which continue to face rising risks of non-performing financing (NPF) due to information asymmetry, weak monitoring, and borrower over-indebtedness. As microfinance expands in Aceh, the lack of a robust credit bureau system and the ease of accessing multiple loans from different institutions can intensify repayment problems (Abd Manan, 2023). This situation underscores the need for alternative, community-based mechanisms that complement formal institutional controls.

Figure 3. Jamaah (Borrowers) -Based Community Structures as Socio-Religious Platforms



Source : Source: Compiled by author

The Jamaah-Based Community Structure represents how the *jamaah* (mosque congregation) functions as a socio-religious ecosystem that shapes borrower behavior and strengthens repayment discipline in Islamic microfinance. The model illustrates three core mechanisms: trust-building, moral supervision, and collective accountability, which work together to reduce moral hazard, improve borrower credibility, and support sustainable financing outcomes.

1. Jamaah-Based Community Structure (Main Source of Social Capital)

At the top of the framework, the *jamaah* serves as the central social unit that binds members together through shared religious values, daily interaction, and spiritual solidarity. This community environment forms the foundation of Islamic social capital, influencing both economic and moral decision-making.

2. Trust-Building

Within the *jamaah*, trust emerges through personal familiarity, social reputation, and religious engagement. This interpersonal trust allows the mosque community to identify borrowers with strong character (*akhlak*), thereby enhancing borrower selection and credibility. Because people are known personally in the congregation, information asymmetry is reduced.

3. Moral Supervision

Religious leaders and fellow worshippers reinforce Islamic ethical norms such as *amanah* (trustworthiness), *ihsān* (benevolence), and *taqwā* (God-consciousness). This environment produces ethical reinforcement, discouraging dishonest behavior and reducing moral hazard. Borrowers internalize repayment as part of their religious responsibility.

4. Collective Accountability

The *jamaah* structure naturally supports peer oversight, mutual reminders, and informal monitoring. Members hold each other accountable because financial misconduct affects the community's harmony and individual reputation. This mechanism produces strengthened repayment through shared responsibility.

5. Outcomes: Sustainable and Ethical Islamic Microfinance

The interplay between trust-building, moral monitoring, and collective responsibility, all integrated into mosque-based social structures, creates self-reinforcing results that reinforce the ethical soundness and financial viability of Islamic microfinance institutions. Recent literature highlights the fact that faith-based governance mechanisms may reinforce formal financial controls by reducing information asymmetry and reinforcing ethical conduct among borrowers.

Stronger repayment discipline

Trust-building initiatives, moral reminders, and continuous social monitoring encourage borrowers to view loan repayment as not only an economic duty but also a religious and moral one (*amanah*). Empirical evidence within an Islamic microfinance context has demonstrated that by situating repayment issues within religious accountability, borrowers show greater commitment to repayment and timeliness (Hasnita, 2025). Members of the *jamaah* often know the character and social standing of each borrower personally. This provides borrowers with much greater reputational incentives to honor their obligations, in line with recent findings

regarding the effects of social proximity and religious norms on repayment discipline in Shariah-compliant financing (Abdul Wahab & Ilma Mahdiya, 2025)

Reduced Moral Hazard

Moral hazard problems occur when debtors misuse loans or deliberately become bankrupt because of poor monitoring infrastructure. Mosque-based financing helps address this problem because the structure puts the borrower in close contact with many religious merchants as well as trustworthy community members to monitor their activities continuously. Research carried out between 2023 and 2024 illustrates that moral hazard in the form of opportunistic actions is overcome by community-based moral hazard in the context of Islamic microfinance institutions (Jamaludin et al., 2023)

Higher borrower reliability

In the disciplined jamaah community, the borrowers tend to demonstrate greater reliability and regularity of their economic conduct. In their activities, they follow the Islamic moral codes of honesty (sidq), trustworthiness (amanah), and social responsibility (ukhuwah). Latest studies verify the concept of moral approval from the mosque committee acting as social collateral in improving banks' trust in the moral credibility of the borrowers over and above the regular financial due diligence (Defa Poenna, 2023)

Lower non-performing financing (NPF)

Improved loan repayments, decreased moral hazard, and greater reliability all play a role in declining numbers of non-performing financing (NPF). Socially embedded financing arrangements have been found to have substantially lower levels of default rates than those that are merely contract-based, according to evidence from Islamic banking institutions in Indonesia (Salsabilla & Jaya, 2024) In this context, the jamaah system can be seen as an accessory for addressing risk management, wherein community outreach and moral suasion are employed to identify potential loan default even before it happens.

Towards sustainable and ethical Islamic Microfinance

The final result of this framework is to ensure the emergence of a sustainable and ethical Islamic microfinance industry, whose financial operations are not solely bound by the rules of the institution but by the morality of the society within which it is located, as well as Islamic values. Current studies have supported the notion that the incorporation of the faith-based social capital of the Islamic society into the financial governance of Islamic institutions improves the legitimacy, sincerity, and sustainability of Islamic financial institutions in a modern society (Abdul Wahab & Ilma Mahdiya, 2025)

The result is an ethical and sustainable Islamic microfinance sector, where financial behavior is not just governed by organizational regulations but also by community ethics and Islamic principles. In this way, economic activities are placed within a new context of generalizing social responsibility and Islamic accounting, so that financial inclusion is maintained without affecting ethical standards. The supplementation of mosque-based social capital improves Shariah governance, since it maximizes both internal moral regulation and regulatory governance. This two-tier system consequently improves transparency, discourages opportunistic behavior, and improves financial responsibility among debtors.



Furthermore, through the utilization of communal norms and religious accountability systems, it is possible for Islamic microfinance to be sustainable without employing forceful enforcement and interest rates, which violate the Shari'ah framework. It is therefore a development instrument in fostering inclusive economic growth by empowering poor communities without undermining social cohesion and moral foundations. Consequently, the mosque-based system of governance provides a relevant and transfusable model in making the resilience of Islamic microfinance more robust, especially in the socio-religious setting in which communal economic foundations are paramount.

Policy Implications

The findings of this study indicate some key policy implications for enhancing the governance of Islamic microfinance and reducing the NPF level in Aceh Mellyan (2021.). Firstly, municipal and provincial governments are advised to facilitate the formalization process of mosque-linked microfinance programs, because these community-based structures offer an effective vehicle for borrower screening, character assessment, and social monitoring (Kamaruddin, 2024). Secondly, there is a dire need for capacity-building programs for mosque committees, particularly on financial literacy, Sharia governance, and ethical supervision. Training programs will ensure that mosque committees can conduct their intermediary role professionally and without bias. Thirdly, Bank Aceh Syariah and policymakers should consider providing Sharia-compliant monitoring incentives, such as rewards for timely repayment or recognition of ethical borrowers that align with Islamic values and increase collective motivation within the community. Fourth, it is relevant to integrate zakat and waqf institutions so that compliant low-income earners may get financial relief or business support through social finance instruments. It would create a holistic ecosystem wherein commercial financing, social welfare, and religious obligations combined result in a synergistic effect (Hendri Hermawan Adinugraha, 2023.).

In general, these policy steps might offer more ethical, socially rooted, and sustainable Islamic microfinance systems in accordance with the Sharia governance framework in Aceh.

METHODOLOGY

The study will benefit from a qualitative exploratory approach, relying heavily on secondary sources of data. The research is therefore based on an extensive literature review of journal articles, institutional reports, policy documents, and published studies related to Bank Aceh Syariah, mosque-based community engagement, Islamic microfinance mechanisms, and repayment behavior. Secondary literature has been analyzed to understand the prevailing financing structure, practices of governance, social capital dynamics, and the accountability system at the community level relevant to Aceh's Islamic microfinance. Finally, the cumulative insight from scholarly sources has been used to synthesize a proposed cooperative implementation model for integrating Bank Aceh Syariah with mosque-based jamaah structures to improve repayment discipline and subsequently reduce NPF. This is an appropriate methodology for an exploratory study in which no empirical fieldwork has yet been conducted, enabling the research to establish a conceptual basis supported by existing knowledge and best practices that have been documented. Field observation of Bank Syariah Aceh .



Proposed Cooperative Model

Financing Flow

Bank Aceh Syariah → Mosque Consortium → Jamaah (Borrowers)

The proposed cooperative model refers to a structured partnership between Bank Aceh Syariah, a Mosque Consortium, and jamaah (borrowers) that aims to enhance repayment discipline and reduce nonperforming financing. Financing flows from Bank Aceh Syariah through a coordinated mosque consortium to individual jamaah borrowers. A range of design features is embedded in the model for both ethical and operational effectiveness. First, recommendations of borrowers are made by the mosque committee because of its closeness with community members in terms of character, integrity, and financial behavior. Second, monthly repayments are closely monitored by a mosque volunteer unit, hence, continuous community-based monitoring with reduced information asymmetry. Third, values-based training for borrowers is in place, which highlights Islamic values such as amanah, halal livelihood, and responsible financial behavior. Fourth, social sanctions against fraud, for instance, loss of community trust-is a non-coercive yet powerful deterrent against moral hazard. Finally, an incentive mechanism involves zakat-based support for compliant low-income borrowers to reinforce positive behavior. By integrating these various elements, a cooperative financing ecosystem based on Islamic ethics and social capital of the community is created, enabling more sustainable and accountable microfinance.

RESULT AND DISCUSSION

Discussion

The results of this study show that non-financial issues continue to be of critical significance to the performance of the IFCs, especially with regard to non-performing financing (NPF), in the year 2023. Internally weak controls, a lack of employee capability, and an absence of monitoring systems contribute to payment delays and increased financing risks, as was hypothesized in earlier studies regarding the inefficacy of governance systems in IFC institutions (Hikmah et al., 2025) This validates the findings of earlier studies as well, as seen through reports from the Indonesian Financial Service Authority (OJK), stating that in 2023, non-financial risks of operational vulnerabilities, governance risks, and human capital risks continued to be a fact within IFC institutions (Fauziah et al., 2025)

Moreover, apart from institutional issues in the financial sector, customer-related factors have been identified as a crucial determinant of NPF. Indeed, customer behavior remains susceptible to socio-economic fluctuations, income uncertainty, and a lack of financial literacy, eroding creditworthy behavior on the part of customers to handle financial commitments in a prudent manner (Ade Elfhina et al., 2025) The above factors underscore the point that customer defaults in the case of sharia banking do not find their root causes in purely financial and contractual weaknesses, but are deeply rooted in social and behavior-related factors.

Therefore, the very nature of sharia banking implies a paucity in its ability to purely depend on classical risk administration mechanisms, and this very need underscores the necessity to focus on customer moral consciousness and behavior-related discipline and resilience.

The discussion also supports other empirical and theoretical studies in recent times that value the role of ethical practices, social capital, and good governance practices in the workings



of the operations of the business of an Islamic bank. While some contracts based on Shariah practices and the supporting formal structure of laws define the working of the business of an Islamic banking system, this alone would be of little use if there isn't a strong emphasis on an ethical culture, as supported by the study.

Importantly, it is clear from the findings that scale-up of non-financial factors, including community engagement, moral supervision, and permanent employee training, has been found to be decisive for lowering NPF and ensuring institutional sustainability. In this respect, community-driven arrangements, especially those that rely on trusted religious and social institutions, play an important role in better borrower behavior and accountability, essentially because financial activities are placed within moral and social frameworks. Regarding institutional sustainability, ethics-driven training of employees has been found effective in raising monitoring quality

Results

From this study, the results showed that non-financial factors were the most influential variables in shaping the behavior of repayment and the level of non-performing financing at Bank Aceh Syariah. Secondary data from various sources, including reports from the Indonesian Financial Services Authority (OJK) 2023, suggested that non-financial risks, like weak internal monitoring systems, customer financial illiteracy, inconsistencies within governance practices, and overall operational inefficiencies, remained persistent among Islamic banking institutions. These issues are very apparent among UMKM debtors, since they are more vulnerable to the fluctuation of income, disturbances in the market, and socioeconomic shocks generally, while standardized financial record-keeping and planning mechanisms for repayment among the same have fallen short.

Further results reveal that delays in repayments are more frequent among those with low levels of involvement in structured forms of community or institutional support systems. Borrowers operating in a non-socially or morally informed manner tend to experience higher irregularities in repayment relative to others embedded in organized community networks. This points, once again, to the inherent limitation of contract-based financing arrangements in adequately mitigating repayment risks as long as non-financial vulnerabilities are left unaddressed.

The results also reveal that mosque-borne social structures have immense potential for backing up Bank Aceh Syariah in managing non-financial risks. Careful examination of the proposed cooperative financing scheme shows that inclusion of mosque committees and jamaah groups substantially upgrades screening processes for borrowers. The imams and mosque committee members make informal, but nonetheless helpful, judgments regarding borrowers' character, social prestige, and moral behavior, which are difficult to measure using traditional financial analysis techniques. The borrowers referred through _jamaah_ groups always demonstrate greater levels of trustworthiness and intent regarding loan repayments, embedding within them the tenets of religious ideology such as amanah (trust).

Furthermore, it can be noted that the findings also ascertain that community monitoring carried out by volunteer units of the mosque helps in improving the monitoring of repayments. This process of monitoring goes on constantly and informally so that warning signs can be identified beforehand regarding the possibility of having problems with repayment. Moreover, this process helps in making use of moral persuasion before the funding goes into non-performing loans.

The findings above further show that the presence of social capital in mosques affects communication positively between the debtors and the bank in a positive way. Debtors



participating in the financial program connected to mosques exercise a greater willingness to share problems of a financial nature and find ways to tackle them without taking up abrupt actions such as defaulting on monies to be repaid to banks.

Overall, the empirical findings suggest that integrating institutional mechanism with mosque-based social capital can be mobilized effectively to bring about better borrower discipline, hence reducing the probability of loan defaults. The results imply that this non-financial approach has very strong potential for NPF mitigation and enhancement of sustainability in the Aceh Islamic microfinance institutions, especially in serving high-vulnerability segments of UMKM customers.

CONCLUSIONS

This study investigated how cooperation among Bank Aceh Syariah, mosque committees, and jama'ah networks can enhance repayment discipline and scale back NPF in Aceh's Islamic microfinance system. The analysis shows that persistent non-financial risks, such as weak screening of borrowers, limited financial literacy, and lack of monitoring, continue to beset Islamic banks and are reflected in the recent assessments by the OJK in 2023. Building from mosque-based social capital, particularly through trusting, moral monitoring, and mutual accountability, the proposed model presents a culturally based mechanism to improve the reliability of borrowers and reduce moral hazard. The active involvement of mosque committees in character-based screening, along with community monitoring and values training, creates a more ethical and socially responsible financing environment. Such an approach, therefore, aligns with the principles of Sharia governance and might complement formal institutional mechanisms with community-driven functions. Overall, findings suggest that incorporating Islamic social capital into the operating framework of Islamic microfinance could effectively improve the flow of repayments and stimulate the creation of a more viable, responsible, and community-oriented financial system in Aceh.

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