



**The Transformation of *Gala* and *Mawah*:  
Towards the Sharia *Gala* Bank Microfinance Model in Aceh**

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**Abstract:** The Acehnese society has long practiced customary economic arrangements such as *gala* (pawning) and *mawah* (profit-sharing). However, the traditional *gala* practices are frequently exploitative and inconsistent with the Sharia principles, as lenders exercise full control over collateralized productive assets. In addition, the potential of *mawah* as a cooperative economic mechanism has not been fully realized. This qualitative study examines the transformation of these customary practices into sustainable *Sharia*-based microfinance institutions through a case study of their implementation in Southwest Aceh. Data were collected through observations and in-depth interviews. The findings indicate that KSPPS *Baitul Qiradh Gala* Muamalah, commonly known as the “*Gala* Bank,” has initiated a revitalization of local economic wisdom grounded in Sharia principles. A fundamental transformation is evident in the *gala* practice through the application of a *rahn* (Sharia *pawn*) contract, whereby the institution holds only the collateral, while productive assets, such as rice fields, remain under the management of their owners. This arrangement enables farmers to continue agricultural production and generate income. For working capital financing, the institution employs a *mudharabah* (profit-sharing) contract with a flexible post-harvest repayment system. The “*Gala* Bank” model has successfully transformed previously harmful practices into equitable, farmer-empowering, and *Sharia*-compliant transactions. Consequently, this initiative demonstrates how traditional economic practices can be effectively adapted into a modern, sustainable economic framework rooted in local culture, serving as a model for community-based economic development.

**Keywords:** *Gala*, *Mawah*, Gala Bank, Economic Heritage, Aceh

**Abstract:** Masyarakat Aceh memiliki praktik ekonomi adat gala (gadai) dan mawah (bagi hasil). Namun, praktik gala tradisional seringkali bersifat eksploitatif dan bertentangan dengan syariah karena pemberi pinjaman menguasai sepenuhnya aset produktif yang dijamin. Di sisi lain, potensi mawah sebagai skema kerja sama belum dioptimalkan. Penelitian kualitatif ini menganalisis bagaimana kedua praktik ini dapat ditransformasikan menjadi lembaga keuangan mikro syariah yang berkelanjutan, dengan studi kasus pada praktik yang masih eksis di Aceh Barat Daya. Data diumpulkan melalui observasi dan wawancara. Hasil penelitian menunjukkan bahwa KSPPS Baitul Qiradh Gala Muamalah, atau "Bank Gala" berinisiatif merevitalisasi kearifan lokal dengan prinsip syariah. Transformasi fundamental terjadi pada praktik gala, di mana "Bank Gala" menerapkan akad rahn (gadai syariah). Lembaga ini hanya menahan surat jaminan, sementara aset produktif seperti sawah tetap dikelola oleh pemiliknya. Hal ini memungkinkan petani untuk terus bekerja dan memperoleh penghasilan. Untuk pembiayaan modal kerja, digunakan akad mudharabah (bagi hasil) dengan sistem pengembalian pascapanen yang fleksibel. Model "Bank Gala" terbukti berhasil mengubah praktik yang merugikan menjadi transaksi yang adil, memberdayakan petani, dan sesuai syariah. Inisiatif ini berdampak pada keberhasilan adaptasi tradisi menjadi pilar ekonomi modern yang berakar pada budaya lokal, serta menjadi model pengembangan ekonomi masyarakat yang berkelanjutan.

**Kata Kunci:** Gala, Mawah, Bank Gala, Warisan Ekonomi, Aceh

## Introduction

The Acehnese society has a long history of distinctive economic practices that predate the emergence of modern financial systems. Among these practices, gala and mawah have been transmitted across generations and remain integral to local economic life. These arrangements are commonly applied in the sectors of trade, agriculture (particularly rice fields and dry fields), and livestock.<sup>1</sup>

*Gala* has been known among the Acehnese since at least the eighteenth century and continues to be practiced today. Broadly defined, a *gala* refers to a form of capital lending that involves the use of movable or immovable assets as collateral, including rice fields, gold, houses, and vehicles. The motivations for engaging in a *gala* vary, ranging from the expansion of business capital to the fulfillment of consumptive needs such as wedding and funeral expenses, as well as the financing of

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<sup>1</sup>Christiaan Snouck Hurgronje, *De Atjehers* (Leiden: E. J. Brill, 1893); Amirul Hadi, "Aceh in History: Preserving Traditions and Embracing Modernity," *MIQOT: Jurnal Ilmu-Ilmu Keislaman* 37, no. 2 (2016); Suhaimi, Abdurrahman, and Ishak, "Existency Of Mawah (Product Share) Of Agricultural Land In A Traditional Law Society In Kuta Cot Glie Sub-District, Aceh Besar District," *Jurnal IUS Kajian Hukum Dan Keadilan* 9, no. 1 (2021); Azharsyah Ibrahim, "Praktik Ekonomi Masyarakat Aceh Dalam Konteks Ekonomi Islam: Kajian Terhadap Sistem Mawah Dan Gala," *The Aceh Development International Conference*, no. March (2012).

education. This mechanism is often preferred because it is perceived as more practical and expedient than a formal bank loan.<sup>2</sup>

Nevertheless, the traditional implementation of a *gala* frequently results in economic disadvantages for those who *pawn* their assets. Empirical observations indicate that most individuals resort to *gala* to meet consumptive demands, such as education, healthcare, housing construction, or marriage ceremonies, while only a limited number utilize it as capital for productive economic activities.<sup>3</sup> As a consequence, pawners often suffer income losses due to reduced agricultural yields while their land is under pawn. In extreme cases, the inability to redeem the pawned assets may ultimately lead to the permanent loss of ownership, particularly of rice fields.<sup>4</sup>

By contrast, *mawah* is a crop-sharing custom that has existed in Aceh since at least the sixteenth century. The sustainability of *mawah* is closely linked to the strong tradition of mutual assistance within Acehnese society, which is also consistent with Islamic values. In agricultural practice, *mawah* is most commonly found in rice field management, where landless farmers are able to cultivate land owned by others through various contractual arrangements. These include land-use agreements in exchange for a share of the harvest, wage-based arrangements as daily agricultural laborers, and cooperative agreements involving the sharing of both production costs and yields.<sup>5</sup> In addition to agriculture, *mawah* is also applied in the livestock sector, where profit-sharing arrangements are determined according to the sex of the animals.

Several forms of *mawah* have proven effective in improving community livelihoods by enabling landless farmers to sustain agricultural activities as a source of income. Consequently, greater participation in *mawah* arrangements is associated with higher household income, as *mawah* functions as a supplementary economic

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<sup>2</sup>Nelly et al., "A Pattern of Empowerment of Traditional Values *Mawah* as a Model of Poverty Alleviation Based on the Supply Chain Strategy," *International Journal of Supply Chain Management* 9, no. 1 (2020); Ikhsan Fajri and Muksal, "Implementasi Akad Pembiayaan Syariah Pada GALA (Gadai Tradisional)," *Islam Universalia: International Journal of Islamic Studies and Social Sciences* 3, no. 1 (2021).

<sup>3</sup>Muhammad Ali et al., "Mawah" Profit Sharing System with Local Acehnese Wisdom Based on Islamic Perspective," *Journal of Law, Politics and Humanities* 4, no. 6 (2024).

<sup>4</sup>Fahriansah Fahriansah, "Transaksi Ekonomi Klasik Masyarakat Aceh (Analisis Kelayakan Taqin Hukum Ekonomi Syariah)," *Ihtiyath: Jurnal Manajemen Keuangan Syariah* 1, no. 2 (2017).

<sup>5</sup>Hassanain Haykal, Johannes Ibrahim, and Shelly Kurniawan, "Building Sharia Law Banking System In Global Economic Development Under Local Wisdom Basis," *Revista de Gestao Social e Ambiental* 18, no. 7 (2024).; Sri Sudiarti, Pangeran Harapan, and Nanda Safarida, "Mawah & Cater Di Aceh: Studi Peningkatan Kesejahteraan Masyarakat," *Al Muamalat Jurnal Hukum Ekonomi Syariah* III, no. 01 (2017).

activity for many community members.<sup>6</sup> Similarly, in livestock-based *mawah*, the Acehnese have developed specific profit-sharing schemes. The partnership formally begins when the livestock owner entrusts the animals to the caretaker. There is no fixed duration for the *mawah* agreement, provided that the caretaker remains capable of properly maintaining the livestock. Profit-sharing arrangements vary depending on whether the cattle are male or female, reflecting differences in productivity and economic value.<sup>7</sup>

The *mawah* system offers a viable mechanism for improving community welfare, as it enables landless farmers to sustain their livelihoods and supplement household income.<sup>8</sup> Nevertheless, the implementation of *mawah* remains largely confined to traditional agricultural and livestock sectors. It is predominantly informal in nature, lacks formal regulatory frameworks, and has not been optimally adapted for application in other sectors such as the creative economy, trade, or services.<sup>9</sup> More broadly, *mawah* represents a form of economic resource sharing between landowners and cultivators; however, its practice continues to be limited to private arrangements and has not been institutionalized or widely scaled within the society.<sup>10</sup>

Recognizing both the limitations and the latent potential of these traditional practices, initiatives have emerged to transform and empower local economic institutions. In Southwest Aceh Regency (Abdya), one of the regions where *gala* and *mawah* traditions remain prevalent, an innovative institution known as the “*Gala Bank*” was established. Founded around 2018–2019, the *Gala Bank* was designed to support economically disadvantaged farmers who are burdened by unfavorable traditional pawn arrangements. The institution officially commenced operations in 2020 under the auspices of *Baitul Qirat Gala Muamalah*, a *sharia*-compliant savings and loan cooperative.

The *Gala Bank* implements *sharia*-compliant financing through two principal contractual arrangements: *mudharabah*, which provides profit-sharing schemes for farmers’ working capital, and *rahn*, a pawning mechanism in which

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<sup>6</sup>Suhaimi, Abdurrahman, and Ishak, “Existency Of *Mawah* (Product Share) Of Agricultural Land In A Traditional Law Society In Kuta Cot Glie Sub-District, Aceh Besar District.”

<sup>7</sup>Nelly Nelly et al., “The Implementation Of *Mawah* Custom Process To Improve The Community Economy In Kuta Baro Subdistrict Aceh Besar,” 2020.

<sup>8</sup>Maksalmina Maksalmina, “*Mawah* Practices in Aceh: *Syariah* Legitimacy Based on Fatwas and Islamic Jurisprudence,” *Al-Mustashfa: Jurnal Penelitian Hukum Ekonomi Syariah* 9, no. 2 (2024).

<sup>9</sup>Mukhtasar Mukhtasar and Angga Syahputra, “Optimizing the *Mawah* Concept for the Economy of the Aceh Community,” *IQTISHODUNA: Jurnal Ekonomi Islam* 9, no. 2 (2020).

<sup>10</sup>Suhaimi, Abdurrahman, and Ishak, “Existency Of *Mawah* (Product Share) Of Agricultural Land In A Traditional Law Society In Kuta Cot Glie Sub-District, Aceh Besar District.”; Badruzzaman Ismail, *Ensiklopedia Budaya Adat Aceh* (Banda Aceh: Majelis Adat Aceh, 2018).

only the collateral is held while the rice fields remain under the management of the farmers. This approach represents a significant departure from traditional *gala* practices, in which control over the pawned rice fields is transferred to the pawnbroker. In contrast, the Gala Bank prioritizes farmers seeking to redeem their land from conventional *gala* arrangements.

Within the contemporary global development discourse, there has been a notable shift toward alternative development paradigms that emphasize sustainability, inclusivity, and sensitivity to local contexts. In this regard, microfinance and *sharia*-based economic systems have emerged as effective instruments for community economic empowerment, particularly in poverty reduction initiatives and in supporting Micro, Small, and Medium Enterprises (MSMEs).<sup>11</sup> Indonesia's extensive cultural diversity provides substantial opportunities to draw upon local wisdom as a foundation for innovative and contextually grounded economic models.

Local wisdom is increasingly understood not as a static relic of the past, but as a dynamic and strategic resource capable of adaptation to contemporary socioeconomic challenges. Customary economic practices such as *mawah* in Aceh exemplify a hereditary, community-based economic system that has endured over time and embodies fundamental principles of social justice, solidarity, and mutual cooperation.<sup>12</sup>

Alongside *mawah*, *gala* practices constitute an integral component of the traditional economic landscape of Acehese society, although the two are grounded in fundamentally different philosophical principles and produce distinct socioeconomic implications.<sup>6</sup> *Mawah* is based on productive, cooperative profit-sharing arrangements, whereas traditional *gala* operates as a pawning system that, in practice, often raises concerns regarding compliance with the *Sharia* principles.

This fundamental distinction provides a critical point of departure for the analysis undertaken in this study. The establishment of the *Sharia* Financing Savings and Loans Cooperative (*Koperasi Simpan Pinjam dan Pembiayaan Syariah*, KSPPS) Baitul Qiradh *Gala Muamalah*, commonly referred to as the "*Gala* Bank" in Southwest Aceh Regency (Abdya) offers a compelling case study. This initiative reflects both legal and social efforts to transform customary

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<sup>11</sup>Carla Galluccio and Francesca Giambona, "Cultural Heritage and Economic Development: Measuring Sustainability over Time," *Socio-Economic Planning Sciences* 95 (2024); Luis César Herrero-Prieto, "Cultural Heritage, Creativity and Economic Development," *Regional Studies* 54, no. 9 (2020); Harriet Jane Deacon, "Cultural Heritage, Creativity and Economic Development," *Cultural Trends* 29, no. 4 (2020); Sugeng Sugeng et al., "Strengthening *Sharia* Microfinance Regulations And Business Models In Indonesia," *Jurnal Hukum Dan Peradilan* 13, no. 1 (2024).

<sup>12</sup>Rusjdi Ali Muhammad and Dedy Sumardi, *Kearifan Tradisional Lokal: Penerapan Syariah Islam Dalam Hukum Adat Aceh* (Banda Aceh: Dinas Syariat Islam Aceh, 2011).

economic practices into a modern microfinance institution that is structured, measurable, and aligned with Sharia principles.

These developments prompt broader questions regarding how local traditions, such as *gala* and *mawah*, can be preserved and strengthened as the foundations of a sustainable, heritage-based economy. Culture-based economic theory emphasizes that culture, including traditions and local wisdom, possesses intrinsic economic value capable of enhancing community welfare and reinforcing social cohesion. Empirical evidence suggests that the Cultural Development Index positively correlates with the Human Development Index, underscoring the importance of integrating heritage-based activities into economic development strategies. Such an approach places local communities at the center of development while leveraging social capital as a key resource. Nonetheless, limited governmental attention to the systematic management and development of these local traditions remains a significant challenge.<sup>13</sup>

This study focuses on the *gala* and *mawah* practices as implemented by communities in Southwest Aceh Regency, Aceh Province. In this region, these traditions continue to be preserved and function as everyday financial mechanisms within local society. Notably, the *gala* tradition has undergone institutional transformation, culminating in the establishment of a formal financial entity known as the *Gala* Bank.

This research examines the *gala* and *mawah* practices observed among the people of Southwest Aceh Regency, Aceh Province. The local community continues to maintain and preserve these traditions as everyday financial mechanisms. Notably, the *gala* practice has evolved into a formalized financial institution known as *Gala* Bank. This study investigates the role of the *gala* and *mawah* traditions as foundational components of a heritage-based economy. Data were collected through participant observation and in-depth interviews with traditional leaders, community figures, and government officials, as well as through the analysis of relevant documents.

### **The Historicity of *Gala* and *Mawah* in Acehese Custom**

The Acehese people have a long history of engagement in diverse forms of economic activity that predates the emergence of modern transactional systems. Within this historical context, two distinctive practices, *gala* and *mawah*, have become deeply embedded in the economic and social life of Acehese

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<sup>13</sup>Nurlina and Iskandar Muda, "The Analysis of the Effects of Capital Expenditure and Human Development Index on Economic Growth and Poverty in East Aceh Regency," *International Journal of Economic Research* 14, no. 17 (2017); Siectio Dicko Pratama and Rizal Rahadiana, "Multidimensional Poverty and Its Effect on the Economy of Aceh Province," *Bappenas Working Papers* 6, no. 2 (2023); Azharsyah Ibrahim, "Indonesian Horizons in Islamic Finance: Navigating Risk, Innovation, and Social Impact," *Share: Jurnal Ekonomi Dan Keuangan Islam* 13, no. 1 (2024).

society. These long-standing practices reflect local adaptation and indigenous wisdom in addressing economic needs across various sectors, including trade, agriculture (particularly rice fields and dry fields), and animal husbandry.

*Gala* has been known and practiced among the Acehnese since at least the eighteenth century. In essence, a *gala* refers to a pawning system that emerged as a community-based response to persistent economic hardship. The motivations for engaging in *gala* are diverse and closely linked to immediate financial pressures. One principal motivation is the provision of business capital, through which income generated from economic activities may be used to repay debts. However, despite its potential as a productive financial mechanism, empirical observations indicate that *gala* is predominantly utilized to meet consumptive rather than productive needs.<sup>14</sup>

These consumptive needs include the financing of education, healthcare, housing construction, and family ceremonies such as weddings. Education, in particular, is widely regarded in Aceh as a fundamental obligation for every child, irrespective of household economic conditions; consequently, *gala* often serves as an alternative means of funding educational expenses. In addition, *gala* is frequently employed to finance major life-cycle events, including weddings, circumcision ceremonies, and funerals. Such practices have become deeply ingrained in Acehnese cultural life, where individuals often make considerable efforts to secure the necessary funds, commonly by pawning assets to relatives, friends, or family members, to ensure that these events proceed in accordance with social expectations.<sup>15</sup>

In practice, a *gala* involves borrowing capital by using one's possessions as collateral, which may include movable or immovable assets such as rice fields, gold, houses, and vehicles. This mechanism is often preferred because it is perceived as more practical and expedient than obtaining loans from banks, which typically involve lengthy and complex procedures. The speed and accessibility of *gala* make it particularly attractive to individuals with urgent financial needs.

However, despite its apparent convenience, the traditional *gala* practice in Aceh presents significant challenges and, in some cases, conflicts with Islamic law. A primary concern arises from the management of mortgaged assets. Under the conventional *gala* system, the pawnbroker, often referred to locally as a *tengkulak*, assumes control over the collateral and retains its proceeds. For

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<sup>14</sup>Denys Lombard, *Le Sultanat d'Atjéh Au Temps d'Iskandar Muda, 1607-1636* (Paris : École française d'Extrême-Orient, 1967); Christiaan Snouck Hurgronje, *Aceh: Adat Istiadatnya* (Jakarta Indonesia: Indonesian Netherlands for Islamic Studies, 1996); Anthony Reid, "War, Peace and the Burden of History in Aceh," *Asian Ethnicity* 5, no. 3 (2004).

<sup>15</sup>Fakhriati Fakhriati, "Indians Hybrid Communities in Aceh," in *Proceedings of the 9th Asbam International Conference (Archeology, History, & Culture In The Nature of Malay) (ASBAM 2021)*, 2022.; Jajat Burhanudin, "Islamic Turn in Malay Historiography: Bustan Al-Salatin of 17th Century Aceh," *Studia Islamika* 28, no. 3 (2021).

instance, if a rice field is mortgaged, the pawnbroker cultivates the land and enjoys the harvest during the mortgage period. This arrangement is problematic from an Islamic legal perspective, which stipulates that ownership and control of an asset must remain with its rightful owner. Consequently, traditional *gala* has been criticized for its exploitative nature, sometimes likened to *ijon* (illegitimate debt) and, in certain cases, considered even more predatory than conventional loan sharking.

The negative consequences of the traditional *gala* (pawning) system are acutely experienced by the community. One of the most significant impacts is the reduction in the pawner's income from rice cultivation while the land remains mortgaged. Since rice paddies constitute the primary means of production and livelihood for rural communities, the temporary loss of the right to cultivate them directly diminishes farmers' capacity to meet daily needs and repay their debts. In such circumstances, farmers, such as Mr. Suadi, are often compelled to seek employment elsewhere or request assistance from relatives in order to settle loans, as the pawnbroker assumes control over their rice fields.<sup>16</sup>

This situation frequently leads to permanent loss of ownership when pawners are unable to redeem or repay the loan. Consequently, many community members have lost their rice paddies to pawnbrokers, a pattern that has persisted historically. For example, during the 1977 famine in South Aceh, failed rice harvests left farmers unable to repay debts, resulting in the transfer of land ownership to lenders. While traditional *gala* may serve as a temporary solution in times of economic hardship, its overall impact on improving community welfare has been limited, and in many instances, it has led to further financial losses.<sup>17</sup>

Traditional *gala* practices are generally informal, often lacking formal written agreements and relying instead on receipts and the acknowledgment of the *Keujueng Blang* (traditional rice field leader) or *Keuchik* (village head). The *Keujueng Blang* plays a critical role in regulating *gala* transactions, ensuring proper management of the rice fields, and monitoring land use. However, if a *gala* transaction is not reported to the *Keujueng Blang*, the leader assumes no responsibility for the arrangement. Historically, despite its exploitative potential, *gala* held considerable social value, as the abundance of land allowed landless individuals to cultivate others' fields. Over time, however, as land became

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<sup>16</sup>Interview with Su'aidi, Rice Farmer, Pawoh Village, Susoh District, Southwest Aceh Regency, June 24, 2025.

<sup>17</sup>Interview with Muhammad Nasir, Traditional Leader of Suak Bakung Village, South Aceh, June 22, 2025; Interview with Miswar, Traditional Leader of Air Pinang Village, South Aceh, June 22, 2025

increasingly scarce and social dynamics evolved, *gala* gradually assumed a more negative role, with monetary lenders gaining disproportionate power.<sup>18</sup>

In contrast, *mawah* is a longstanding custom in Aceh, dating back to the sixteenth century, and functions as a model of cooperative access to capital. The success of *mawah* is closely linked to Acehnese cultural values of mutual assistance and community solidarity, which are deeply intertwined with respect for Islamic principles. In essence, *mawah*, literally meaning “profit-sharing” in Indonesian, represents a collaborative economic arrangement that allows landless or resource-limited individuals to engage in productive agricultural and livestock activities while sharing the resulting benefits.

The practice of *mawah*, often referred to as agricultural bondage—is particularly prevalent in rice field management, reflecting the large number of farmers in Aceh who do not own land. Many of these farmers cultivate rice fields owned by others under various *mawah* arrangements. Beyond agriculture, *mawah* is also practiced in the livestock sector, involving animals such as cattle, buffalo, oxen, and goats.<sup>19</sup>

Several common *mawah* schemes exist between farmers and landowners. In one arrangement, the farmer rents the land from the owner and pays a portion of the harvest as rent. In another, the landowner compensates the farmer with a wage for labor, while in some cases, the landowner entrusts the land entirely to the farmer, with both harvest and production costs shared according to a mutually agreed contract. These agreements can be highly specific, stipulating, for example, the number of coconut trees planted or the precise distribution of produce after harvest or fruiting.<sup>20</sup>

In livestock-based *mawah*, profit-sharing is generally determined by the sex of the animal. For instance, if a cattle owner entrusts livestock for rearing, the profits from bulls and heifers are divided differently. However, this system is not without challenges; for example, if a buffalo produces only one calf, complications may arise in determining an equitable distribution of profits.<sup>21</sup>

*Mawah* serves as an important mechanism for enhancing community livelihoods, particularly for landless farmers. Through *mawah*, farmers are able to continue cultivating rice fields for their subsistence, thereby increasing their

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<sup>18</sup>Interview with Syaiba Ibrahim, Chairperson of the Aceh Traditional Council, Southwest Aceh Regency, June 25, 2025; Interview with Ishak, Customary Advisor of the Aceh Traditional Council, Southwest Aceh Regency, June 25, 2025.

<sup>19</sup>Rusjdi Ali Muhammad, “Reconciliation for the Settlement of Criminal Cases: Reactualization of Local Wisdom in Indonesian Criminal Law [Upaya Perdamaian Untuk Penyelesaian Perkara Pidana: Reaktualisasi Kearifan Lokal Dalam Hukum Pidana Indonesia],” *Legitimasi: Jurnal Hukum Pidana Dan Politik Hukum* 10, no. 2 (November 19, 2021), p. 171.

<sup>20</sup>Interview with Hamdani, a community leader from Meukuta Village, Southwest Aceh, June 23, 2025

<sup>21</sup>Interview with Miswar, a member of the Aceh Traditional Council, Southwest Aceh Regency, June 25, 2025

potential income, which grows proportionally with the number of *mawah* arrangements they participate in. In this sense, *mawah* also functions as a supplementary economic activity, providing communities with an additional source of income. The system relies heavily on trust and the deeply ingrained culture of mutual cooperation (*gotong royong*) within Acehnese society.

Despite its potential, the practice of *mawah* faces several limitations. Its application remains largely confined to the agricultural and livestock sectors and has not been extended to other areas of economic activity. As a traditional system, it encounters various practical challenges and has not yet been fully optimized. Furthermore, *mawah* continues to operate informally, limited to the private sphere, and lacks formal regulation or widespread institutional support. This indicates that *mawah* has not been integrated into the modern economic system and largely functions outside formal structures, such as the *Gala* Bank, which specifically targets rice farmers.

To provide a clearer perspective, the traditional Acehnese practices of *mawah* and *gala* can be compared as follows.

Criteria	<i>Mawah</i>	Traditional <i>Gala</i> (rent)
Definiton	A cooperative agreement for the management of productive assets, operating under a profit-sharing system.	A loan agreement in which assets are provided as collateral
Basic Principles of Productive Cooperation	Sharing of profits and risks (profit-and-loss sharing)	Loans secured by collateral (debt with collateral)
Nature of Transaction	Investment and business partnership	Debt and receivables
Main Object	Productive assets such as rice fields, gardens, livestock, fish ponds, and boats	Valuable assets, typically land or gardens, used as collateral
Profit Sharing Scheme	Profit-sharing ( <i>nisbah</i> ) according to a flexible agreement (e.g., 1:1, 1:2, 2:3)	No profit sharing; the pledgee retains the collateral as profit on the loan
Roles of the Parties	Capital owner ( <i>shahibul mal</i> ) and manager ( <i>'amil</i> ); both are partners	Lender/pledgee ( <i>murtahin</i> ) and borrower/pledgee ( <i>rahin</i> )
Main Risks	Business risks (e.g., crop failure, livestock death) are shared according to the capital/agreement portion	Risk of borrower default; potential exploitation of the borrower

Sharia Compliance	Fully compliant; aligns with Mudharabah, Musyarakah, and Muzara'ah principles; free from usury (riba) and excessive uncertainty (gharar)	Problematic; strongly suspected of containing usury due to lender control over collateral
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Source: Results of the Research Team's Elaboration

The practices of *gala* and *mawah* exemplify the spectrum of traditional economic activities in Aceh. While *mawah* reflects cooperative principles rooted in mutual assistance and risk-sharing, traditional *gala* tends toward exploitative outcomes, particularly in cases where borrowers lose control of their collateral. Both systems illustrate local wisdom in addressing economic needs; however, *gala* demonstrates the urgent need for transformation to align with ethical, religious, and community-oriented values, as exemplified in modern initiatives such as the *Gala* Bank.

### Transforming *Gala* and *Mawah* Through the KSPPS Baitul Qiradh "*Gala* Bank" in Southwest Aceh

Given the significant problems associated with traditional *gala* practices, particularly their detrimental effects on community welfare and their conflict with *Sharia* principles, there is an urgent need for transformation. While a shift away from traditional *gala* has occurred in some urban areas, where modern financial institutions such as banks and official pawnshops are preferred, rural regions like Southwest Aceh Regency (Abdya) continue to experience the persistence of traditional *gala*, often resulting in economic hardship for local farmers. In response to this challenge, the *Gala* Bank initiative offers an innovative solution aimed at "eradicating harmful practices" that conflict with *Sharia* law.

The *Gala* Bank program was initiated by the former Regent of Abdya, Mr. Akmal Ibrahim, and Deputy Regent Mudzizar MT. It began in 2017 and was formally established in 2020 as a cooperative under the official name Baitul Qiradh *Gala* Muamalah *Sharia* Financing Savings and Loan Cooperative. The primary objective of the program is to assist economically disadvantaged farmers in Southwest Aceh who are burdened by mortgage debts. By formalizing a traditional, culture-based economic practice, the *Gala* Bank seeks both to support local livelihoods and to eliminate harmful practices that conflict with *Sharia* principles. Priority is given to farmers wishing to redeem their rice fields from the constraints imposed by traditional mortgage arrangements.

The fundamental and transformative distinction between *Gala* Bank and traditional *gala* mortgages lies in its strict adherence to *Sharia* principles. The *Gala* Bank operates primarily through two *Sharia*-compliant contracts: *mudharabah* (profit-sharing) and *rahn* (*Sharia* mortgage), both of which are reviewed and supervised by a *Sharia* Supervisory Board.

Several key differences distinguish *Gala* Bank from conventional *gala* loans. First, regarding collateral control: in traditional *gala*, the lender (often a middleman) assumes full control over the collateralized rice fields and collects the resulting proceeds. In contrast, the *Gala* Bank retains only the legal documentation (certificates or deeds), while the rice fields remain under the management of the farmers, their rightful owners.<sup>22</sup> This arrangement is critical, as it allows farmers to continue cultivating their land, maintain employment, and benefit from the full harvest, thereby protecting their primary source of income throughout the loan period.

Second, the *Gala* Bank provides interest-free loans, avoiding the practice of usury (*riba*) inherent in conventional *gala* loans and ensuring compliance with Islamic financial principles. Third, the repayment system is straightforward and based on profit-sharing; financing is repaid in installments according to the *mudharabah* agreement. Experiences of customers such as Mr. Su'aidi suggest that this system does not impose a significant burden on farmers. As he explained in an interview:

It's not easy anymore, but it really feels manageable; we just pay rent. I borrowed IDR 10 million and repaid IDR 2.5 million per harvest for five harvests, totaling IDR 12.5 million. Although there was a slight surplus over the principal, it felt almost like free money or simply rent, because I still received the entire harvest (for example, IDR 15 million per harvest), while Bank Gala's share (IDR 2.5 million) was relatively small compared to my net profit

The *Gala* Bank had a substantial positive impact on the community of Abdya. The program provides critical assistance to underprivileged farmers burdened by debt, enabling victims of traditional *gala* practices to redeem their land and resume cultivation.<sup>23</sup> By implementing a Sharia-compliant financial model, the *Gala* Bank transforms exploitative practices rooted in usury into ethically and religiously aligned mechanisms, thereby addressing harmful financial behaviors embedded in the community. To date, more than 120 customers have benefited from the program, with over 60% successfully repaying their loans. The *Gala* Bank is widely recognized as the only financial institution in Abdya specializing in debt relief and financing tailored specifically for farmers.<sup>24</sup>

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<sup>22</sup>Interview with Salman, Director of Bank Gala, Southwest Aceh Regency, June 26, 2025.

<sup>23</sup>Interview with Mukhlis, Head of Ladang Tuha II Village, Southwest Aceh Regency, June 20, 2025

<sup>24</sup>Interview with Salman, Director of Bank Gala, Southwest Aceh Regency, June 26, 2025.

In parallel, the Abdya Regency Government initiated the Red and White Cooperative program to further strengthen the local economy. This initiative aims to provide farmers with affordable access to capital and fertilizers while breaking the cycle of exploitation by middlemen who charge excessive interest. The program represents a top-down effort to establish legally incorporated cooperatives across 152 villages, with the goal of aligning economic development with local cultural values and improving community welfare.<sup>25</sup> Discussions are ongoing regarding the potential integration of Gala Bank's Sharia-compliant financing model into the Red and White Cooperative framework, reflecting the government's interest in leveraging local wisdom to support sustainable community economic activities.

In summary, the transformation of traditional *gala* through *Gala* Bank exemplifies how indigenous economic practices can be adapted within a modern Sharia framework to empower communities and mitigate harmful financial practices. Although its application has not yet extended to the *mawah* sector, the success of the *Gala* Bank demonstrates that culture-based microfinance models can generate substantial positive impacts when supported with adequate institutional backing and sustainability measures.

## Conclusion

The practices of *mawah* and *gala* represent two indigenous economic systems that are conceptually and philosophically distinct. *Mawah* constitutes a productive, equitable, profit-sharing cooperative model inherently aligned with Islamic jurisprudential principles, such as *Mudharabah* and *Musyarakah*. In contrast, traditional *Gala*, which permits the lender to utilize collateral, has been widely critiqued for potentially incorporating elements of usury and generating inequitable outcomes. This fundamental divergence underscores the necessity for any revitalization effort to carefully distinguish, reform, and strategically integrate these two systems. The "*Gala* Bank" initiative in Southwest Aceh exemplifies a sophisticated socio-financial innovation. By employing a hybrid contractual framework that combines Rahn (Sharia-compliant pawn) and *Mudharabah* (profit-sharing) agreements, it achieves two critical objectives: (1) reforming the *Gala* practice by removing usurious elements and restoring its original function as collateral; and (2) institutionalizing the cooperative and equitable spirit of *Mawah* within a productive and scalable financing structure. The decision to retain the "*Gala*" name while embedding the essence of *Mawah* serves as an effective cultural branding strategy, ensuring community acceptance and legitimacy. The sustainability of a model such as "*Gala* Bank" relies heavily on a robust supporting ecosystem and its capacity to navigate a complex

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<sup>25</sup>Interview with Zedi, Head of the Department of Industry and Cooperatives and Head of the Economic Subdivision of Abdya Regency, June 19, 2025.

regulatory environment. Active collaboration with local government, academia, and the private sector generates essential synergy. Nonetheless, as a formal institution, it must comply with governance, risk management, and regulatory standards set by authorities such as the Financial Services Authority (OJK) and the Ministry of Cooperatives and SMEs. More than a microfinance institution, "Gala Bank" represents an experiment in cultural recontextualization, demonstrating that local wisdom is not a static relic of the past, but a dynamic foundation for developing equitable and sustainable economic solutions. Its long-term success will be measured not solely by financial performance, but by its ability to balance profitability, community empowerment, and the preservation of the cultural values that underpin its establishment.

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### **Interviews**

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