Sharia based economics in support of Indonesia's sustainable agricultural sector

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Abstract. Agricultural sector plays an important role in Indonesian economic growth. The problem in the agricultural sector is among others the issue of capital for farmers. Sharia funding can be another option or as an alternative to financing in the agricultural sector. With the concept of interest free, the profit is based on profit sharing carried out after the transaction period ends. The formulation of this research problem is how the prospects and implementation of Sharia funding in the agricultural sector. The research method is empirical juridical. The results of the study showed that the agricultural sector was known to be quite risky, resulting in low financial institution funding commitments. Credit programs using the interest system show unsatisfactory results. As a result, this can lead to new problems such as increased farmer debt and bad credit. Conclusion of the study Sharia funding is prospective to strengthen capital in the agricultural sector. In its implementation, several types of cooperation can be carried out such as joint ventures, forms of partnerships, general trading, and agribusiness operational cooperation. Suggestions in this study are the intensive socialization of Sharia funding is needed as an alternative funding for the agricultural sector.

1. Introduction
The agricultural sector has an important position on Indonesia’s economic growth, especially Indonesia as an agricultural country. Some of the roles of the agricultural sector include absorbing labor, contributing to gross domestic income, state revenue sources, as well as driving the movement of other real economic sectors. The implementation of the agricultural sector for national development is not only seen through improving the status and welfare of farmers but also plays a role in developing the ability of human resources both economically and socially. [1] In its implementation the agricultural sector runs with various problems and obstacles, especially agriculture in rural areas. One of the obstacles in this sector is weak capital. As an essential element in increasing production and living standards of rural communities, the absence of capital can limit the space for this sector.

The need of capital will increase along with a variety of commodity types and agricultural models, advances in agricultural cultivation technology, workmanship after harvesting and processing of good crops. In the period of agricultural technology, serious capital management for agricultural equipment and agricultural production facilities should be carefully considered. The problem reappeared, because most farmers were unable to fund capital intensive farming with their own funds and funding becomes an option. With this situation, the role of private financial institution should be quite significant, too much relying on the role of the government to fund is very risky considering the government must fund other sectors.
But agricultural zones are known to be quite unsafe (risky and uncertainty) making the financial institutions that finance the agricultural sector relatively small. The financing of financial institutions, particularly banking, in this sector is far below the industrial, trade, service and other economic sectors. Usually financial institutions that are willing to provide credit to the agricultural sector are generally very careful, where they are only willing to finance commercial commodity businesses with high economic value.

The majority of forms of funding of agricultural sector businesses come from conventional credit institutions. The existence of the credit program is one of the facilitating elements for success in the agricultural sector development program, but until now the existing credit is still considered to be of little benefit to farmers. The limited banking network in the village is one of the factors inhibiting agricultural capital, even though the majority of the agricultural sector is in the village. Difficult access to the city to reach existing banking in the city also raises the costs that must be paid by farmers. Not to mention there will be many things that must be taken care by farmers such as administrative matters and so on, so that double costs can happen. This is why farmers prefer to choose alternative funding methods that are easier and cheaper to reach, such as moneylenders, who provide official or unofficial loans with high interest rates. Loan based on the interest system create new problems, such as swelling farmer debt and bad credit. This is because there is no better alternative for funding for farmers.

The application of an interest-based system that was regulated from the beginning of the agreement made this system less suitable for high-risk (large) funding, so that funding (capital) for the agricultural sector has not become the main target for profit optimization. If financial institutions fund agricultural activities, the same interest rates will be applied with other commercial activities. So that in the long term, the amount of funding for this sector is getting smaller. [2] For that reason, it is necessary to make alternative funding that can be a capital solution for farmers so that farmers can develop their farming businesses. One of the funding models in recent years has begun to be utilized in Islamic financial institutions. Islamic funding can be a solution to the capital problems in the agricultural sector, because in Islamic finance there are principles that prioritize benefits such as not applying the interest system but a loss and profit sharing system, not only for profit but also oriented to benefit, as well as Halal products or funding guarantee.

The agricultural sector is very vulnerable to natural factors that are beyond human control and the yields produced have special signs, namely that they are easily damaged, vary in quantity and quality, and with fluctuating prices, therefore the financial institution needed is a financial institution that has three principles. First, the existence of a fair profit sharing system, namely by calculating the possible profit and loss; Second, avoid determining the amount of profit at the beginning of the agreement; Third, determine the profit sharing based on the amount of profit earned. The pattern of Islamic funding can be used as an alternative solution because Islamic banking has advantages namely various funding products and is resistant to the turmoil of the monetary crisis because it is not based on interest.

2. Methods
The method used in this study was empirical juridical, namely by looking and studying the concept of Islamic finance that is applied to the agricultural sector. In this study also used the normative juridical method by analyzing legal material in the form of Law Number 21 of 2008 concerning Sharia Banking.

3. Results and discussion

3.1. Prospects and implementation of sharia funding for the agricultural sector
In principle, sharia funding applies a profit sharing system (the profit sharing calculation is carried out at the time the transaction is completed which is carried out after there is a real profit), because it does not contain fraud, gambling, interest determination, and illicit objects. The most fundamental
The difference between conventional banking and Islamic banking is the interest system. Sharia based funding began to be recognized in Indonesia since the establishment of Bank Muamalat Indonesia in 1991. The legal rule for the position of Islamic banks in Indonesia is strengthened by Law Number 21 of 2008 concerning Islamic Banking. The progress of Islamic financial institutions can be seen by the growing presence of Islamic Commercial Banks and Sharia Business Units.

The growth of Islamic banking in Indonesia is quite good, this can be seen from the aspect of distributing third party funds in 2019 where the value of the fund to deposit ratio (FDR) or in conventional bank terms is called the Loan to Deposit Ratio (LDR) higher than conventional banks. This shows that Islamic finance functions very well in channeling all funds raised to finance the real sector.

If we see a quite high funding to Deposit Ratio, Islamic banking funding is expected to simultaneously be able to have a large impact on funding the real sector, including the agricultural sector. The small allocation of credit for the agricultural sector is due to the assessment of those who have (channeled) funds that consider the agricultural sector a risky and uncertain business, so it is not a priority for funding. Thus, the existence of Islamic finance institutions has a great opportunity to strengthen the capital side of the agricultural sector which is still weak.

There are at least 3 (three) characters attached to agricultural credit schemes that have the potential to cause ineffectiveness, namely: [4]

1. Credit is always based on a fixed interest rate (fixed interest). Every credit scheme often makes interest the fixed price of the borrowed funds and must be handed back even though the agricultural sector is known to have a high risk of failure, both in production and in price fluctuations. If farmers fail in their farming business, both due to crop failures and low market prices, they will not be able to repay loans so that they can become increasingly indebted because of the principle of interest.

2. There is a gap in the “business space” between debtors and creditors. The debtor purely operates the real sector, while creditors only operate in the monetary sector. Consequently, the risk of business failure is usually only borne by the debtor, while creditors will still make a profit at the agreed interest rate. There is no complete synergy between debtor and creditor because each moves partially in a different calculation system.

3. Agricultural system funding has been integrated with non-agricultural funding. The system of business calculation in the non agricultural sector (especially industry and services) when applied to agricultural businesses tends to overestimate. If it is forced this will make agricultural businesses will not get credit support in the amount according to the requirement.

As for several things that underlie the prospect of Islamic finance for the agricultural sector: [4]

1. The characteristics of Islamic funding are in accordance with the state of the agricultural business. In the agricultural business, fluctuations in the amount of income often occur. Sharia funding schemes (especially with the profit sharing system) are very suitable for the characteristics of agricultural businesses so as to provide a better sense of justice because profit and loss will be shared. Thus, farmers and capital owners become joint responsibility for their business. Unlike conventional credit, farmers are fully responsible for managing business risk. Many Indonesian farmers have implemented sharia funding schemes.

2. Culturally, many farmers are familiar with funding models that resemble or are in line with the Islamic system such as the 50:50 revenue sharing. With better socialization, farmers will understand the concept of Islamic finance more quickly because historically and factually they have practiced this model.

3. Extensive scope of business in the agricultural sector. Businesses in the agriculture or agribusiness sector covers a number of very broad subsystems, ranging from production input, cultivation, harvesting, post harvest subsystems, processing to
marketing of products. In all these sub systems it is possible to use Islamic funding models. Likewise, it can be seen from the wide range of commodities in the agricultural sector including food crops (rice, crops), horticulture (vegetables and fruits), plantations, and livestock, each of which is developed as a separate agribusiness system.

4. Sharia funding products are quite diverse.
   Various business and agricultural commodities are anticipated with a variety of sharia financing products. This allows customers to choose the type of Sharia funding product that suits their business conditions and characteristics.

5. Level of compliance of farmers.
   Farmers in rural areas are currently still doing agricultural business, and generally they respect religious rules in their daily life. The existence of a funding scheme in accordance with religious teachings is expected to make it easier for farmers emotionally to accept the Islamic funding system. The principles applied in Islamic financial institutions contain a set of universal and non-exclusive values. Values such as justice and equal treatment in seizing business opportunities are expected to be accepted by non-Muslims.

6. Commitments of Islamic banking to support Small and Medium Enterprises. In the agricultural sector, it can be seen from the existence of Islamic microfinance institutions as an alternative to financing the agricultural sector.

7. The agricultural sector is included in the real business, so it is in accordance with the principles of Islamic finance which prioritizes funding in the real sector and prohibits funding in the speculative sector.

Sharia based funding in the agricultural sector can run well and effectively, in this case there must be partiality. The role of the government in policy making is quite significant in supporting these efforts both through regulation and facilitating information on prospective agricultural business actors partnering with the Islamic financing model. Islamic financial institutions have a great opportunity to be applied to the agricultural sector. A risky agricultural business requires more flexible funding, especially in the distribution of profits or losses in the business. In addition to the profit sharing system, Islamic financial institutions also offer products with a system of buying and selling, renting or pawning. Sharia funding products that can be applied to the agricultural sector or agribusiness include: [5]

1. **Musyarakah** (Partnership/Project funding Participation)
   Each party makes certain contributions with the agreement of the benefits and risks jointly borne according to the agreement. Many types of businesses that can be financed with *musyarakah*, including trade, industry, business on a contract basis and others. Agribusiness activities with broad business types are very possible to use this *musyarakah* scheme.

2. **Mudharabah** (Trust funding/Trust Investment)
   A cooperation agreement between two parties, in which the first party (owner of capital) is the provider of capital (100%), while the second party is the manager of the capital. The profit gained in this collaboration is divided according to the agreement in the contract. The risk of loss is fully borne by the owner of the capital, except for losses caused by negligence of the manager, such as fraud or abuse. *Mudharabah* implementation in the agricultural sector can be done through business partnerships. The partnership pattern that is close to *mudharabah* is the model of contract farming and Agribusiness Operational Cooperation. Based on the type of business, time, and business area, *mudharabah* is divided into two types, namely *mudharabah mutlaqoh* and *mudharabah muqoyyadah*. In *mudharabah mutlaqoh*, the manager is given the discretion to determine the type of business, implementation time, and business area. As for the *mudharabah muqoyyadah* these three things have been determined by the capital owner.

3. **Muzara’ah** (Yield Profit Sharing)
An agreement on agricultural processing cooperation between the land owner and the tiller, where the land owner gives the farmland to the tiller to be planted and maintained with the reward a certain portion of the harvest. It is usually applied to finance agricultural products (agrobased industries) or standardized products.

4. Musaqah (Plantation Management Fee Based on Certain Portion of Yield). The contract of cooperation with the provisions of the cultivators is only responsible for watering and maintenance with the reward cultivators are entitled to certain benefits from the harvest. This can be applied when farmers do not have the capital and land.

5. Bai’ al-Murabahah (differed payment sale)
   Contract of sale and purchase of goods at the original price with additional agreed benefits. The financial institution will buy an item that the customer needs, then the customer accepts it and pays according to ability (the amount is based on the agreement). In the agricultural sector, it can be used to purchase agricultural equipment and machinery.

6. Bai’ al-Salam (in front payment sale)
   The sale and purchase agreement is provided that the buyer pays at this time, while the goods will be received in the future. This Bai ‘al-Salam contract must be clear from the quantity, quality of the goods and the time of payment. This can be applied by financial institutions in collaboration with two parties, namely farmers and contractors or buyers of agricultural products. And banks are here as intermediaries from farmers who need buyers and need capital now with buyers or who need agricultural products in the future (harvest time).

7. Bai’ al-Istishna (Purchase by order or manufactured)
   Cooperation agreement with the provisions of channeling of funds for the procurement of investment goods based on orders. In this transaction there is a contract between the buyer and the maker of the goods, where the good maker receives an order from the buyer. Both parties agree on the price and payment system, whether it is done in cash, through installments, or deferred in the future.

8. Al-Rahn (mortgage/pawn)
   The cooperation contract with the provisions of holding one of the borrower's property as collateral for the loan received. The item withheld must have economic value, and the party holding it receives a guarantee to be able to recover all or part of its receivables. In relation to agriculture, pawn or Al-Rahn practices are common in rural areas.

3.2. Challenges of sharia funding in the agriculture sector

The development of Islamic financial institutions, especially Islamic banking for the agricultural sector is still faced with several challenges. The causes of low sharia funding in the agricultural sector include the risk of quite large agricultural funding, namely seasonal risks such as bad weather or disease and pests, between large risks and costs and disproportionate profits, goods ordered at maturity are not available and quality less good and must have storage or warehouses, waiting time and results are not as expected.

There are several problems that become an obstacle to the low role of Islamic financial institutions in funding agricultural businesses, namely: [6]

1. The financing provided by Islamic financial institutions for agricultural businesses is smaller than other businesses, this is due to the character of farmers who have a consumptive lifestyle so that they are easily fooled by parties such as loan sharks.
2. Farmers manage their farming businesses in an unprofessional manner due to the lack of farmers' ability to organize their businesses properly, as well as the government's lack of attention to agricultural businesses which are the basis of all other types of businesses including price certainty.
3. Lack of farmer’s knowledge to sharia institutions due to its location that tends to be far from agricultural businesses, the lack of introduction of Islamic financial institutions to agricultural
businesses and the nature of farmers who tend to be difficult to accept changes. As well as the lack of socialization process of financial institutions, especially on the products offered.

4. Limited human resources who understand sharia values or principles in terms of quality and quantity as well as conventional bank paradigms that are still strong.

It is undeniable that the role of Islamic financial institutions in funding agricultural business will face several challenges. These challenges can be internal (characteristic of the agricultural sector) or external. The agricultural sector is full of risk because it is very dependent on nature. It makes investors become extra careful to finance this sector. The external challenges are more related to the existence of Islamic finance institutions, human resources, and their socialization. As a relatively new institution, the market share and volume of sharia funding institutions are not large that they will affect the ability and scale of priorities in the funding undertaken.

4. Conclusions

Sharia based funding is an appropriate alternative funding for the agricultural sector because it is conceptually considered relevant to the business of the agricultural sector and can overcome the main problems of farmers namely capital for the development of business scale. Because Islamic funding patterns have advantages including various funding products and are resistant to the turmoil of the monetary crisis because it is not based on interest. With profit sharing system, it will provide a sense of justice for farmers because profits and losses will be shared together. In the implementation of Islamic finance in agricultural sector, there are several types of cooperation that can be carried out, such as individual cooperation, joint ventures, cooperative businesses or in the form of partnerships. Potential cooperation to be explored can be in the form of pattern of intiplasma relationships, subcontracting, general trade, agency, and agribusiness operational cooperation. The various sharia funding patterns in the agricultural sector can provide choices for agricultural businesses to choose funding products that are tailored to the type of activity and scale of the business economy. However, in the practice of sharia based funding in the agricultural sector still faces various obstacles, such as the lack of socialization processes in the community especially to farmers regarding sharia funding products.

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