

Islamic Green Contracts: Proposing an Islamic Financial Model to Support Agriculture Sector during Pandemic Covid-19 in Indonesia

MUHAMMAD MAULANA HAMZAH¹, AA MIFTAH², AMBOK PANGIUK³

Abstract

The agriculture sector has shown numerous encouraging trends during a covid-19 outbreak in Indonesia. Despite its potential benefits, the application of Islamic finance products in this sector is limited. This research aims to propose a green Islamic financial model for supporting the agriculture sector. Library research and benchmark analysis are used to reveal the appropriate model. In the first step, the issues on financing in the agricultural sector will be overviewed. The second step will discuss the relevant theories to be adopted in this framework. The last part will propose the appropriate Islamic financial model. This research is limited to financing the crop sector of agriculture in Indonesia. This study finds that Islamic financing in the agricultural sector - is very diverse, such as *Murabaha* for the purchase of seeds or agricultural equipment, *salam* for sustainable farming, and *istishna'* for land acquisition. The Islamic green financial model serves as guidance in synergizing strategy from various Islamic financial platforms to fulfill the needs of the agricultural sector and provides valuable analysis that combines classical theories and contemporary issues to draw the attention of Islamic financial practitioners to the fact that the needs of agriculture financial problems do not depend on single contract but needs to diversify the contract based on business process.

Key words: Agriculture, Covid-19, Financial Model, Islamic Green Contracts

Introduction

The Covid-19 pandemic has changed consumer behavior in Indonesia. Apart from the government's recommendation of the "New Normal" habit, basic life needs, and a limited amount of income have made people tend to make basic needs a priority (ASEAN, 2020). Data from BPS shows that 51% of respondents make food needs the most dominant expenditure. This is inseparable from the recommendation to stay at home and cook your food to maintain immunity. In addition, there was a 42% increase in online shopping activities, with 54% of them being women. In terms of purchasing

¹ Islamic State University Sulthan Thaha Saifuddin Jambi, Indonesia
emzacorp@gmail.com

² Islamic State University Sulthan Thaha Saifuddin Jambi, Indonesia

³ Islamic State University Sulthan Thaha Saifuddin Jambi, Indonesia

foodstuffs, it is the top 1, with a percentage of 51%, followed by health at 20%, and the remaining data packages at 14% (BPS, 2020).

Gross domestic product and the amount of money in circulation cannot be used as a measuring tool to increase consumption due to the lockdown aspect; BPS recorded a decrease in household consumption in quarter1 / 2020 of 2.84% YoY Q1 / 2019 5.02%. According to Accenture Covid-19 Consumer Research (2020), there are three new normal routine behaviors during and after Covid, namely 1: healthy lifestyle 2. Priority on the consumption of sustainable basic needs 3. The creation of love for local products. In Indonesia, which is the most generous country in the world, according to the CAF (2018) version of the pandemic, this pandemic strengthens social bonding among the community; besides that, there is a shopping tagline for neighboring stalls, distribution of free groceries and so on (Mukhlis, 2020) So according to Sanrego (2020) a policy perspective Macro must look at this aggregate behavior as the basis for evaluating future economic policies

From the perspective of Islamic economics, this plague tragedy reminds us of Qur’anic verse (2: 155), “and We will surely test you with something of fear and hunger and a loss of wealth and lives and fruits, but give good tidings to the patient”

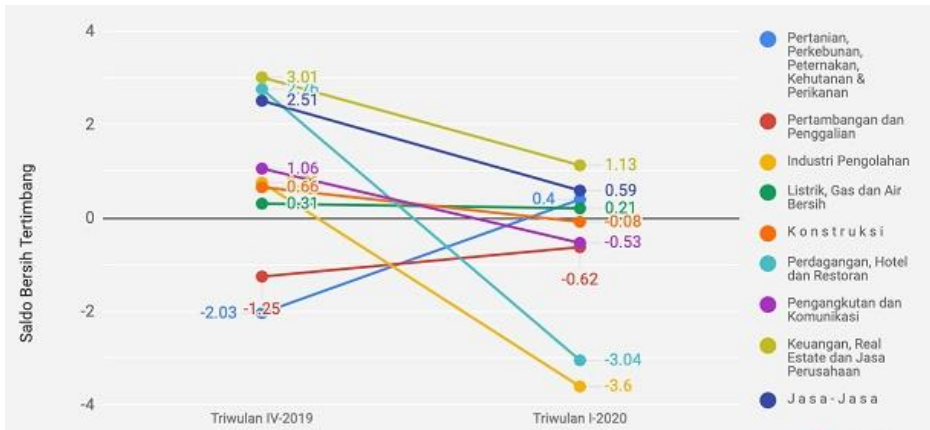


Figure 1: Survey of Business Activities by Sector (BI, 2020)

The data obtained from BI (2020) shows that almost all sectors of business activity have experienced a decline except for the agricultural sector, which is actually growing amid the corona pandemic. In January - February 2020, the export value of agricultural products increased 15.30 percent compared to the same period in 2019. In the latest data, namely January - March 2020, the value increased by 16.23 percent (Victoria, 2020). Looking back, when Indonesia experienced the economic crisis in 1997-1998, the only sector that became a savior at that time was the agricultural sector

(Lubis, 2012). Bullock et al., (2017) mention that the ability of farming systems to cope with challenges can be conceptualized as resilience. This is certainly a momentum to develop agriculture as a shield for the Indonesian economy in facing the threat of a recession as well as the main sector that will open the tap for the development of other business sectors.

The Messenger of Allah (peace and blessings of Allah be upon him) said: "*A time will soon come when the best property of a Muslim will be sheep which he will take on the top of mountains and the places of rainfall (valleys) so as to flee with his religion from tribulations.*" (Bukhari, 19)

The nature of tribulations and the societal crisis mentioned in this hadith lead us to ponder over its different dimensions and changes in consumer behavior at the end of time, who are starting to look to the agricultural sector as a source of food security which is a basic need cannot be ignored. Meanwhile, mountains and valleys are symbols of the new normal of staying away from the crowd (a kind of social distancing).

Despite the potential benefits of agriculture, the application of Islamic finance products in this sector is limited. There is no specific scheme from Islamic financial institutions to support the agricultural sector. Nugraha (2016) mentions that the agribusiness sector requires two capital from Islamic financial institutions, namely working capital and investment capital. Investment in this sector is the technology that is accumulatively linear with the spread of available capital. Therefore, this research aims to meet the needs of the agricultural sector in terms of access to capital with Islamic financial institutions in Indonesia.

Previous Studies

Some previous research mentions contracts that can be used to finance the agricultural sector are *Murabaha* for buying and selling grain, *Mudarabah* for farmers who have expertise but minus capital, *Ijarah* for the purchase of agricultural machinery and tools, greetings for the establishment of rice barns and rice drying fields (Fauzan, 2011). For small enterprises or farmers with a small business scale, it is necessary to apply the concept of financing for farmers through the Sharia Financial Cooperative or Baitul Maal bi Tamwil (BMT) using the Bai 'Salam contract with a group system (Maulida S, Yunan A, 2017.) According to Obansa & Maduekwe (2013), Agricultural sector financing can encourage investment and technological development in this sector. Expansion of agricultural capital and productivity should be financed by domestic savings, development shares, and foreign investment.

Nugraha (2016) offers two models of agricultural financing in Indonesia, namely the Muzara'ah scheme, which does not involve the government in bankable independent farmers, and which involves the government on small farmers who do not own land

with restrictions on the beneficiary community. Hayati SR (2018) mentions that Islamic banking may support the agricultural sector through the channeling model (*linkage program*) with Islamic microfinance institutions, for example, BMT. He also suggests that Islamic banks must provide insurance against various risks faced by farmers.

Due to the impact of covid-19 on agriculture, Snow V et al., (2020) measures on the agri-food sectors in both Australia and New Zealand have been relatively small, and this has been due to the high levels of resilience in the agricultural systems and the people running them. Nevertheless, they were affected by various combinations of reductions in domestic markets, throughput in off-farm processing, and availability of labor, inputs, or support services. Farmers have limited knowledge about Islamic banking and agricultural financing. (Hassan et al, 2012). The future of Smart Farming may unravel in a continuum of two extreme scenarios: 1) closed, proprietary systems in which the farmer is part of a highly integrated food supply chain or 2) open, collaborative systems in which the farmer and every other stakeholder in the chain network is flexible in choosing business partners as well for the technology as for the food production side (Wolfert et al., 2017)

Research Method

This research is qualitative research using Library research and benchmark analysis to reveal the appropriate model of Islamic financial contracts to support the agriculture sector in Indonesia

Results and Discussion

a) The issues on agricultural sector financing

According to the MUI DSN (2000), the most appropriate contract to use for the development of the agricultural sector is the salam contract. However, among the main factors that the salam contract has not been applied in Islamic banking of which is the lack of knowledge and understanding of the community (Devi, 2011) (Adnan and Revisa, 2015). According to Ningsih (2015), it is stated that the problem of not lacking implementing the salam contract in Islamic banks is the concern of the bank regarding fraud or failure of farmers' crops, the risk of changing prices, and the quality of agricultural products.

Agricultural financing through financial technology has made several applications, such as iGrow and Crowde, which focus on agricultural seed capital with production sharing agreements, 8villages, Panen ID, and Tanihub, which focus on marketing farmer products directly to consumers. In addition, there is also a farming knowledge-based application that also sells various agricultural facilities and installations, such as the Habibi Garden and Ci-Agriculture. But unfortunately, all of these platforms are not specifically listed as Islamic fintech. Even though, in practice, the contract used

uses the sharia contract. According to KNEKS (2019), Indonesia has eight legally registered Islamic fintech platforms, namely Amana, Sharia Fund, Bsalam, Danakoo, Alami, Dhuha, Syarfi, Investee, and Qazwa. The focus of the Islamic fintech business is dominated by Payment (39%), P2P lending (24%), aggregators (11%), Crowdfunding (8%), and 18% others. Of the sharia fintech, only Qazwa specifically mentions that its platform provides agricultural financing services.

b) Discuss relevant theories to be adopted into the framework

Bahrain (2006) states that research related to the development of Indonesian agricultural systems refers to related matters, namely 1) the powerlessness of small farmers who have limited resources in adopting technology; (2) efforts to reduce the risk of farming through a diversification approach; (3) increase productivity; (4) strengthening farm income; (5) preserving the environment in a sustainable manner. Therefore, supply chain management in the basic agricultural, plantation and horticultural sectors needs to be reviewed to see the right contract in each supply chain to increase farmer productivity (Lokollo, Em, et al. 2012) and minimize Islamic banking risks and benefit both parties.

Regarding the muamalah contract in the agricultural sector, referring to this noble principle in accordance with the hadith lafadz narrated from Abu Hurairah Radhiyallahu anhu, Rasulullah Sallallahu 'alaihi wa sallam said: And Muslims must meet the conditions they have agreed to accept the conditions that prohibit something that is prohibited. Lawful or justify something that is haram. [2] This rule explains that the law of origin of the conditions agreed upon by the Muslims in the various contracts carried out is permissible. Because it contains maslahat, and there is no shari'ah prohibition on it. Of course, as long as these conditions do not drag the perpetrator into something that is forbidden by Allah Azza wa Jalla and His Messenger Sallallahu 'alaihi wa sallam. If it contains an element of haram so that it can drag the perpetrator into a haram case, these conditions are not allowed.

While the Government policies in supporting agriculture must also focus on the agricultural sector based on basic needs, not derivative agricultural products, for example, the financial losses were even for some “luxury” perishable agricultural products, like cut flowers. New York Times reported that, until April 2020, Dutch flower growers destroyed about 400,000,000 flowers that remained unsold (Siegal, 2020) because of the reduction of consumers’ purchasing power during covid19 outbreak (Bene, 2020).

The government may intervene in the form of light loans and land acquisition using the *ihyaaul mawaat* model. As an example, the Canadian government increased the budget available for enhancing the lending capacity of farmers by offering, in parallel, a grace period of loan payment (Ker, 2020). Sayyid Sābiq in *Fiqh al-Sunnah* says, *ihyā 'al-mawāt* is an effort to revive or cultivate dead (abandoned) land that has never been managed before, using it for useful things such as shelter, planting, and the like. The land that can be turned on is required as land that is far from human crowds.

Increased land productivity will reduce the number of unemployed and increase consumption and wealth distribution, especially it will reduce the Gini ratio in the land ownership sector (Al Qudah, 2016). The concept of *ihyaaul mawaat* is in line with Government Regulation No.11 of 2010 concerning Control and Utilization of Abandoned Land, in which the land must be utilized and managed for the welfare of the community can be a reference for the implementation of the mandate of Article 33 of the 1945 Constitution.

All this requires the cooperation of the government and technical agencies therein, investors, farmers, and local consumers to maintain food security as a sector that must be maintained amid a pandemic. According to Miranda PM (2019), The differentiation of three resilience capacities (robustness, adaptability, and transformability) can help to assess the range of possible resilience strategies and allows for the investigation of trade-offs and synergies between them.

c) Proposal of the appropriate Islamic financial model.

The amount of idle land is 10,770,888 Ha², or about 30.92% of the area of land use in Indonesia. This means that the potential of this land has not been maximized properly; it needs a touch of the Islamic economic model so that this potential can be optimized. In addition to land acquisition and acquisition, marketing issues, industrial cooperation, and technology installation are also part of the supply chain in the agricultural sector which must have touch with Islamic financial institutions because all these processes aim to provide added value to farmers but require financing products that are in accordance with farmers' needs. Liotas, ED, Charatsari, C (2021) propose three potential mechanisms for enhancing the ability of agriculture to cope with major crises or disasters they are: resilience-promoting policies, community marketing schemes, and smart farming technology. The term community marketing refers to distribution channels formed through partnerships among actors with the aim of reaching specific, under-served conventional marketing schemes and segments of people (Thakur, 2015). Darnhofer (2014) stresses the importance of diversity in farm activities to minimize the risk of Islamic banking (Ningsih, 2015) and the risk of farmers (Bachrein, 2006)

Tabel 1; Suggested Islamic Contract Based on Agriculture Supply Chain

Chain	Contracts	Description
MAIN FOOD (RICE)/ HORTICULTURE/ PLANTATION		
Land Management	Muzaro'ah/ Mudharabah/ Ihyaaul Mawaat	The concept of mudarabah and muzarah is commonly practiced by people in Indonesia with various local terms. However, this does not involve the role of Islamic financial institutions unless the bank owns confiscated land that has not been utilized. Whereas ihyaaul mawaat requires the role of the government in land conversion, however, Ibi can play a role if it owns the land or a certain development project
Seed	Murobahah/ Mudharoba Musytaraka	Many online agricultural financing applications in Indonesia have been practiced, such as iGrow and Crowde. A commitment to sharia banks is needed for direct assessment of farmers. In the context of Murabaha, the bank is the seller, and the farmer is the buyer. In the context of mudharabah musytaroka, banks can become funding crowdfunding agents for their customers who are interested in investing in the agricultural sector with certain results
Fertilization	Murabaha	Banks buy what farmers need and sell them at a certain margin.
Maintanance Farm	Ijarah/ Ba'i Salam	Generally, farmers need a lot of tools and resources; IBI can provide rental tools with an ijarah contract. However, if the tools are not available, we can use the greeting word to reduce the risk it can be raised by the farmer groups
Plant Manufacture	Ba'I Istishna' / Diminishing Musharaka/ IMBT	In the context of agricultural infrastructure that must be made specifically, it can use istisna' contacts; in terms of purchasing or installing agricultural facilities, you can use DM / IMBT
Partnership with the processing industry and supermarkets	Mudharaba Musytaroka/ Wakalah/ Musharaka	Generally, Indonesian farmers use the role of a cooperative to increase their bargaining position with the company. To get a more reasonable selling price, Ibi can also become a partner for farmers with wakalah and musyarokah contracts

The role of Islamic financial institutions can be adjusted according to the type of contract chosen and the nominal amount of the loan. If you choose a mudhorobah contract, sharia fintech tends to be easier and clearer administratively, and for the results, even if you only borrow with a nominal value of less than 5 million, you can go through an infaq bank or BMT. If above 5 - 99 million can use the services of a BPRS, if above 100 million can use the services of a sharia bank so that every level of Islamic financial institutions can collaborate according to their respective functions,

Conclusion

The development of the agricultural sector amid the Covid-19 outbreak requires collaborative innovation from all sharia financial institutions, both from Islamic banking, Islamic insurance, Islamic fintech, Baitul Mal Wa Tamwil, and Bank Infaq. Each institution has its own significance and limitations. The needs of farmers that are very diverse in nature require a multidimensional approach to deal with those needs and to manage each of their business processes. In the current scenario, the growing agricultural processes require further research in mapping Islamic financial products that can be synchronized with the needs of farmers from various basic commodities, from land clearing to export schemes.

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