



## Murabaha as an Islamic Financial Instrument for Agriculture

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**Abstract:** This study aims to explore the application of Murabaha contracts in agricultural sector. The study was conducted at Islamic microfinance institution namely Islamic Financial Services Cooperative (IFSC) Al-Hikmah located in Paleran Village, Umbulsari District, Jember Regency, Indonesia. This paper employs qualitative research with a case study approach. The method used for the informant's determination is snowball method. This paper found four important points: Firstly, there are three models of the application of Murabaha, namely goods-based Murabaha; cash-based Murabaha; and business capital-based Murabaha. Goods-based Murabaha is in accordance with sharia compliance, but the cash-based Murabaha is still not suitable because the Murabaha contract is not equipped with wakalah contract. Secondly, there are two risks namely goods expiring on goods-based Murabaha concept and the risk of late payment due to failed crops on cash-based Murabaha. Thirdly, the provided amount of funding is only 30% of the estimated agricultural output. Fourthly, Al-Hikmah requests collateral for Murabaha financing.

**Keywords:** Murabaha, Agriculture, Islamic microfinance institution.

**JEL Classification:** G20; G25

### 1. Introduction

Islam as a comprehensive religion has ruled all aspects of human life, including agriculture. Imam Muslim narrated a hadith from Ibn Umar explaining that the Messenger of Allah, in Medina, employed the people of Khaibar by giving a half of the crops as the incentives. The activity is known as the muzara'ah system. Lubis and Indrawati (2017) explained that muzara'ah during the time of the Prophet Muhammad was carried out between the landowners and cultivators with a half, one-third, or certain amount according to the agreement.

The concept of muzara'ah which has been taught by the Messenger of Allah can be considered that the agricultural sector is important. It needs to be developed. Agriculture has several advantages that is beneficial for human life. According to Aziz (2012), there are four advantages and contributions of agriculture. Firstly, the agricultural sector has played a big role in developing human civilization since the very beginning until now such as the fundamental knowledge of livestock cultivation. Secondly, the agricultural sector provides food, clothing, shelter, and many other basic needs of human life. Thirdly, the agricultural sector inherently contributes to the economic development, for example, zakat instrument with agricultural products. The rich farmers who have great number of crops can give a certain amount of it to the poor as zakat obligation. For instance, the rich farmer can employ the poor so it will help to reduce the unemployment. Fourthly, the agricultural sector allows Muslims to do some forms of religious worship, such as paying zakat, and making sacrifices on Eid al-Adha.



The agricultural sector provides significant results in supporting the country's economy, especially in developing countries (Olaniyi, et al., 2014; Lubis and Indrawati, 2017). Indonesia is a developing country with 7.1 mil hectares of agricultural area, which is a quite vast area. This agricultural sector supports 13,53% of Indonesia's total GDP (BPS, 2018). This value is proven to be a promising contributor to Indonesia's GDP. The agricultural sector also contributes in terms of work chance for 36,91 million people. This amount represents 29,21% of the total Indonesian workforce (Ministry of Agriculture, 2018).

However, the development of the agricultural sector is still not in line with Indonesia's expectations. This condition can be seen from the farmers' low standard of living and the inability of Indonesian agricultural products to compete in international market (Saragih, 2017). One of the main problems in agricultural sector is the lack of capital in developing its agricultural business. The access to funding has become a major focus for policy makers in agricultural sector, especially in developing countries (Ammani, 2012; Ugwumba and Omojola, 2013). The previous research has shown that limited access to funding impedes the productivity growth in agricultural sector (Ammani, 2012; Risilia et al., 2013), and the funding availability is more important than other factors for the effective use of resources in agricultural sector (Ayaz and Hussain, 2011). Farmers often complain that they cannot finance their business (Ashari and Saptana, 2005), so farmers use financial institution services as a solution to fulfill their business capital. Financial institutions that provide capital fulfillment through agricultural sector loans set high-interest rates and are fixed in nature (Nasution, 2016).

Interest is considered as the component of usury and Islam forbids usury. This is found in the Qur'anic Surah Ar-Rum verse 39, An-Nisa verse 160-161, Ali Imron verse 130, and Al-Baqarah verse 275-279 (Muhammad, 2014). The four verses are the prohibition from Allah SWT to leave usury even though it is done in the slightest case. Ikhrom (2004) explained that one of the main reasons for market interest or capital owner interest is the pre-determined return characteristics. Interest system has opportunity to exploit the economy even tends to cause errors in resource allocation and wealth accumulation in a group of people.

The prohibition of interest in operational financial institutions creates the needs of interest-free financial institutions. Islamic financial institutions are alternatives to fulfill capital without interest to launch the agricultural business. Islamic financial institutions that have been playing an important role in providing financing for the agricultural sector are Islamic commercial banks, Islamic rural bank, and Islamic cooperatives. Islamic banking does not apply muzaraah contract in agriculture sector because it has a relatively high risk (Ridlwan, 2016). Table 1 contains a summary of the contracts applied by Islamic banks in Indonesia in agricultural sector.

Based on Table 1, the contract most widely used by Islamic banks is Murabaha. The National Sharia Council of Majelis Ulama Indonesia's fatwa number 04/DSN-MUI/IV/2000 states that the Murabaha contract sells an item by emphasizing the purchase price to the buyer and the buyer pays it with certain amount of margin that will become the profit for the banks. That certain of amount is agreed by both sides. Murabaha is a transaction classified as a contract with definite results (natural certainty contract/NCC). NCC is a business contract that provides payment certainty, both in terms of quantity and time (Muhammad, 2014)



Table 1. Financing Contracts of Islamic Banks in Indonesia

| Names of Islamic Bank         | Types of Financing Contract  |
|-------------------------------|--|
| Bank Syariah Mandiri          | Wakalah wal Murabaha, Wakalah wal Ijarah, Murabaha, Ijarah,                |
| Bank Rakyat Indonesia Syariah | Murabaha, Ijarah Multijasa   |
| Bank Negara Indonesia Syariah | Musyarakah, Murabaha, Ijarah Multijasa, Qard, Kafalah, Mudharabah          |
| Muamalah                      | Murabaha, Bai Bithaman Ajil, Mudharabah, Musyarakah, Qardhul Hasan         |
| Bank Tabungan Negara Syariah  | Murabaha, Istishna', Mudharabah, Musyarakah, qardh                         |
| BPRS                          | Murabaha, Ijarah, Ijarah Multi Jasa, Mudharabah, Musyarakah, Rahn, Istisna |

Source: Ngasifudin, 2016

There are some reasons that Murabaha is widely used by Islamic financial institutions. Rodiana et.al (2014) stated that Murabaha customers do not need to make regular reports on the use of financing therefore the risks faced by the Islamic financial institutions are smaller. Meanwhile, Prabowo (2009) stated that there are 4 (four) advantages of Murabaha. Firstly, customers can buy goods according to their economic desires and abilities. The second advantage is that the financing is carried out in installments so that it will not burden the customer itself. The third advantage is the openness between the bank and the customer. That the bank previously provided information on the goods to be purchased in accordance with the customer's wishes and the prices determined by the supplier are known by the customer. Finally, additional benefits for the bank are guaranteed at the beginning of the transaction based on mutual agreement between the bank and the customer, so that in this case there is no element of mutual tyranny.

The other of Islamic financial institutions that use Murabaha contract is Islamic micro financial institutions, namely Baitul Maal wa Tamwil (BMT) or Sharia cooperatives. There are several studies that have discussed the application of Murabaha contracts to BMT. Rodiana, Nuryartono, Ayyubi (2014) examined the effectiveness of postharvest payment applications on the return of financing for rice farming Murabaha contracts in Baitul Maal wa Tamwil As Salam, Kramat, Demak. The results showed that respondents had a greater chance of choosing postharvest payments because it suits their ability to pay. The payment by the postharvest application on the return of financing for rice farming Murabaha contracts at As-Salam BMT has been effective in all stages of financing and has a positive impact for the members of BMT. This shows that the application of yarnen has achieved its goal, namely implementing a system that is in accordance with the conditions of the farmers. However, there are conditions and harmonious agreements, as well as principles of economic justice that have not been fulfilled.

Nurhabibah (2018) explored the implementation of Murabaha contracts on agricultural financing products at BMT As Syafi'iyah Pringsewu and BMT Al-Hasanah in Lampung Regency. The results of the study indicate that there are willingness and liking principle among those who make an agreement. The application of the Murabaha contract is inseparable from the principles of Islamic economy, namely the principle of tauhid and 'adl. The presence of BMTs, both BMT As-Syafi'iyah and BMT Al-Hasanah, have helped farmers in Lampung Regency. They make their land more productive to earn a living and ultimately both BMT and the farmers can achieve falah (welfare).

Alim (2017) analyzed the implementation of agricultural financing based on ijarah and Murabaha contracts in the perspective of fiqh muamalat of DSN-MUI on UJKS KAN Jubung BMT Al-Hijrah,



Malang. The results showed that Murabaha contracts were used to fulfill goods or stocks, buy cattle, buy agricultural machinery, agricultural production facilities, and livestock production facilities. The implementation of the Murabaha contract in large part is in accordance with the DSN-MUI fatwa, but there is still something less in accordance to DSN-MUI's fatwa number 4/IV/2000, which is related to administrative costs imposed on buyers where the cost is a percentage of total financing.

One of the Sharia cooperatives in Jember Regency, namely the Islamic Financial Services Cooperative (IFSC) Al-Hikmah, located in Paleran Village, Umbulsari District, Jember Regency also applies Murabaha contracts to the agricultural sector. The existence of IFSC in rural areas shows that Islamic financial institutions are starting to play their role in fostering the development of the agricultural sector. Based on previous research, various results were obtained related to the application of Murabaha contracts in Islamic cooperatives in different locations. This study aims to explore the application of the Murabaha contract in IFSC Al-Hikmah, Paleran, Umbulsari, Jember Regency. This paper is carried out to explore the operational and risk of implementing Murabaha contracts. This research is expected to provide information regarding the application of Murabaha contracts to the public, especially in agricultural sector. In addition, this research can be used as a reference for Islamic microfinance institutions in anticipating the risk of applying Murabaha contracts to the agricultural sector.

## **2. Literature Review**

### **2.1 Business Characteristics of Agricultural Sector**

Beik and Hafidhudin (2008) stated that the agricultural sector basically has a broad dimension. Based on the dimensions of the business scale, this sector can be divided into two parts: 1) Small-scale agriculture which is carried out normally by small farmers who do not have adequate working capital; 2) Medium and large scale agriculture, it is agriculture that owned and managed by medium and large scale companies (Hafidhuddin, 2007). This second category usually has sufficient working capital. Most of the workforce working in agriculture, especially in Indonesia, is absorbed by the first category. They occupy small and inefficient land.

Beik and Hafidhudin (2008) continued the explanation that one of the biggest problems faced by the agricultural sector, especially small-scale agriculture includes horticulture, fisheries, and livestock, is access to the source of financing and markets including marketing. Financial resources are needed to increase production. This resource acts as a source of capital and investment work. The history of agricultural development in Indonesia has noted that credit is one of the main financing sources that has played important role. However, bankers assume that the agricultural sector has high level of risk even though empirical evidence has shown that only agricultural sector experienced positive growth during the economic crisis that occurred in 1997-1998. During that time, economic growth declined significantly from 4,7% in 1997 to -12% in 1998/1999. However, agricultural sector grew 0,38%. Therefore, the most effective way to increase productivity in this field is the ease of providing access to source of financing.

Citing Nasution's opinion (2016) that if there are financial institutions that are willing to disburse credit to the agricultural sector, they usually anticipate several things, as follows

1. Set high and fixes interest.
2. Extremely selective in financing the high-value commercial commodities.
3. Prefer channeling for government program credit.



Further explanation from Nasution (2016) is that there are three characteristics of agricultural credit provided by financial institutions, including:

1. farmers must return loans at maturity, even though the agricultural sector has a high risk of failure both in production and relatively high price fluctuations.
2. there is an injustice between the borrower (debtor) and the lender (creditor) where the risk of business failure is only borne by the debtor while the creditor still gets the interest rate benefit set.
3. the agricultural financing system has been integrated with the financing of the non-agricultural sector, which if the calculation of the non-agricultural sector is applied to the agricultural sector, the agricultural business will tend to have an over estimate.

Nasution (2016) argued that the characteristic of farmer's life is the pattern of income and expenditure. Farmers receive income is only every harvest season, but farmers need income every day, every week or at a very urgent time where the harvest period has not arrived. Farmers generally ask for loans to non-formal creditors (middlemen) on the grounds of simple loan procedures with quick and unsecured disbursements. This situation occurs throughout agricultural areas in Indonesia and is a crucial problem for farmers. This condition causes the stagnation of farmers' welfare even though role of agricultural sector is significant to the GDP.

## 2.2 Grouping the Tijarah agreement based on the level of certainty of the obtained result

Tijarah as explained by Muhammad (2016:86) means trading or can be called profit-seeking activity. Tijarah contract is all kinds of agreements that involve transactions to get profit. These contracts are carried out with the aim of seeking profits, because they are commercial in nature. Examples of tijarah contracts are investment contracts, buying and selling and leasing. The results or benefits of a business can sometimes be ascertained and sometimes cannot be ascertained. Therefore, based on the level of certainty of the results obtained, the tijarah contract can be divided into two major groups, namely: (1) Natural uncertainty contracts; and (2) natural certainty contracts.

Natural Certainty Contracts or contracts that naturally provide definite results in Muhammad (2016:89) are referred as contracts carried out by both parties to exchange assets owned by each other, because the object of exchange (both goods and services) must also be determined at the beginning of the contract with certainty, both quantity (quality), quality (quality), price (price), and time of delivery (time of delivery). These contracts offer a fixed and definite rate of return. These types of contracts are buying and selling contracts (Al Bai ', Murabaha, Salam, Istishna'), and leases (ijarah and ijarah muntahiya bim tamlik). Based on the level of profit that can be determined at the beginning of the contract, Murabaha is classified as a natural certainty contract.

## 2.3 Murabaha Contract

Murabaha contract is a sale and purchase transaction of an item in the amount of the cost of goods plus a margin agreed upon by the parties, where the seller informs the acquisition price in advance (Muhammad, 2014). The features and mechanisms of the Murabaha contract are as follows:

- The Bank acts as the provider of funds in Murabaha transaction activities with customers;
- The bank can finance part or all purchase price of goods whose qualifications have been agreed;
- Banks must provide funds to realize the provision of goods ordered by customers; and
- Banks can provide deductions in a reasonable amount without being promised in advance.



Muhammad (2014) further explained that Murabaha has goals and benefits for banks and customers. The purpose and benefits of Murabaha for banks are as a form of channeling funds and earning income in the form of margin. Meanwhile, for customers, the benefits are as an alternative to obtaining certain goods through bank financing and can repay the payments in installments and the amount of installments will not change during the agreement period. However, Murabaha has several risks. The first risk is defaulting customers. The second risk is the movement of currency exchange rates on a financing in foreign exchange. Islamic financial institutions can use Murabaha contract in the agricultural sector to fulfill agricultural equipment and machinery, such as hand tractor, water pumps, power thresher, rice milling unit (Gumilang, 2017; Ashari and Saptana, 2005), and for the purchase of fertilizers, seeds and opening land (Wulandari and Suroso, 2004).

This research describes conditions in the field and then informed it to the public. This paper is qualitative research and uses a case study approach. The type of data is primary data in the form of interviews. The informants were the managers and members of the IFSC Al-Hikmah. The determination of informants used snowball method. The selection of snowball method was considered appropriate because the researcher only knew one informant related to the application of the Murabaha contract and kept trying to get other informants by asking for references from previous informants.

The researcher interviewed 5 informants. One of them is the managers of IFSC Al-Hikmah, Mr. EBS, as the head of the administration section. Others informants are members of IFCH AL-Hikmah. As the beginning, the researcher interviewed Mr. EBS. The next interview was carried out to the second informant, Mr. NK, the member of IFSC Al-Hikmah based on Mr. EBS's recommendation. Furthermore, based on Mr. NK recommendation, interviews were conducted to Mrs. NPS as the third informant. Mrs. NPS is also member of the IFSC Al-Hikmah. Still based on Mr. NK suggestion, researcher interviewed Mr. ABS as the fourth informant. Mr. RWN is the fifth informant based on Mr. ABS's recommendation. Table 1 shows the informants profile.

**Table 2. Profile of Informants**

| NO | NAME | LOCATION          | JOB                               | EXPLANATION   |
|----|------|-------------------|-----------------------------------|---|
| 1  | EBS  | Umbulsari, Jember | Head of Administration section    | As expert who knows about operational of IFSC Al-Hikmah |
| 2  | NK   | Umbulsari, Jember | Member of IFSC Al-Hikmah (farmer) | Recommended by EBS                                      |
| 3  | NPS  | Umbulsari, Jember | Member of IFSC Al-Hikmah (farmer) | Recommended by NK                                       |
| 4  | ABS  | Umbulsari, Jember | Member of IFSC Al-Hikmah (farmer) | Recommended by NK                                       |
| 5  | RWN  | Umbulsari, Jember | Member of IFSC Al-Hikmah (farmer) | Recommended by ABS                                      |

### 3. Result and Discussion

IFSC Al-Hikmah established in 2012. The main objective is to give welfare for farmers in Paleran Region, especially IFSC Al-Hikmah members. It will provide fertilizer, seeds, and agricultural medicines so that farmers do not have to go to the city of Jember. This is contained in an informant's statement as follows:

“The beginning of the IFSC Al-Hikmah Paleran-Umbulsari establishment is that, it was an association of farmers with the aim of improving the welfare of farmers, especially members of the



IFSC Al-Hikmah Paleran-Umbulsari so that in buying fertilizers, seeds, medicines agricultural needs, the farmers do not need to go far away to the city of Jember.”

The provision of fertilizers, seeds, and medicines provided by IFSC Al-Hikmah are very helpful actions for farmers to launch the agricultural business. The purchasing of fertilizer, seeds, and the drug uses Murabaha contract. In fact, IFSC Al-Hikmah applies not only Murabaha, but for the fulfilment of fertilizers, seeds, and medicines, the most suitable contract is the Murabaha contract. This is in line with the explanation of Wulandari and Suroso (2004) that Islamic financial institutions can use Murabaha contracts in agricultural sector for the fulfilment of seeds, fertilizers, and medicines. In line with the explanation of Iqbal and Mirakhor (2008: 111), that the concept of Murabaha is a financier who buys products, such as commodities, raw materials, etc., to supply entrepreneurs who do not have enough capital to make these purchases.

Although farmers in IFSC Al-Hikmah widely uses Murabaha, the real thing that happened was that the farmers did not understand the concept of Murabaha contract itself. It is understandable because most of the IFSC Al-Hikmah customers are farmers who live in rural areas and have never get information about the Islamic economy in general and Murabaha contracts in particular. They only know that they need seeds, fertilizers, and medicine to farm. They can obtain it from IFSC Al-Hikmah. Farmers pay for seeds, fertilizers, and medicines after harvest or use tough systems. This is reflected in the statement of one of the managers of IFSC Al-Hikmah as follows:

“Application of the Murabaha contract payment system at the IFSC Al-Paleran-Umbulsari Wisdom is a credit system. For members who choose monthly, each month the members pay their installments, or it can also be members of Al-Hikmah IFSC Paleran-Umbulsari who use the Murabaha contract to choose a season. So every harvest period, the members pay the installment to the IFSC Al-Hikmah Paleran- Umbulsari”.

The statement above is reinforced by the statement of the customer, as follows:

“I choose the seasonal scheme, because if you pay monthly, you have to pay each month while the farmers’ income is seasonal”

“Seasonal, because my income is only as a farmer”

The statement from the manager and customer of Al-Hikmah IFSC showed that the application of the Murabaha contract was carried out with a robust system or installments for repayment. This condition is in line with the National Sharia Council Majelis Ulama Indonesia’s (DSN-MUI) fatwa number 04/DSN MUI/IV/2000 which explains that the customer pays the price of the agreed upon the item for a specified period. Seasonal payments made after harvest are in line with the findings of Rodiana, Nuryartono, and Ayyubi (2014) that farmers as respondents have a greater chance of choosing post-harvest payments because it adjusts the farmers’ ability to pay..

Over time, the practice of the Murabaha contract in IFSC Al-Hikmah has a different application. A Murabaha agreement is carried out by giving cash by IFSC Al-Hikmah to customers. The customer then uses the money to buy agricultural needs such as fertilizer, seeds, and drugs. IFSC Al-Hikmah applies this concept because the sale of goods using Murabaha contracts in the agricultural sector has a weakness. They are deposing goods results in ineffective and inefficient ways because of the expiration, goods, damages, and transportation costs. This information is reflected in the statement of one of the informants from the IFSC manager Al-Hikmah as follows.

“The scheme of goods-based Murabaha contract has many weaknesses, ineffective, and inefficient ways, such as having the supply in advance, not to mention there are expired and damaged goods and there are still transportation costs”



The application of cash-based Murabaha is not under the standard rules of National Sharia Council MUI and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The DSN MUI stated in fatwa Number 04/DSN-MUI/IV/2000 that the Murabaha contract is to sell an item by confirming its purchase price to the buyer, and the buyer pays it at a price that is more as profit. AAOIFI's explanation supports this definition that sharia financial institutions may only buy goods to respond to customer wishes and requests (AAOIFI, 2015).

However, IFSC can practice Murabaha concept if a Wakalah contract completed it. Wakalah according to language means surrender, delegation, or giving a mandate. A pilgrimage, buying sacrificial animals, dividing zakat, and trading (buying and selling) are things that can use Wakalah. The practice of a Murabaha contract which is supplemented by time makes the transaction correct according to sharia. The basis of the truth is that in principle, goods have become the property of Islamic financial institutions (IFI) so that IFI is allowed to do Murabaha agreements with customers. Murabaha completed Wakalah contract flow using the goods-based scheme provides information that Islamic financial institutions (IFI) represent customers to conduct transactions with suppliers. After that, IFI will make a payment to the supplier. Thus, the goods desired by the customer in principle already belong to the IFI. This condition obtains IFI to carry out Murabaha agreements with customers and does not violate Sharia.

In addition to the two Murabaha concepts, further findings obtained different practices. IFSC Al-Hikmah applies the Murabaha contract, but business capital uses the financing with unclear purchase of goods. Businesses use capital as diverse as buying cake ingredients, stocking merchandise, buying workshop spare parts, and tour and travel costs. This condition can be concluded from the answers of the customers as follows.

"Business capital is like buying cake ingredients that I will make later"

"The additional capital of my business is like filling in the balance as well as stocking merchandise"

"Additional business capital so that more complete spare parts are made"

"Bailout the tour and travel costs in advance so that the trip runs smoothly because the fees are usually paid behind after it's finished"

This practice is not under sharia principles for Murabaha contracts. Iqbal and Mirakhor (2008: 114) stated that Murabaha contracts are types of transactions that cannot be used in cases where customers want to get funds for purposes other than product purchases, such as working capital, payment of wages and honorariums, or settlement of payment problems.

The use of Murabaha contract in connection with additional business capital is not permitted. Murabaha contract is a group of contracts with natural certainty in obtaining the rate of return or the so-called natural certainty contract (NCC). NCC is a contract carried out by both parties to exchange assets with each other because the object of exchange (both goods and services) must also be determined at the beginning of the contract with certainty, in terms of quantity, quality, price, and time of delivery. Thus, the practice of Murabaha used for venture capital does not comply with sharia compliance because of the mixing of assets between IFSC Al-Hikmah assets and customer assets.

Furthermore, the practice of Murabaha raises risks. As explained earlier that the IFSC Al-Hikmah runs the risk of expired agricultural goods, so to eliminate this risk The Cooperative for Islamic Financial Services use the concept of Murabaha which is equipped with a Wakalah contract (representing) where IFSC Al-Hikmah provides financing in the form of cash to buy agricultural products which fits the customer's needs. This kind of Murabaha also turns out to pose another risk, namely installment



payments that do not meet the schedule (late payment until it raises bad credit) due to crop failure. This condition can be known from the informant's statement as follows.

"Late payment is caused by the crop failure due to pests and fewer crop yields"

The informant's statement shows that crop failure is caused by attacking pests. Crop failure can also be caused by yields that are not in line with estimates because prices continue to decline, as stated by two informants as follows.

"I have experienced late payment because the yield did not match with the estimation because prices continued to decline"

"I have paid late because the yield did not match with the estimation because prices continued to fall during the harvest period"

The risk of late payment or bad credit due to crop failure is a challenge for IFSC Al-Hikmah. However, both the customer and the IFSC Al-Hikmah have a way out for the late payment by risk mitigation. Customers propose financing as needed as a risk mitigation step. These are the following expressions of three informants.

"Borrowing money is not too much"

"The loan is following with the ability to pay"

"The loan is by the needs and if there is a residual deposit"

Meanwhile, IFSC Al-Hikmah mitigates late payment risk by providing financing amounting to only 30% of the estimated results of its farming business. For example, customer A applies for financing by having an area of  $\frac{1}{4}$  small (1,757.81 m<sup>2</sup>) with an estimated yield of around Rp. 5.000.000,00. Thus, customer A will receive money of Rp. 1.500.00,00 which can be used for the cost of managing the  $\frac{1}{4}$  small of rice fields. IFSC Al-Hikmah is still asking for collateral from customer A for the financing. The collateral can be in the form of a motor vehicle ownership book or land certificate.

Collateral in Murabaha contracts is justified and under sharia compliance. The fatwa of the National Sharia Council MUI number 04/DSN-MUI/IV/2000 concerning Murabaha states that Murabaha collaterals are permitted so that customers are serious about their obligation. Besides, collateral is needed to minimize the risks that are detrimental to Islamic financial institutions and to see the ability of customers to bear repayment of debts received from banks. Allah says in the Quran surah Al-Baqarah verse 283 which means as follows:

"If you are on a journey (and do not spend money), while you do not get a writer, then there is collateral that held by the creditor. But if some of you are believing in others, then let the believer obey his trust, and let him fear Allah, his Lord ... "

The paragraph mentions that in the event of non-cash transfer activities there should be a security item or can be termed collateral to be held by the receivable. Thus, the demand for collateral on the Murabaha contract is permissible in a sharia manner. Iqbal and Mirakhor (2008: 114) also stated the owners of funds are allowed to seek security guarantees of self-protection from future defaults.



## Conclusion

One of the main problems facing the agricultural sector is the lack of capital in developing agricultural business. Farmers often complain that they cannot finance their business with their own funds (Ashari and Saptana, 2005), so farmers use financial institution services as a solution to fulfill their business capital. The current financing of businesses in agricultural sector is almost all based on interest calculation. Islamic financial institutions are an alternative to fulfill capital without using the interest system. One of the Sharia cooperatives in Jember Regency, namely the Islamic Financial Services Cooperative (IFSC) Al-Hikmah, located in Paleran village, Umbulsari District, Jember Regency, Indonesia implements Murabaha contract for the agricultural sector. The purpose of this study is to explore the application of Murabaha contract in terms of operational and risk in IFSC Al-Hikmah.

This study succeeded in exploring information in the field by obtaining the following findings. First, there are three models of the application of Murabaha practices, namely: (a) Goods-based Murabaha, meaning that IFSC Al-Hikmah provides agricultural goods and then IFSC Al-Hikmah customers buy with Murabaha contracts. It is under sharia compliance; (b) Cash-based Murabaha. It is Murabaha contract by giving cash but it is not explained in advance what items will be purchased. It is not under sharia compliance; (c) Business capital-based Murabaha. It is Murabaha contract by giving capital for the business. It is not under sharia compliance as well. Firstly, the scheme violates the rules of sharia compliance for Murabaha contracts. Second, the amount of funding provided is only 30% of the estimated agricultural output. Third, there is a collateral request for Murabaha financing. Collateral can be in the form of land certificate. Fourth, the risks arising from the application of Murabaha in the agricultural sector are (a) the availability of agricultural supplies that are held up to expiration, (b) late payment until there is a bad credit due to crop failure.

This research did not maximize in revealing things that happened in the field because the informants from IFSC Al-Hikmah members were difficult to communicate. This condition is caused by the informants who were not eager to discuss about the debt. The informant from IFSC Al-Hikmah customer gave short answers so that the researcher tried to associate information with one another.

Based on the findings, this study provides advice to IFSC Al-Hikmah to apply the sharia compliant Murabaha contract. IFSC Al-Hikmah should immediately complete the application of Murabaha agreements with Wakalah contracts so that transactions can be justified according to sharia. Furthermore, for researchers who focus on the field of Islamic finance for the agricultural sector, they should continue to explore the practices of sharia contracts implemented by Islamic financial institutions for the agricultural sector to obtain empirical evidence from the field on sharia compliance.

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