

CHAPTER I

INTRODUCTION

A. Background

The needs of sustainable natural resources are inevitable for the sustainable human race itself, cultivating lands or agricultural sector plays a very big role in nation development since many of Indonesian people working in the agricultural sector. The manifestation of its big roles in national development can be manifest as job vacancy maker and absorbing series of workforce, contributing to national gross domestic product, source of foreign exchange, provider of raw materials for small medium enterprises, the producer of logistic stock and nutrition and also as motor of other real economy (Roziq , Hisyamudin, & Purnamawati, 2014)

The National banking industry has great potency in this sector as one of the financial providers in this business. Banks as financial institution has the ability to gather the funds from people and redistribute them to the one who lack of funds or for the businessman in form of credit or financing. Theoretically, the prospect of national banking for financing in this business is still widely open. This can be proven by the fact that the asset of a national bank has an abundant resource of fund whether the fund owned by the bank itself or the fund collected by people and the other factor is that the truth about Indonesia which have abundant potency in the agriculture sector in Indonesia.

BMT is a financial institution which is sought after by small entrepreneurs for financing their business operations. This institution provides finance to help small

entrepreneurs who cannot access finance from the larger banking sector. In addition, the existence of BMTs is a blessing for the lower income group in society, keeping them away from illegal money lenders who burden them with much higher interest rates (Hamzah, Rusby, & Hamzah, 2013)

Here BMT has big role as the supporter of Islamic small medium enterprises which run under the Shariah protocol or Shariah compliance, the story of BMT has been famous in Indonesia through their track record of performance and their services with their customer, the existence of Baitul maal wa tamwil has established during the time of the prophet SAW as national treasury , this would be mean of the importance of BMT in order to sustain the financial management in a Muslim country, here is the same since BMT of the past and current BMT are stand in the same stand.

The importance of BMT as a financial intermediary in Muslim society is inevitable since the corrupt financial system has been spread among the Muslim society which forces them to deal with usury in almost every financial transaction. BMT has done so many efforts to lift the society out of usury shackles into the light of Shariah. BMT itself not only work for profit orientation but also a religious and social institution which more concern in small medium enterprises which is the one of Indonesia economy power, through their effort to help people with their program and Shariah contract to deal in the business and for this particular issue of farming or agricultural sector by using Bay' as Salam.

Generally, Bay' al Salam is kind of trading transaction which the payment have fully paid during the contract but delivering commodity will be done in the future in the specific time which is agreed in the contract. This kind of transaction giving the benefit both of buyer and seller. The benefit which is gain by the seller is that the seller has the liquidity due to the

advance payment which is given by buyer and for the buyer they have a current price which is commonly lower than the spot price. BMT is giving this kind of contract to give capital to the customers so the BMT can avoid the usury loop in financing contract like what commonly conventional bank do. If conventional using the fixed interest rate in the form of percentage from the total loan to gain profit, on the other hand, BMT using the calculation of profit for selling the commodity which is sold by Bay' al Salam contract with the customer. Bay' al Salam is a perfect concept of Islamic contract for trading which is giving mutual benefit for creating prosperity for all and also creating the bridge of new alternative of farming production as the alternative concept of farming production.

Islam is a perfect religion which not only govern the spiritual aspect but also the worldly aspect as the fact that before the long journey of here after Muslim should survive in this worldly life first so Islam is with no doubt is universal religion, it has the answer to every question including the issue of farming in Indonesia.

Indonesia is agricultural country since many of Indonesian people are still working in the agricultural sector. In 2014 agricultural sector absorb around 35, 76 million or around 30, 2 % of the total of the whole workforce in Indonesia. Investment in premiere agricultural sector whether from Penanaman Modal Dalam Negeri (PMDN) as well as Penanaman Modal Asing (PMA) have had grown around 4,2 % and 18,6 % per year. (Ministry of Agriculture, 2015)

Indonesia is a country which has great potential in agricultural business even though the journey of Indonesian agricultural was never been easy, the problem of poverty always lurking in the future of the farmers which is like passed down from generation to generation up until now, this kind of poverty problems must be solved immediately, the urgency of

solving this problem is essential since the agricultural sector is very important in Indonesia in order to create self-sustenance and national economy development. The very long journey of Indonesian agricultural leaving so many tasks and problems for the future generation to bear since we are the inheritor of this great country and to give our services toward this nation.

It seems that the problems of agricultural in this country need the concept and the policy of government which is clear and integrated, the failure of Indonesian agricultural reflected from the farmers poverty line and the failure of Indonesian ability to fulfill the needs of agricultural commodity through import from the year to year, this a tragedy which we face in our life even though many of us did not really notice the importance of this.

Bay' al Salam is a contract which is introduced by Islam which has existed during the prophetic era or around 1437 years ago or even earlier before since the practice of this contract has been done before the Islamic era in the past by the Arabian in their agricultural business. The concept of this contract is very beneficial for both of seller and buyer, for the seller they have got the capital from the advance payment which is paid by the buyer while the buyer as investor has the advantage from the deal with the seller to deliver commodity to the buyer with the specific of quality, quantity, and the time of delivery which has been agreed before.

The fact that Indonesian agricultural sector has been absorbing 35,76 million workforces or around 30,2 % is not a fact to be taken lightly. as a pillar of national economy agricultural sector is expected to be one of the sustainable economies in Indonesia to rise the poor people from poverty line especially for the farmers, governments has done so many efforts to make this issue of poverty solved but it seems that their effort did not reach the ultimate goal yet, the regulations and also investment have had massively done by

government in order to boost the agricultural sector. Investment in the agricultural sector are expensive and it became worse when the return is low and also the period of harvesting are quite long this thing made even harder to make agricultural sector in Indonesia to be attracted by the investor.

Bay' al Salam has been introduced and allowed by Shariah with such design to fight the usury and gharar / uncertainty since logically when farmers cultivating the land they will need the capitals to begin with, in Islam Muslims are prohibited to take loan which contains usury so the alternative is by finding buyer who willing to pay the harvest in advance and the commodity will be delivered in the future according to the deal in the very beginning. Salam has been permitted by prophet SAW himself and also among the righteous predecessor and even the contemporary scholar have no objection about Bay' as Salam. The virtue of Bay' al Salam are benefiting both of party whether, for buyer or the seller, the buyer has stock security and also the advance price which is commonly lower rather than spot price, and for the sellers they have the liquidity for covering their cost of production since they get their advance payment for the exchange of delivering commodity in the future.

Bay' al Salam from the view of farmers actually it's might be more preferable rather than they took the load from conventional banks. Other than they got the payment in advance the farmers do not bear the risk during the production or cultivation and also the burden of interest rate if they take the loan from the banks. And as a buyer, they got the lower price so they can save their supply even before the harvesting season at advance price. Bay' al Salam can be protection of price during the time when the demand is high since in the rule of Shariah never allowed reselling the commodity before the commodity actually delivered for

the buyer so this kind of action can drag the price back at lower price even during brisk trade season, so the other virtue of Bay' as Salamis to hedge the price for uncertain future price.

For the attempt to make farmers prosperity does not stop here in fact the author willing to write this final academic research for undergraduate student to understand what really happening out there, what happen with Indonesia agriculture and what happen with Indonesia heroes who provide the food security for this nation and to make Indonesia stronger through its small medium enterprises business by helping farmer out of poverty line to the light of prosperity. Base on the current situation and its problem which has been described above, motivated the researcher to observe and discuss more deeply about “Analysis of Shariah Financial Institutions as Hedging Risk by Using Bay' al Salam Contract (case of farmers in Trenggalek regency, Ponorogo regency, and Bantul regency)”. The reason why the researcher chooses Bantul regency to be a field of research is based on the phenomenon which occurs not so long ago in October 2015 last year when the price of chili price went down which made the farmer prefer to burn their chili field. Farmers burn their productive their field which still have 4 more times for harvesting not without unexplainable reason, they said that when the price of chili falls, the earning for chili selling would not cover the cost of harvesting alone not even from another cost, this kind of tragedy not only occur in Bantul regency but also almost happen everywhere even two cities where the researcher origin come Ponorogo regency and Trenggalek regency. This kind of trouble will not occur if from the very beginning farmers using Bay' al Salam to run the business since Bay' al Salam have the hedging price feature.

B. Research Limitation

This research has certain limitation to simplify the research so the research won't went too wide and also research limitation considered important so the research hopefully will be more focus.

1. This object of this research are only from certain chosen farmers in Ponorogo regency, Trenggalek regency and in Bantul regency.
2. This research will examine Bay' al Salam contract in Ponorogo regency, Trenggalek regency, Bantul regency.
3. This research took place during the month of march.

C. Research Questions

Base on the background which has been introduced before by researcher, researcher wants to know :

1. How is the understanding farmers with regard to Islamic financial institutions and Bay' al Salam contract?
2. To know and to analyze how the Bay' al Salam contract runs in the agriculture sector?
3. To know and analyze the problems which faced by Bay' al Salam in practice?
4. To know what really happening Bay' al Salam in real agricultural practice?

D. Research Objectives

Based on the research questions above the objective of this research which supposed to be answered in this research are:

1. To find out how well Bay' al Salam is known by people so researcher may understand the real situation of Bay' al Salam in practice.
2. To find out factors which encourage or discourage Bay' al Salam in practice.
3. To find out the solution of the problems which faced in practicing Bay' as Salam.
4. To find the best applicable concept of Bay' al Salam in practice.

E. Research Benefit

1. For the researcher

Can enrich researcher understanding about Bay' al Salam in real practice and also to fulfill the requirement of final academic research for an undergraduate student.

2. For the farmers

So may the farmer may find a brand new way to reach prosperity by accessing knowledge and utilizing bay' as Salam.

3. For the financial institution

to give brand new research so they may improve their service regarding Bay' al Salam better to the people.

