

CHAPTER IV

OVERVIEW

A. Profile of BMT

In Indonesia, there is a very powerful institution for supporting small medium enterprises. Shariah financial industry in Indonesia has the potential to keep growing and creating benefit and welfare in the economy, BMT is one of them who is active in Shariah financial industry in Indonesia under the minister of cooperation. BMT has the Shariah ethic as the basis of business protocol. The history of development BMT has been started even earlier from the development of Islamic banking business in Indonesia. The influence of Indonesia has good impact in Indonesia economy development, the asset of BMT alone in 2015 alone according to Setyo as the deputy of organization and UKM of minister of cooperation and UKM can reach Rp 4,7 trillion and the amount of financing reach Rp 3,6 trillion, and more importantly the development of BMT believed as the motor to encourage the real business in Indonesia.

The difference between regular conventional base business and Shariah base business is only on the Shariah principles which are applied in the business. The particular element which distinguishes between Shariah business and a conventional one is legal Shariah base which is given for dewan Shariah Nasional Indonesia.

Officially according to INKOPSYAH there are 432 BMT which spread across the nation from Aceh until Papua. INKOPSYAH establish since 1998 BMT the development of BMT getting better from year to year.

B. Overview of Financing Shariah Product

Base on report from otoritas jasa keuangan (OJK) in January 2016 financing of Shariah product can be summarized as following:

Table 4.1

**Financing of Shariah commercial banks and Shariah business units
the period January 2016**

No	contract	Financing (in billion rupiah)
1	Mudharabah	6.658
2	Musharakah	11.092
3	Murabahah	28.087
4	Qardh	626
5	Istisna'	652
6	Salam	0

Source: OJK Sharia Banking Statistics, January 2016

Base on the data shown above Salam contract somehow in the level 0 from this information we can understand that the contract which supporting agricultural sector or to be more specific contract which helps farmer in agricultural sector are paralyzed whether it is caused by lack of product advertising from Shariah financial institution or the ignorant of farmers regarding Salam contract.

This data also showed us the trend of financing in Islamic financing industry still dominated in profit oriented like in *mudharabah*, *musharakah* and especially *murabahah*. The truth is nothing wrong in seeking profit in business but when Shariah industry less

concern about the spirit of elevating the weak in general ummah who need help actually we can spot what is so wrong with Shariah banking industry.

C. Salam in Islamic Business Practice

O you who have believed, when you contract a debt for a specified term, write it down. (Al Baqara 282) Sufyan ats Tsaury narrated from ibn Abbas, he said , regarding this verse was related with Bay' al Salam in specified time.

Ibn 'Abbas (Allah be pleased with them) reported that when Allah's Prophet (may peace be upon him) came to Medina, they were paying one and two years in advance for fruits, so he said: **Those who pay in advance for anything must do so for a specified weight and for a definite time.** (Sahih muslim 3906). Bay' al Salam is Less well understood among the other Islamic financing contract compare with the other, even in Indonesia bay' Salam is not very popular nor well known regardless Indonesia is the biggest Muslims population in the world. Despite rapid growing of Islamic banking business, it seems that Bay' al Salam left behind as not profitable for business, in Indonesia there are not so many contracts using Salam contract since it's considered too risky and the other factors of course. In modern financing system, of course, the concept of Bay' al Salam will raise questions in economy and Shariah framework.

D. Opinion of Four Great Imams on the Conditions of Bay' al Salam

According to amine (2008) the opinions of great imams can be summarized as following:

Table 4.2

Opinion of Major Schools on the Conditions of Bay' as Salam

No	Item	Delivery period	Description	Type of commodity	Time of payment
1	Abu Hanifah	Must be precisely fixed	Clearly enumerated	Not uniquely identified underlying asset	Full payment at the conclusion of the contract
2	Imam Malik	Must be precisely fixed	Clearly enumerated	Not uniquely identified underlying asset	Could be deferred to three days or even more
3	Imam Al-Shafie	Must be precisely fixed	Clearly enumerated	Not uniquely identified underlying asset	Full payment at the conclusion of the contract
4	Imam Ahmad	Must be precisely fixed	Clearly enumerated	Not uniquely identified underlying asset	Full payment at the conclusion of the contract

Source: risk management in Islamic finance

Generally, all of four great imams agreed with the requirement of Bay' al Salam except in the time of advance payment, imam malik has a deferent opinion with regard to advance payment. He argues by using deduction analogy that the postpone of advance payment not really necessary since it is not the cause of gharar while the other 3 great imams argue that the full advance payment in necessary in order to validate the contract.

E. General Perspective of Four Great Imams Regarding Bay' as Salam

According to Al Zaabi (2010) There are nuances of variation in the general perspective of the four main Sunni schools on the Bay' al Salam contract

1. The Hanafis view is as a sale for a period, as the sale of an object bought and paid for in advance. They also see it as buying something postponed in exchange for something given in the moment, or as selling a time to come for the time now. Thus, it is a contract involving something that it is proper to sell, that is specified, that is owed; the delivery of it being postponed, in exchange for a price collected at the contract session. The condition attached here, namely that the price (the capital advanced) is handed over at the time of contract, avoids the prohibited transaction of one debt for another debt – money owed/promised in exchanged for a thing owned/promised

2. The Malikis define Salam as the sale of something owed and specified by the description in exchange for a price, the delivery of the thing being put off for a time they permit the postponement of the transfer of the price to the buyer for a period of no more than three days. For them, the Salam contract is simply an exchange or substitution contract stipulating binding obligation on the seller to be fulfilled by him by delivery of the sale object, not any equivalent for it nor for ready money.

3. The Shafi'is define it as the selling of something that is specified and owned. They see it as a debt and therefore do not make it a condition that the period (within which the sale object is to be delivered) be defined.

4. The Hanbalis see Salam as that which is handed over in exchange for something defined that is owed for a known period.

Scholars are generally in agreement about the acceptability of securing guarantees for the Salam such as collateral and sponsorship (Al Zaabi, 2010).

And also, from the general description of the Salam contract, it is one that could be applied to all commodities, metals, animals and livestock, produce and manufactured goods. In the view of some scholars, it can even be applied to the utility. As we shall see from the discussion to follow, the Salam contract also permits the delivery of the sale object by installments at specified times. The sale object may be delivered promptly or its delivery postponed. Another mark of its flexibility is that the price can be in the form of cash, commodity, food or livestock (Al-Qurrah Daghi & al-Din, 2001).

F. Indonesia Agriculture Data

Based on data obtained from Ministry of Agriculture (2015) reported by ministry of agriculture can be elaborate as following:

1. Gross Domestic Product (GDP)

The GDP contribution of the agricultural sector in the short term (exclude of fishery and forestry) in 2014 it's around 879,23 trillion rupiah or 10,26 % from the total of national GDP which is 8.568,12 trillion rupiah. In the 2010-2014 period, the growth of GDP in the agricultural sector in the short term is around 3,47 until 4,58 % with the average around 3,90 %, while in the same time national GDP grow around 5,70 %. By the disparity of GDP growth so the contribution of agriculture is falling down from 10,99 % in 2010 become 10,26 % from the total of GDP in 2014.

2. Workforce Absorber

In the 2010-2014 period, agricultural sector still becomes biggest workforce absorber even though there is falling downtrend in this sector, in 2010 alone agricultural sector absorbs around 38,69 million workforces or 35,76% of the total workforce. in 2014, the absorbing of workforces are declining become 35,76 million workforces or represent 30,27% from the total workforce.

3. Investment in Agricultural Sector

Investment in the agricultural sector in Indonesia consists of three main sources investment from farmers, investment from government and investment from private sector. Approximately in 2014 total investment reach 400 trillion rupiah. The biggest investment in the agricultural sector comes from farmers in the form of lands and other agricultural equipment. While investment from the government comes from national budgeting (APBN) and regional budgeting (APBD) approximately only 4 % from the total of investment in agricultural sector meanwhile Contribution of the private sector in the agricultural sector is very small.

In 2010 2014 period the growth of Penanaman Modal Dalam Negeri (PMDN) is around 4,2 %/year. While Penanaman Modal Asing (PMA) in the agricultural sector is growing annually around 18,6 %. The investment from PMDN in the agriculture sector in 2014 is around 9,43trillion rupiah, while from PMA around 1, 35 million USD.

4. Trading Balance in Agricultural Sector

Generally trading balances in the agricultural sector are still in surplus. The growth of export in 2010-2014 around 7,4 %/ year, while the growth of import is higher 13,1 %/year, however the growth of average trading balance in agricultural sector still appreciating in 4,2 %/year if the data viewed from subsector, so Indonesia here in a deficit position in trading balance of consumption commodity and become net importer country. Consumption commodity which highly imported by Indonesia is wheat, soybeans, corns, and rises. While on the other hand the export commodity which exported by Indonesia is cassava.

Trading balances in horticultural products are still a deficit. However the growth of export in horticultural increase annually 19,9 %, while the import growth 12,6 %/year. the deficit in horticultural occurs in fruits and vegetable commodity. While the export surplus obtained from medicine and decorating plants. Mangos and mangistan become a highest exported commodity while vegetables which highly exported by Indonesia are cabbage, tomatoes, and potatoes. And on the other hand, the most imported fruits by Indonesia are orange and durian while from most imported vegetables by Indonesia are onion, garlic, and carrots .

5. Farmers Prosperity

Farmers prosperity is a final goal which obtained by agricultural development. The fact that farmers are the main actor of agricultural development they deserve their right equal with their efforts, times, energy and dedication which they give in the agricultural

sector. Policies and programs which done to develop agricultural sector are tools or instruments for decisions makers in the agricultural sector in order to empower farmers and to raise their prosperity.

6. Crop Failure in Indonesia

Base on the report by head of Balai Proteksi Tanaman Pangan dan Hortikultura (BPTPH) provinces in Indonesia which received from ministry of agriculture in 7 Mei 2015, in rainy season 2014/2015 (October-march), the wide of rises field which experienced crop failure caused by organisme pengganggu tanaman (OPT), flood and dried off around 358 ha. Or in the other word around 0,03 percent from the total cultivating land 1.397.931 hectare.

The wide of crop failure in that period caused by the flood which wide around 342 ha (0,41 percent from total cultivating land 1.397.931 ha) which especially occur in provinces of central java, east java, and west Sumatra. And the dried off land which wide 15 ha (0,001 percent from the total of cultivating land 1.397.931 ha) which occur in Aceh province. While the crop failure caused by OPT its wide 1 ha (0,00 percent from total cultivating land 1.397.931 ha) which occur in the east java.

Meanwhile in dry season in 2014 which occur in April and September, the wide of crop failure caused by OPT, flood and dried off reach 40.448 ha wide (0,50 from total cultivating land 8.043.639 ha).and the most wide crop failure in this period caused by flood which 34.221 ha wide (0,43 percent from the total of cultivating land 8.043.639 ha) which occur at December in Aceh province, east java and central java.

And then crop failure caused by dried off reach 5.890 ha wide (0,07 percent from the total of cultivating land 8.043.639 ha) which the widest crop failure in October occur in south Sulawesi, southeast Sulawesi, and central java. While the crop failure caused by OPT reach 337 ha wide (0,004 percent from the total of cultivating land 8.043.639 ha) which in this case the widest crop failure occur in December at central java, west Sumatra, and Banten.

In 2015 in a period of January until April the wide of rises crop failure caused by OPT, flood and dried off reach 13.677 ha wide (0,27 percent from the total of cultivating land 4.991.038 ha). The widest crop failure in this period caused by the flood which reach 13.518 ha wide (0,27 percent from the total of cultivating land 4.991.038 ha), where the widest crop failure occurs in February at Banten, East java, and Lampung.

And then the crop failure caused by OPT reach 86 ha wide (0,002 percent from the total of cultivating land 4.991.038 ha) and the worst crop failure in February occur at Gorontalo, East java, and north Sulawesi. and the last base on this report caused by dried off reaches 73 hectares or 0,0001 percent from the total of cultivating land 3.593.107 ha, where the widest of crop failure in march occur in Aceh and north Sumatra.

As comparison data, the wide of crop failure caused by OPT, flood and dried off in 2014 in a period of January-December reach 178.892 ha from the total of cultivating land which reaches 13.569.481 ha wide. In this period the widest crop failure

caused by the flood which reaches 141.045 ha wide, where the worst crop failure in this case in January at The West java, Central java, and Aceh.

Crop failure caused by dried off reach 35.423 ha wide, where the worst of it occur in September at west Kalimantan, Aceh, and central java. And then the crop failure caused by OPT reach 2.424 ha wide, where the worst crop failure occurs in July at Central java, south Sumatra, and Banten.

7. Problems Faced by Farmers

There are very classical problems which faced by farmers from year to year which seems never end as following:

a. Lack of Capital

The capital needed in agricultural business are relatively high so in order to cultivate farmers need to have a lot of funds to begin with the problem is not every farmer are self-sufficient to sustain their capital this can be worse since many farmers are considered not bankable in banking financing industry, so, in the end, they end up borrowing funds from any available source. According to Beik & Hafiduddin (2008) one of most fundamental which faced by agriculture sector in Indonesia is the availability of financing.

b. Difficulty of Capital Access from Financial Institutions

The access to professional financing is not easy to obtain by farmers since the banking protocols which require passing by farmers are commonly burdening

farmers. According to (Kurnia, 2009) segmentation of the agribusiness player viewed from the side of banking divided into four segmentation, first one who considered as feasible and bankable, second farmers who considered as feasible but not bankable, third the one who is considered not feasible but bankable, and the fourth one who is not considered as feasible nor bankable. This makes the financing in agriculture sector very limited. This situation worsens by the existence of interest in conventional financing, where financing in agribusiness in Indonesia still needs the very high interest which almost the same as commercial interest (Wulandari & Suroso, 2004).

c. Risk During Cultivating Period

Most of the agriculture practice in Indonesia are still using traditional way which means farmer highly depend on the grace of nature, when the nature is supporting agriculture so the farmers will have no problem about it but when the nature is uncertain farmers will bear risks, moreover in current situations the nature almost unpredictable so the risk which bears by farmers are higher.

d. Price Risk during Marketing Commodity

The risk which bears by farmers are not ending in cultivating alone but rather the next risk is waiting for them for marketing their harvest. Even when farmers have very nice harvest sometimes the risk of falling price during selling the product is still lurking. It's very common when during harvest time some people

can set the price for farmers due to some ability to control markets so in the end farmers will be forced to accept whatever price offered.

e. Lack of Supervising to Improve the Human Resource.

Commonly in Indonesia agriculture sector still runs by traditional farmers which have limited understanding about modern agriculture method. Lack of knowledge can be vital if the target of production is to produce the best output with the most amount. Farmers need supervisors from the expert in modern agriculture method, so may the output will be far greater than before.

The main problems of capital which faced by farmers here caused by the banking protocol which classified farmers or most of them are not bankable, the problems of lack capital also not really considered as serious issue by decision makers reflected by allocation of national budget (APBN) only 4%, agricultural sector which farmers engaging activity there also not interested by investors this can be reflected from the investment from private sector in agricultural are relatively low.

Even though government already giving support in agricultural sector for example by (pengembangan agribisnis pedesaan) PUAP program which gives every village capital around 100 million rupiah to distribute to farmers, the problem is that every village consist minimum has 180's or 200's member so approximately each member can have access maximum 1 million average, this considered so little since the capital which uses in agricultural sector are millions. The next problem

which faced by farmers is the risk of crop failure and falling harvest commodity price the worst of these two most of them are beyond farmers control which means when these two disasters occur farmers can do nothing about it. Farmers, in this case, has nothing to do to solve this catastrophe and the truth is that this problem always repeating since apparently there is no serious effort to solve it.

On the other hand, Islam as the way of life comes to govern and to lead into harmony, in this agricultural issue actually, there is a solution from Shariah perspective by using bay' as Salam. Bay' al Salam contract is originally applied in the agricultural sector which practiced during the prophet Muhammad SAW era or even before him SAW era. The practice enabled buyer to buy the crop before the existing of the crop and also make the seller (farmers) receive advanced payment from the buyer, and the best thing of this is farmers don't bear any risk after the contract done since every risk will be bear by buyer after the contract agreed unless the risk caused by farmers careless.

8. The Effort of Farmers to Survive in Agriculture Business

The reality which faced by farmers is so hard, the fact that actually farmers have no much option to choose nor way to run, the tragedy of farmer it seems like an endless loop which trap farmer and keep them there. In order to survive have no place to rely on but to themselves. The effort of farmers is still using traditional way to solve their problem by using their limited resource they have to survive. Most of them don't take loan from

banking to take financing from other financial institution, especially from shariah financing industry due to the complexity of procedure or the lack of available information to access.

Commonly farmers surviving in agricultural business by creating a group or known as gabungan kelompok tani (GAPOKTAN). GAPOKTAN is farmers union or farmer organization, through this union farmers can have a loan from banking or can receive the subsidy from the government if any. GAPOKTAN has purposes like learning class learning, here farmers got the educations from the supervisors so they may elevate their skill in agriculture in order to provide better productions in the future. And also cooperation among farmers and production units. Generally, GAPOKTAN has several functions as following:

- a. Learn class; farmers union is learning vessel for its members in order to elevate knowledge, skill, behavior and also development and growth of independence in agricultural business, so may their productivity become higher, their income increases and their life become prosperous.
- b. Cooperation vessel; farmers union is a vessel to strengthen the cooperation among farmers whether intern of farmers union or even among farmers union and also with another party. With this cooperation, hopefully, agriculture business will be more efficient and also can survive against threats, challenges, obstacles and disturbances.
- c. Productions unit; an agricultural business which keen by union members , as whole must be considered as one business union which can be developed in order

to reach economy scale, whether considered in term of quantity, quality or even continuity.