

CHAPTER V

DESCRIPTIVE ANALYSIS AND DISCUSSION

A. Research Location

This research uses primary data which obtained by researcher from various regency, respondents are chosen by researcher who has direct activity with cultivating activity which taken by researcher as following:

- A. Part of farmers located in Trenggalek regency
- B. Part of farmers located in Ponorogo regency
- C. Part of farmers located in Bantul regency

With consideration that these regencies still have abundant field and many of citizen still work in the agricultural sector.

B. Profile Data

Table 5.1

The Various Regency of Respondent

NO	Regency	Respondents
1	Trenggalek	27
2	Ponorogo	17
3	Bantul	10
total		54

Source :primary data 2016

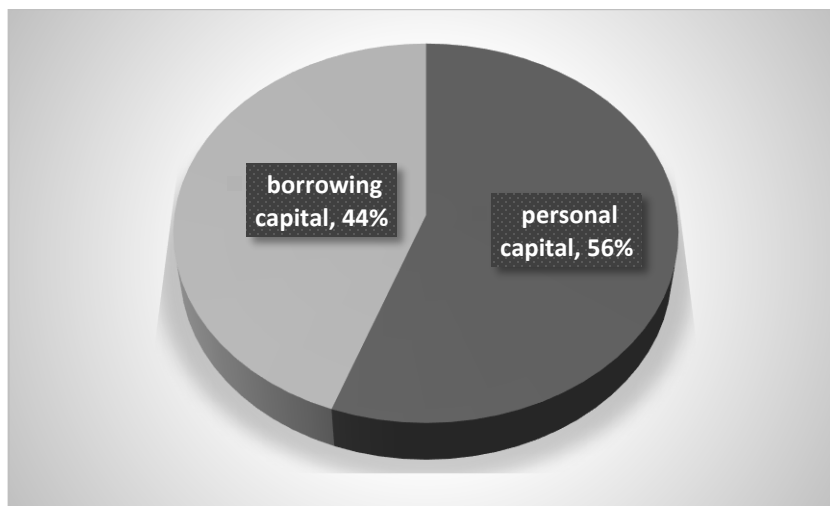
Based on table 5.1 respondents taken from the various regency, there are Trenggalek regency, Ponorogo regency, and Bantul regency. The higher respondent took from Trenggalek regency then followed by Ponorogo and the last Bantul regency. Total

respondent is 54 respondents with classification Trenggalek regency 27 respondents while Ponorogo regency 17 respondents and Bantul regency 10 respondents.

Researcher prefers to choose Trenggalek and Ponorogo due to the origin of researcher from both regency and Bantul as the current regency where researcher lives. The reasons why the researcher chose this regency is not a merely emotional decision but due to the observation of researcher which often saw the crop failure there. This fact awake researcher willingness to contribute to society by trying to solve their problems.

C. Source of Capital

In order to gain capital respondent are given questions where their capital comes from whether from personal capital or trough borrowing capital and as a result is following:



Source :primary data 2016

Figure 5 1

Source of Capital

The majority of respondent based on data above (figure 5.1) using personal capital which represent 56% from total respondent while the rest of 44% taking capital from the

third party whether from the conventional financial institution, Shariah financial institution or other sources.

Even though the different between two capital source is little the slight different here have a big interpretation. The slight different which make farmers choose not to take loan not because they don't want to but rather since they have difficulties to access the loan or they don't have a better choice to facilitate them. And also, as Soetriono (2006) stated that capital is internal factor which is crucial in the practice of agriculture business which runs by farmers

D. Loan taking Preference

In modern business capital is essential in order to grow business, here respondent are given questions where are their preference to take loan and as result following:

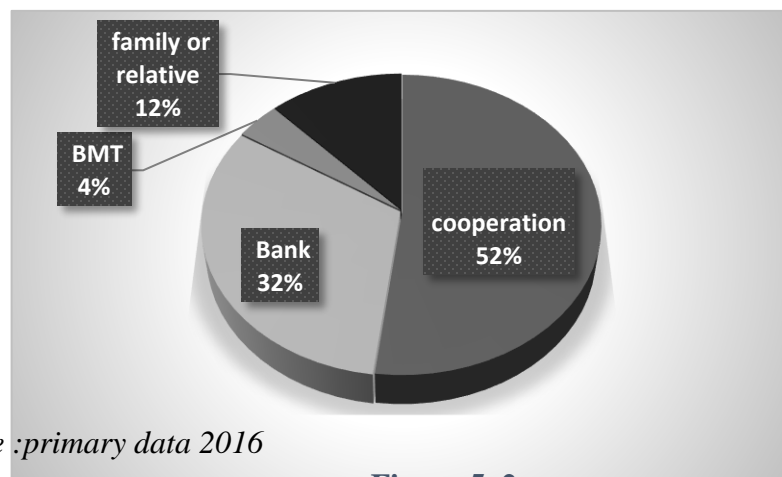


Figure 5 2

Preference of Taking Loan

The majority of farmers prefer to take a loan from cooperation which represents 52% from the total respondent. This would be mean when majority of farmers taking loan from cooperation farmers prefer to use the internal society funds as capital which uses to accommodate the lack of capital among its members and also it could be mean that

cooperation still becomes the most known or to be more precisely most accessible by farmers as financing institutions among the rest financing institutions.

And the following by bank as the second biggest choice of farmers to take a loan which represent 32% from the total respondent. This would be mean that bank as most common or largest financial institution so farmers considered the bank as a best second available option.

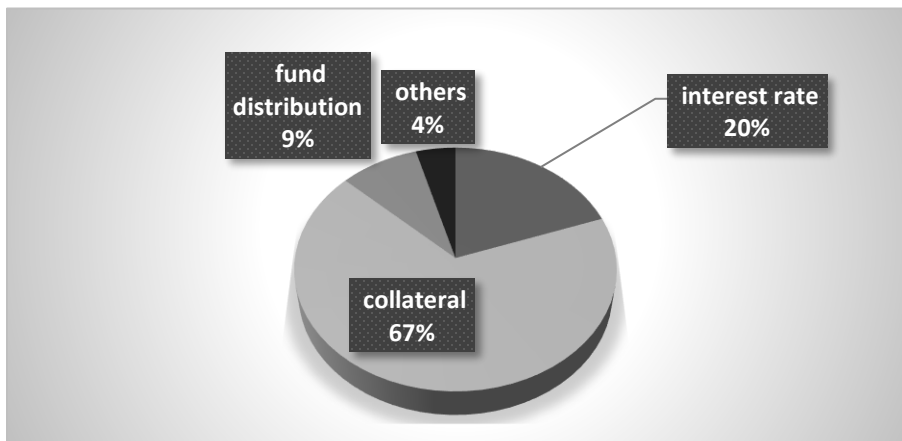
Then the next is farmer's preferences to take a loan from family or relative which represent 12 % from the total respondent one of the main reason why farmers prefer to take a loan from relative or family is because it simpler than any other option or perhaps it is the only alternative they have. Taking a loan from relative or family don't need collateral or paying interest as a return, but it can be interpreted as the lack of farmers understanding regarding professional financing.

And the last one as the least preference is BMT which only represent 4% from the total of respondents. BMT represent 4% from the total respondents, BMT as Shariah financial institution become the last option. Even though BMT is the only semi banking which can settle their own policy which can make the simpler procedure of accessing funds for farmers but it seems that farmers common nature is a lack of understating or socialization from BMT product in agricultural sector so they don't understand. Or it's simply that BMT still can't penetrate agriculture market share very well. According to Supanggih & Widodo (2013) in his research that farmers who have wide land prefer to take a loan from the bank since they are supported with land certificate ownership. While the rest farmers who have narrow land prefer to take a loan from cooperation, farmer union,

and agricultural store due to the process are fast and easier procedure, not a necessary land certificate as collateral.

E. Problem Faced from Taking Loan

Here researcher trying to expose what are the obstacles which commonly faced by respondent when taking loan, respondents are given several questions in order figure the problems out and the result as following:



Source :primary data 2016

Figure 5 3

Problems faced when taking loan

Collateral is the biggest obstacle to farmers for getting a loan here represent 67% from the total respondents. Collateral considered as a benchmark to decide how much loan should be given to the customer, in agriculture business this would be a problem since farmers commonly or many of them don't have such collateral to begin with and even if they have the value will not reach the capital which they need.

And then interest is become a second biggest problem for farmers from taking a loan, the interest rate is regulated by central bank trough national banking protocol. Interest

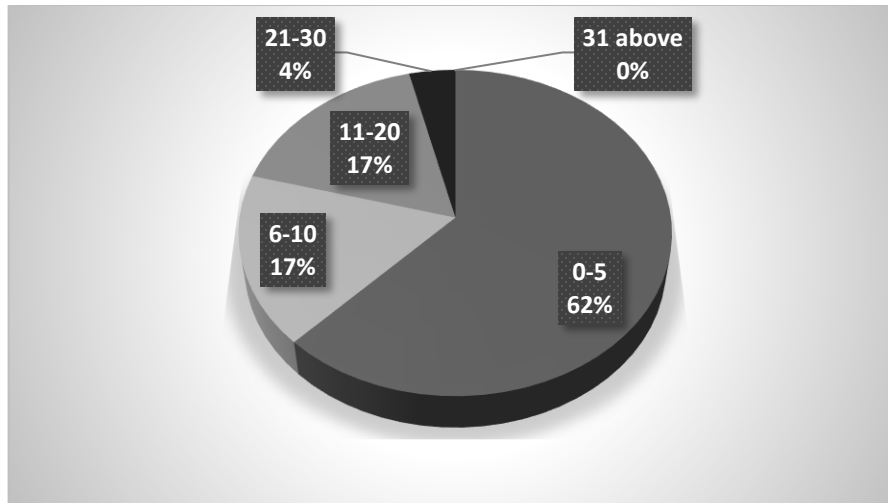
rate represents 20 % from the total respondent, interest rate considered huge obstacle by farmers this is not without reason since bank burdening the risk to the customer, which is even without this burden farmer already burdened with so many risks in their business.

Slow fund distribution becomes next obstacle for farmers since farmers work in seasonal period so they can't waste time to wait for the fund to be distributed when the distribution of fund is slow they will miss the good chance to cultivate faster in the best seasonal period. Fund distribution obstacle represents 9% from the total respondent and the last other reason which represent 4 % from the total respondent.

By the obstacles which faced by respondents, in this case, farmers facing falling competitive index which can cause in this case government fail to provide prosperity for their people and in opposite when the least obstacle faced by farmers this would raise the competitive index which will be a sign of government success to provide prosperity for their people. According to Supanggih & Widodo, (2013) farmers still considering that the process of accessing professional financial institution is difficult, complicated and expensive. Farmers still have very limited detail information toward the formal financial institution. Farmers considering that interest base system will shackle them.

F. Operational Cost

Agriculture sectors are very costly business where the truth is that the cost of operational often become the most burdening respondents to begin with before cultivating. here in order to the ratio of capital needed in 1 cultivating period and as the result is following:



Source :primary data 2016

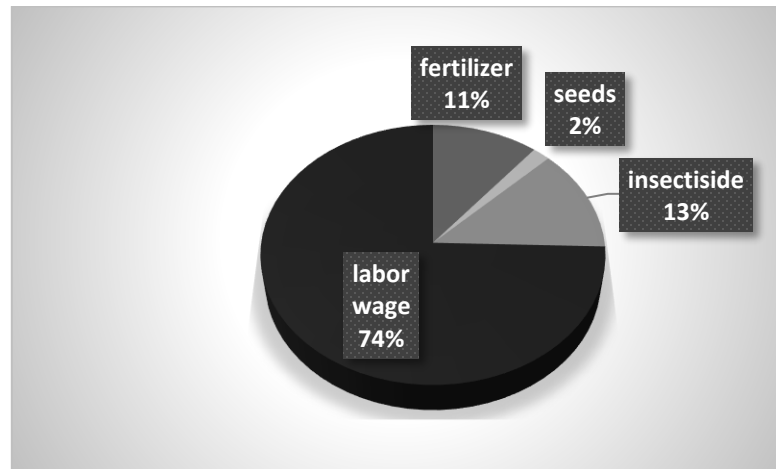
Figure 5 4
Ratio of operational cost

The classification of capital needed for respondent is categorized as very small, small, medium, big and very big, the ratio of operational cost in one cultivating time dominate in very small classification which represents 62% from the total respondents, following by small and medium which both share same amount 17 % each, and then following by big operational cost which represents 4 % and the last very big operational cost which represent 0%.

The more operational cost needed to represent bigger agricultural business runs, so the amount of commodity which produces is bigger too. And the least operational cost needed could be mean the least output which will produce. Here since the majority of respondents are only using least capital it would be mean that the agricultural sector performance is not quite well since least capital will only produce the least output too if its judge by the capital ratio needed in 1 cultivating period.

G. Most Costly Expenses

Expenses are inevitable in every business even in agriculture, here is the classification of most common expense in agriculture:



Source :primary data 2016

Figure 5 5

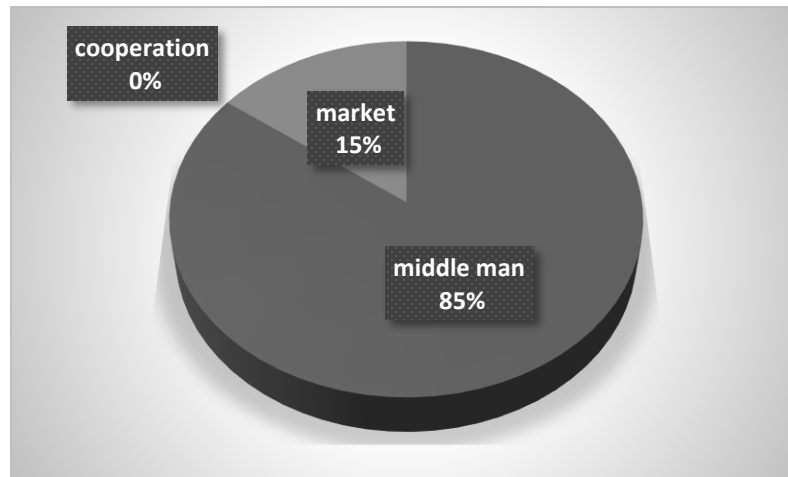
Most costly expenses

Most costly expenses which shown by data is in labor wage which represents 74% and following by fertilizer 11% and then insecticide 13% and the last followed by seeds 2%.

From the data above its explain that the majority of farmers still use traditional method which commonly rely on labor force to run fields. Modernization of equipment and tool can be an alternative to help farmers so the amount of labor can be used efficiently. And the rest of expenses which least cost can be reduced by government subsidy so the cost can be reduced to the minimum amount as possible. Kaleem (2008) said that agriculture sector has demand which increases the credit in particular time due to the increase of fertilizer usage, insecticide, seeds and mechanization.

H. Commodity Selling (Marketing)

Selling commodity after harvesting is crucial in order to gain the profit from the long effort of cultivating period here is the preference of respondent to sell their crop and here is the result:



Source :primary data 2016

Figure 5 6

Where the commodity sold

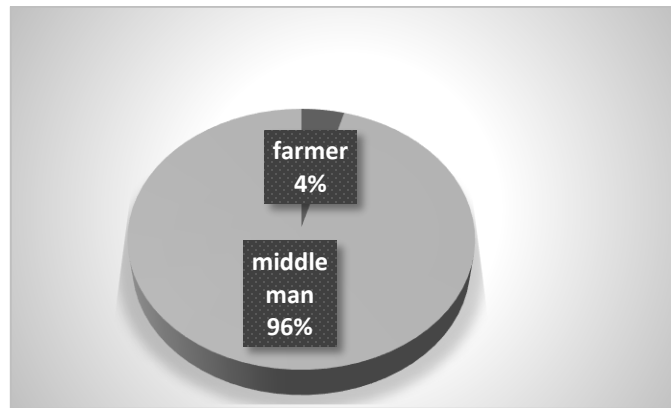
The majority of respondents prefer to sell their crop harvesting to middle man which represent 85% and the rest 15 % respondent prefer to sell to market directly and none of the respondent to sell their crop to cooperation. The data above explain the domination of middle man in marketing crop commodity.

Whether selling commodity through middle man is a most effective mechanism or the dominant power which middleman have to control the market. But regardless whether the dominant power of middle man to control the market or not the fact that entering market alone sometimes are troublesome for respondents and as the government can do

nothing to beat middle man since base on the information during interview commonly middle man can give a higher price or more competitive offer than the government did.

I. Ratio of Price Maker

In every transaction there is always two party who make agreement with the price in order to validate trading so here is the result of interview to know who is more dominant to settle price and the result as following:



Source :primary data 2016

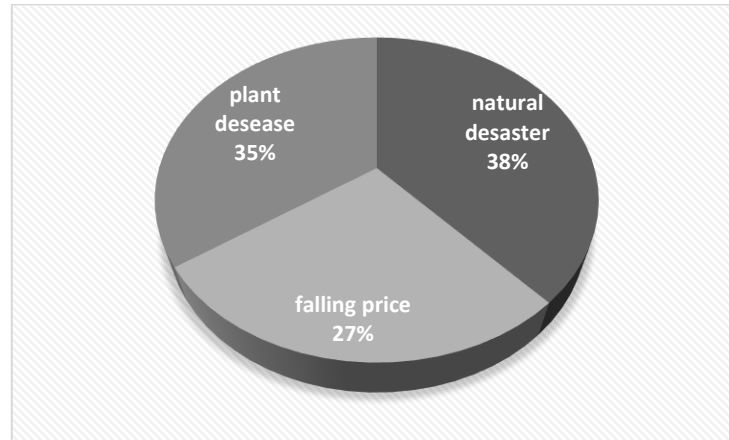
Figure 5 7

Ratio of price maker

After harvesting the commodity which sold to middle man commonly price determined by middle man which represent 96% from total respondent and the rest 4 % farmers can bargain or become price maker. This trends make farmers vulnerable to the influence of the middle man in price determination and make farmers far from the competitive edge, and make middle man strong influence to control the market.

J. Crop Failure Cause

The crop failure problems are inevitable in agricultural business since in agricultural business contain so many risks, here is most common risk faced by respondent:



Source :primary data 2016

Figure 5 8

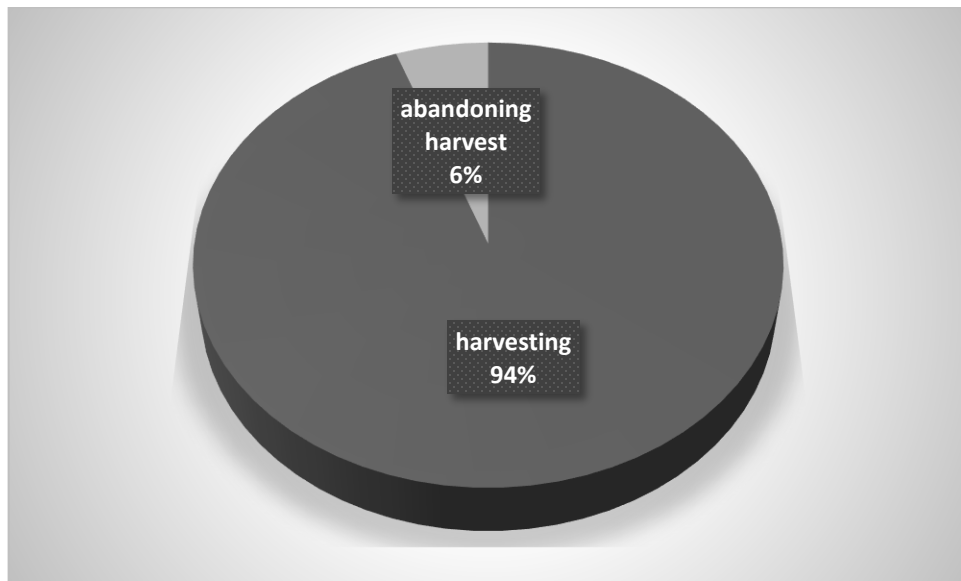
Crop failure causes

Crop failure here is inevitable by farmers 100% of the total respondent has felt the crop failure whether caused by natural disaster, falling price or plant disease or even combination of them. Here respondent who suffers crop failure caused by natural disaster represents in highest rank which represents 38% from total respondent while the second caused by plant disease 35% while the rest 27% suffer from falling price.

Crop failure represents the weak management of production since commonly farmers only rely on the grace of nature and then when the harvest time they only hoping that they will get a good price without certain management or protection. Have no certain risk management and only rely on the grace of market and nature make farmers always not having the good competitive edge.

K. The Decision After Crop Failure

Among the tragedy of agriculture which must be faced by respondents is the decision must be taken after crop failure. Here is the result:



Source :primary data 2016

Figure 5 9

Decisions after crop failure

Among the total respondent, 94 % still choosing to harvest even after crop failure while the rest 6% prefer to abandon their crop due to their consideration than continuing the harvest will only burden even more and make the loss even greater. But some farmers who consider that harvesting even after disaster considered still profitable so they continue to harvest.

L. The Percentage of Crop Failure Caused by Natural Disaster

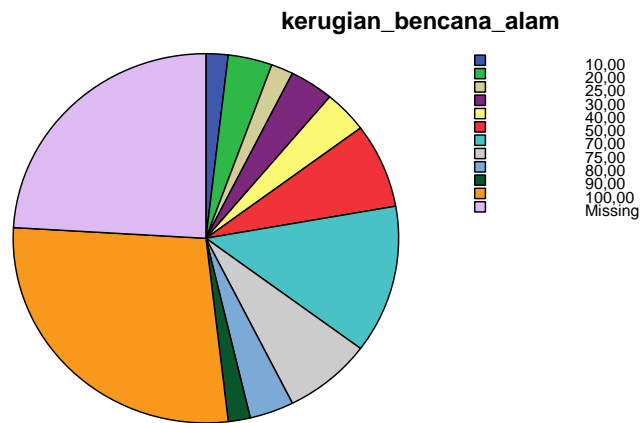


Figure 5 10

Source :primary data 2016

Table 5 2

The Percentage of Crop Failure Caused by Natural Disaster

		Frequency	Percent
Valid	10,00	1	1,9
	20,00	2	3,7
	25,00	1	1,9
	30,00	2	3,7
	40,00	2	3,7
	50,00	4	7,4
	70,00	7	13,0
	75,00	4	7,4
	80,00	2	3,7
	90,00	1	1,9
	100,00	15	27,8
	Total	41	75,9
Missing	System	13	24,1
Total		54	100,0

Source :primary data 2016

M. Crop Failure Caused by Falling Price

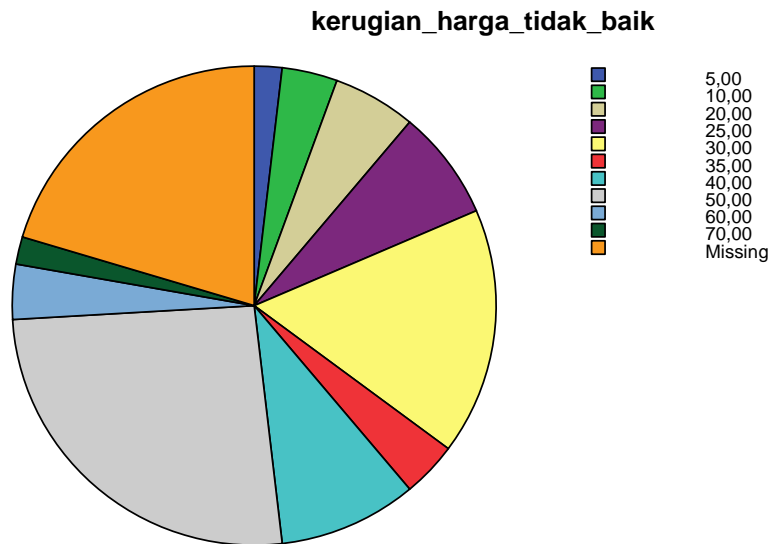


Figure 5 11

Source :primary data 2016

Table 5 3

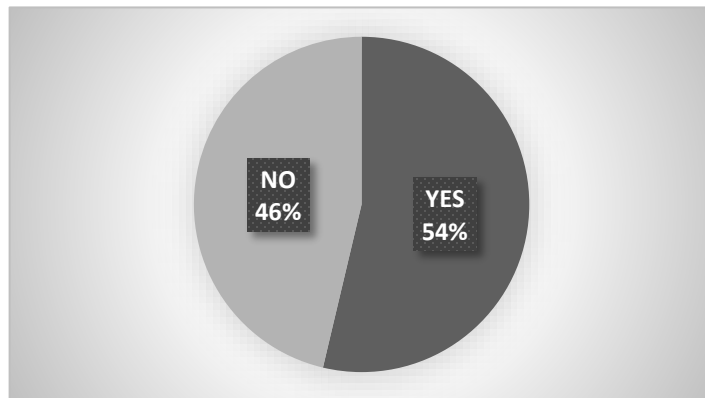
Crop Failure Caused by Falling Price

		Frequency	Percent
Valid	5,00	1	1,9
	10,00	2	3,7
	20,00	3	5,6
	25,00	4	7,4
	30,00	9	16,7
	35,00	2	3,7
	40,00	5	9,3
	50,00	14	25,9
	60,00	2	3,7
	70,00	1	1,9
	Total		43
Missing	System	11	20,4
Total		54	100,0

Source :primary data 2016

N. Access Toward Financial Institution

Financial inclusion is a program to spread the financial of the banking system to be acceptable to everybody not only for the rich only. Here researcher trying to know how many of respondents who has access financial institutions.



Source :primary data 2016

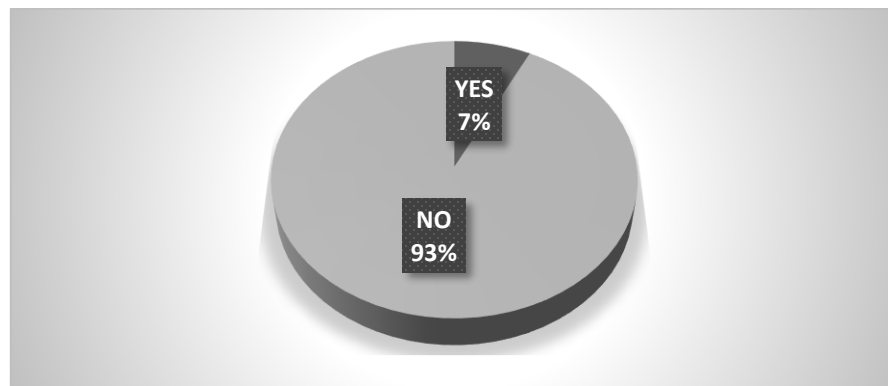
Figure 5 12

Strong competitive reflected by the high rate of inclusivity toward financial institutions, here the inclusivity is quite low since the experience to access financial institution only 54% where the rest 46% don't have any experience with taking a loan

from a financial institution. The slight different here represent the small financing access in the agriculture sector. In line with the research by Darwis & Iqbal(2013) the phenomenon of the importance of capital for farmers and the less attracted banks to provide them capital.

O. Understanding and Access of Shariah Financing Product

As a very booming business, researcher wondering if Shariah financial inclusion had reach respondent as representative of farmers and researcher want to know how deep common people to have interactions with Shariah financial system.



Source :primary data 2016

Figure 5 13

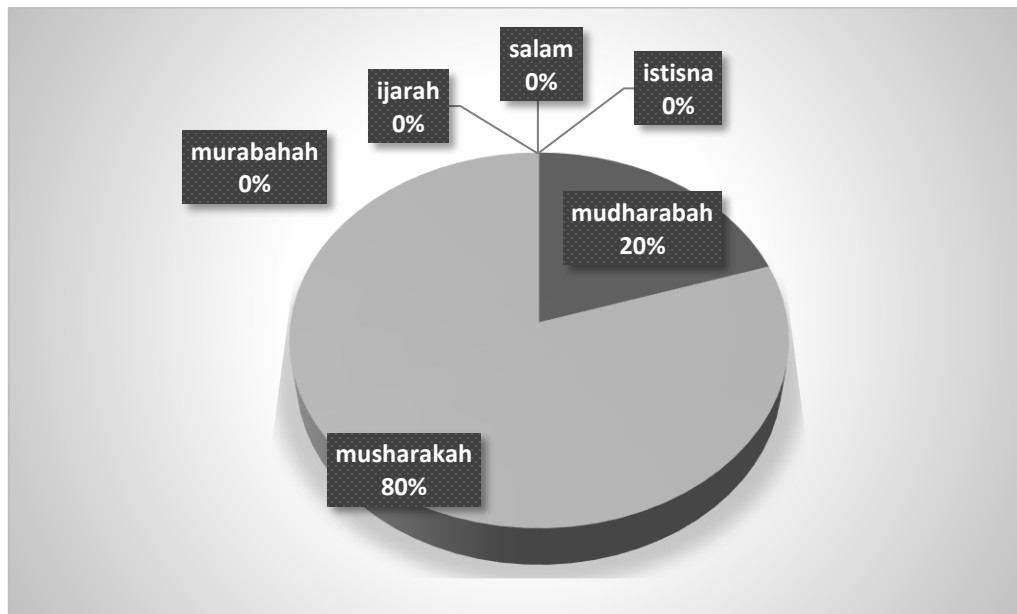
Understanding and access of Shariah financing products

Among the respondent interviewed most of them neither have understanding nor access toward Shariah financing product which represent 93% while other 7 % either understand or have access toward Shariah financing product. This could be mean that Shariah financial inclusion not wide enough to reach to the agricultural sector. The

proper understanding of Shariah contract and access represent the awareness people toward Shariah financial system itself.

P. The Understanding and Access to Shariah Product Per contract

In this stage, the researcher wants to dig more the detail of information about the engagement of respondent toward Shariah product. The information which will be shown the detail of Shariah product accessed by respondent and the result as following:



Source :primary data 2016

Figure 5 14

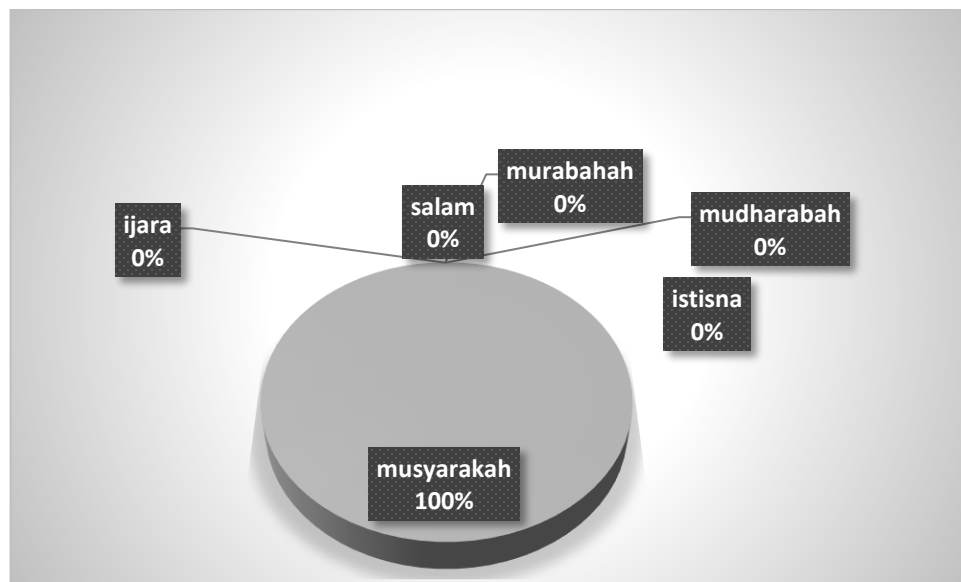
Understanding of Shariah product per contract

The majority of the respondent who understands the Shariah product they only know Musharakah and Mudharabah. Musharakah represents 80% from the total respondent

while Mudharabah represents 20% from the total respondent. The other contracts are represent 0% each. The understanding of contract is key to access the contract itself if people don't know what the contract is respondents can't choose proper contract to their business and of course this understanding will directly have influence with accessed Shariah product.

Q. Practiced Shariah Financing Product

Here is the ratio of accessed or practiced Shariah financing by respondent. Here researcher actually wants to know every detail practiced Shariah financing product, especially Salam contract.



Source :primary data 2016

Figure 5 15

Practiced Shariah financing product

All of the respondents who has access to Shariah financing all of them are taking Musyarakah contract and none of them are taking the other contract especially Salam

contract in this case. Salam as the special contract which allows future spot contract in agriculture are not touch by respondent somehow. This fact is irony for respondent, where actually the most proper contract for respondents here are Salam due to its compatibility in Shariah contract and most beneficial for respondents when running agriculture .

R. Bay' al Salam in Practice a Study Literature Analysis

1. Research conducted by Adi (2013) stated that the purpose of this study is to explore Bai' Salam contract can be used as financing for agricultural sector, to assess the profitability of agricultural production enterprises in Bogor Regency and to examine variables "Attitude", "Norm Subjective", "Price of Bay' Salam relative towards debt" and "Price of Bay' Salam relative towards ijon system" as factors that determine Bai' Salam acceptance.

This research uses descriptive research design with survey method. Empirical findings conclude that 70% of the farmer need financing for purchase agricultural input, 43% of the farmer declare that middlemen are the larger buyers of crops in the rural economy, 60% of the farmer participate in the informal credit market, 59% of the farmer declare that Bai' Salam contract is good, and almost 50% of the farmer willing to sell crops with selling price with margin percentage for buyers is more than 10% using Bay' Salam contract.

The result of previous research above has similarity with current research in this undergraduate thesis. 93% of total respondent willing to take a loan to the third party while other 7% prefer to use personal capital, this indicate that actually respondent needs more funds to finance their agriculture activity.

And for the crop selling after harvesting the previous research has similarity with current research which states 85% of respondent sell their crops to middle man while the

other 15 percent prefer to sell directly to the market. This indicates the domination of middleman in having market share or their strength in market dominations and as for the additional 96% of respondent stated that price decided by a middleman while the rest 4% farmers can bargain or as price maker. This also indicates that the domination of middle man not only in buying the crop but also for determining the price.

2. Researched role of Islamic Banking in Agriculture Development in Bahawalpur, Pakistan by Hassan (2012) stated in one of his research finding that Islamic banking is not providing any financing for the irrigation system and farmers are facing the problem of credit standing and the problem of collateral.

This finding in line with current research which state that 67 % of respondents are having collateral problem to begin with in order to access the financing, and also as a fact that respondent are only accessing musharakah contract this could be mean that Shariah bank or Islamic financial institutions only financing the direct business but not with the investment.

3. Based on Research of Introducing Salam as an alternative financing tool for paddy field cultivation in Sri Lanka by Hilmy (2013). According to him, Farmers who have no enough capital to grow their crops they normally take interest based loan from banks, or they take some advance money from rice mill owners who purchase their harvest finally.

To sell the crops the farmers have two options the one is they can sell it to rice mill owners at the market price on a negotiable basis. Another option is that they can sell to government representatives.

According to the interview, there are mainly two reasons behind less usage of Salam among the IFI in Sri Lanka. The first one is it cannot be allowed by the CBSL (Central Bank of Sri Lanka) separately. The second one is that Salam is a risky mode because the crops can be destroyed due unexpected events like a natural disaster.

The result of current research also has similarities like the fact that agriculture sector is a promising sector in Indonesia and also the trend that commonly respondent tend to the conventional system rather than to Shariah financing system. 93% respondent tend to conventional financing system while the rest 7 % prefer to Shariah system.

And as selling crops farmers commonly either sell them to middleman or directly to the market, even though in rare case farmers can manage to have cooperation with certain company to buy they crop so the company will pay in advance by the condition that the farmers must sell whole their crop to the company and in this case base on the interview conducted by researcher farmers fell secured and have no issues with regard the contract.

And also base on the current research can be reveal the less of usage Salam contract in agriculture can be proofed by the fact from the report from OJK in January 2016 stated that the financing report is 0 rupiah, and also from the data which obtained by researcher revealed that the percentage of using Salam is 0%.

4. The research of Identifying risks of financing for agro projects in Islamic banks by Ab. Aziz & Yusoff (2014). Stated that agro-entrepreneurs faced various risks, which also shows there is a need to have proper Shariah-compliant financing for their agro projects through Islamic banking institutions.

As the result of this research, it shows that majority of respondents are willing to continue their agro projects even though they had to encounter various risks, and had some knowledge or experience about the advantage and disadvantages of those risks.

This previous study can be confirmed with the latest information collected by the researcher which stated that farmers keep doing their jobs regardless the risks they faced. Commonly the risk can categorize as three main caused. The first natural disaster which represents 38% of total respondent while the second is plant disease which represents 35% from the total respondent and the rest caused by falling price which represents 27%.

The proper financing in agriculture sector actually can be practiced trough Bay' al Salam contract but sadly improper contract was taken by respondent whether the factor of limited information which respondent have or the fact that Salam is a risky mode which tends to avoid by Islamic financial institution, or in the other word Islamic financial institutions still tend to profit-oriented business.

5. Based on the research by Roziq , Hisyamudin, & Purnamawati (2014). The researchers found that no Salam contract found in Islamic financing institution for respondents.

The problem which is faced by respondents is the lack of capitals, the difficulty of marketing after harvest, the low quality of a commodity during raining season, fail of harvesting. While the problems of Islamic financial institution for Salam contract which faced are the lack of capital to pay in advance, the capital loss risk, farmers moral hazard for tending to sell their crop to the other party when the price are appreciating.

The research finding in this research has similarities such as no Salam contract found practiced by respondent. Problems of lack capitals to begin within the business, the difficulties of marketing after harvesting and also the crop failure risk.

6. Based on previous research of the possibility of application of Salam in Malaysian Islamic banking system, by Muneeza (2013). In Malaysia, there are various types of Islamic Banking products used. However, Salam has never been used as a mode of financing in the country, though it is utilized for Sukuk or Islamic bond.

Salam is an exceptional contract in Islamic law, which has been legalized to facilitate the people, especially the poor farmers. It has been stated here that Malaysia is an agricultural nation and farmers here are looking for models to finance their productions and hence the application of Salam contract in Malaysia would be vital.

But so far, the Banks are hesitant to use this product because of risk factors. From the above discussion, it can be safely concluded that Salam contract in Islamic Commercial Laws are the important methods of investment in Islamic banking and can play an important role in economic development. It encourages the demand for agricultural goods to be stabilized and at the same time ease the farmers.

The less of utilization of Salam contract in Malaysia has no big different with Indonesia, the data received from OJK report in January 2016 shown that the financing in slam contract is 0. And also, in this research confirm that none of the respondents neither know Salam nor having to access it, regardless the benefit and virtue Salam in farmer's economy.

Without a doubt that the wide of the agricultural sector in Indonesia is wider than Malaysia and also the need of sustainable systems for farmers is far greater too, the fact that farmers have the problems and the Islamic financial institutions has the answer, so it supposed to match to have cooperation to strengthen each other.

7. Based on research by the title *Financial Options in Islamic Contracts: Potential Tools for Risk Management* by Obaidullah (1999). it may be noted that hedging can also be accomplished with Bay' al Salam in currencies. The form of contracting with deferment of obligations of one of the parties to a future date falls between the two extremes of spot and future contracts. While Shariah scholars have divergent views about its permissibility, our analysis reveals that there is no possibility of earning riba with this kind of contracting.

The requirement of spot settlement of obligations of at least one party imposes a natural curb on speculation though the room for speculation is greater than under the first form of contracting. The requirement amounts to the imposition of a hundred percent margin which, in all probability, would drive away the uninformed speculator from the market.

This should force the speculator to be a little surer of his expectations by being more informed. When speculation is based on information it is not only permissible but desirable too.

Bay' al Salam would also enable the participants to manage risk. At the same time, the requirement of settlement from one end would dampen the tendency of many participants to seek a complete transfer of perceived risk and encourage them to make a realistic assessment of the actual risk. In this research basically the comparison between the derivation of concept Salam in the financial market.

Scholar has a different opinion about the permissibility of Salam in financial market but regardless the opinion of scholar whether it's permissible or not the truth about the concept of Salam as hedging is absolute truth hence, it's may applicable even in the financial market.

The need of Salam as hedging can be utilized in agriculture due to the nature of Salam as future spot contract which means the buyer paid cash in advance while the commodity will be delivered in the future agreed. Here Salam playing a big role to secure farmers from the uncertainty of risk in the future by fixing the price in advance as hedging price.

8. The research made by Ahmad & Ab. Halim (2014) State that the concept of hedging according to Islam is different from the conventional concept of hedging. This means the study has developed a new theory of Islamic hedging. The theory of Islamic hedging must be based on the hadith of al-kharaj bi al-daman and fiqh maxim of al-ghunm bi al-ghurm approaches. In addition, the objective of Islamic hedging to reduce risk must only be related to real economic activities.

Hence, the hedging activity must be engaged in the real business activity since the researcher using the base on the fiqh maxim of al kharaj bi ad daman and of al-ghunm bi al-ghurm approach. So the application of Salam in agriculture in Indonesia completely compatible Islamically since it is run in real economy sector and also, it is not risk free or to be more precisely risky business, so the application of hedging in agriculture system supposed to be very legal and encouraged even though the fact that Salam in agriculture not well practiced or not really practiced due to the risks it contains, what an irony.

9. Risk management in Islamic banking Ahmed & Khan (2001). Islamic banks face additional risks due to the nature of their balance sheet and sharia compliance. Non-availability of financial instruments to Islamic banks is a major hindrance in their way to manage market risks as compared to the conventional banks. While some of the fiqh-related issues have to

be resolved by sharia scholars, setting up of infrastructure institutions needs to be done by the government and regulatory authorities in different countries.

Obviously, owing to religious restrictions, the Islamic banks cannot enter the conventional banking market, but the conventional banks are offering the Islamic products simultaneously with their own products. Competition no doubt enhances efficiency and a level playing field is a prerequisite for a healthy competitive environment. A more level playing field for competition between Islamic and conventional banks in this regard cannot be ensured unless the Islamic banks have similar supporting infrastructure institutions. There is a need to introduce a risk management culture in Islamic banks.

One way to introduce this culture is to initiate some form of the internal rating system. Specifically, risk weighting of all their assets separately is needed. In the medium and longer run these could evolve into more sophisticated systems. Initiation of such a system can be instrumental in filling the gaps in the risk management system and hence enhancing the rating of these by the regulatory authorities and external credit assessment agencies.

The need of an independent institution to manage risk is necessary since we can't allow Muslims to deal anyway with usury risk. Management accessing is crucial in Muslim business and also to make distinguish with the conventional one, Salam here considered by the researcher as a most proper risk management tool in agriculture risk management system.

10. Islamic Hedging: Gambling or Risk Management? by Mohamad (2008) stated that Although there is a lack of consensus regarding derivatives and the development of shariah-compliant funds to mimic hedge funds in order to tap the global surplus liquidity especially

the Gulf petrodollar, shariah scholars are generally agreeable that hedging is permissible and necessary as a risk management tool.

However, there is still considerable debate regarding the kind of instruments that could be shariah-compliant. This paper looks at the main forms of hedging and examines the debate surrounding the use of derivatives in Islamic financial markets. The paper then looks at alternatives for shariah-compliant hedging mechanisms and in particular examines an Islamic financial derivative of Bay' al Salam that can mimic a short sale in a conventional option, but with potential for becoming a more superior risk management tool.

The consideration of Bay' al Salam super risky business can be considered as a most proper reason to use it as hedging tool so the concept is not merely used in speculating business. The risk which involved in agriculture business has been discussing in previous.

Agriculture sector which researched by the researcher without a doubt is a risky business which perhaps become the main reason why Bay' al Salam never applied in Islamic financial industry even though the product clearly exists. This can be proved by OJK report in January 2016 which stated that the amount of financing using Bay' al Salam is 0 rupiah. This could be worse when the Islamic financial institution is not far different with conventional one with regard of share same idea of profit oriented only.