



THE IMPLEMENTATION OF SYIRKAH AGREEMENTS IN AGRICULTURAL FINANCING FOR ENHANCING THE RURAL ECONOMY: INSIGHTS FROM SOUTH SUMATERA

PENERAPAN AKAD SYIRKAH PADA PEMBIAYAAN PERTANIAN UNTUK MENGGERAKKAN PEREKONOMIAN PERDESAAN: PEMBELAJARAN DARI SUMATERA SELATAN

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ABSTRACT

The agricultural sector continues to be the primary driver of rural economies in Indonesia. Despite its vital role, the rural agricultural sector often faces serious challenges in terms of adequate financing. This study examines the implementation of the syirkah agreement as an alternative financing model in the agricultural sector to enhance rural economies. Using a phenomenological approach, this research involves in-depth interviews and direct observations regarding the application of the syirkah agreement in financing a rice milling unit managed by the Farmers' Group Association (Gapoktan) in Pandan Village, Tanah Abang District, Penukal Abab Lematang Ilir Regency, South Sumatra. The research findings indicate that the application of the syirkah agreement in agricultural financing has yielded significant positive impacts. It enables farmers to have easier access to capital and necessary resources for productivity enhancement while promoting active farmer participation in their agricultural business decision-making. These results underscore the crucial role of the syirkah agreement in creating a sustainable and inclusive rural economy, in line with the principles of economic justice in sharia law.

Keywords: Agriculture Financing, Syirkah, Rural Economy, Sustainable Agriculture.

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INTRODUCTION

The rural economy plays a crucial role in Indonesia's economic development (Isbah and Iyan, 2016; Kusumaningrum, 2019). More than half of Indonesia's population still resides in rural areas, relying on the agricultural sector as their primary source of livelihood (BPS, 2023; Hawkins, 2022; Ratuwalu, 2016). Despite the agricultural sector's pivotal role in food production and labor absorption in Indonesia (Winoto and Siregar, 2008), rural farmers in the country face several challenges, including limited access to financing (Rozaki, 2021).

Agricultural financing is a critical aspect in advancing the agricultural sector (Widiana, Annisa, 2017). To enhance their farming productivity, farmers often need access to adequate funding for purchasing agricultural inputs. However, smallholder farmers frequently encounter obstacles when attempting to access traditional agricultural financing, such as banks and other formal financial institutions (Reardon, et al, 2008; Markelova, et al, 2009). This is primarily due to their lack of collateral

or assets and the complex requirements for obtaining loans from formal financial institutions (Yoko and Prayoga, 2019).

As a predominantly muslim country, Indonesia has widely adopted several sharia-compliant financing practices (Zaini, Shuib, Ahmad, 2019; Yusuf, 2022). One form of sharia-compliant financing agreement that can be applied to agricultural ventures is the syirkah agreement (Kusuma, Aulia, Hartini, 2022; Dianto, 2019). The syirkah agreement is one of the financial instruments based on sharia principles, emphasizing the concepts of partnership and risk-sharing (Santoso, et al, 2020; Mulyana, 2020). This financing model offers an innovative solution to facilitate agricultural financing in rural Indonesia (Yusuf, 2022; Wildana and Kafabih, 2021). The syirkah agreement enables farmers and investors to collaborate and share both capital and risk in agricultural ventures. In the agricultural context, the syirkah agreement can be used to finance the purchase of agricultural inputs or other working capital.

The implementation of the syirkah agreement in agricultural financing can facilitate rural economic growth (Ash-Shiddiqy and Ibrahim, 2022). Firstly, it provides farmers with easier access to the resources and capital needed to improve their agricultural productivity (Yoko, 2016). Secondly, this model encourages active farmer participation in their agricultural business decisions because they have a stake in the enterprise (Prakoso, 2022; Arifin, 2021). Finally, the syirkah agreement reflects fundamental principles of economic justice in Sharia law (Zuhdi, 2017). Furthermore, the application of the syirkah agreement in agricultural financing can serve as a means to enhance farmers' understanding of Sharia-compliant financing principles for agricultural activities while also distancing them from ribawi practices..

Although the concept of the syirkah agreement offers significant potential, research on its application in agricultural financing in rural Indonesia remains limited. One promising example of applying the syirkah agreement is in a joint venture for managing a rice milling unit (RMU) in Pandan Village, Tanah Abang District, Penukal Abab Lematang Ilir Regency (PALI), South Sumatera. In this case, the Farmers' Group Association (Gapoktan), under the guidance of the Agricultural Extension Center/ Balai Penyuluhan Pertanian (BPP) of Tanah Abang District, operates the rice milling business. The RMU building and machinery were donated based on the aspirations of legislative members and are fully managed by Gapoktan Lematang Indah. In its operations, RMU management offers investment opportunities to the local community through a syirkah agreement. This study aims to provide a deeper understanding and evaluation of the application of the syirkah agreement in the context of rural agriculture and its potential for replication in other farming activities. The study can offer valuable insights into the application of the syirkah agreement in agricultural financing, potentially paving the way for the development of more inclusive, sustainable, and equitable financing models for farmers. Additionally, this research is expected to contribute to increasing agricultural productivity, reducing economic inequality in rural areas, and supporting the achievement of sustainable development goals in the agricultural sector.

MATERIALS AND METHODS

The focus of this study is on the implementation of the syirkah agreement in a joint venture rice milling unit (RMU) managed by Gapoktan Lematang Indah and supervised by the BPP of Tanah Abang, PALI Regency, South Sumatera Province. The research was conducted from September to October 2023 and employed a phenomenological approach. The phenomenological research method is a qualitative approach commonly utilized in the social sciences and humanities to explore the subjective meaning of individual experiences (Rorong, 2020). This method aims to understand how people perceive and experience a phenomenon from their unique perspectives.

In this study, we employ a phenomenological approach to investigate the implementation of the syirkah agreement in agricultural financing from the perspectives of business managers, investors, and other relevant stakeholders. The stages followed in applying the phenomenological approach in the research encompass bracketing, intuiting, analyzing, and describing (DQLAB, 2022). Bracketing involves the process of identifying and suspending any pre-existing beliefs and opinions regarding the phenomenon under investigation. Intuiting is the process of gaining a general understanding of the



phenomenon being studied. Subsequently, analyzing entails interpreting and comprehending the meaning of the phenomenon. Finally, there is the describing process to understand, comprehend, and define the phenomenon under study. The analysis and discussion concerning the studied phenomenon incorporate the use of various relevant literature, including research findings, books, reports, or studies. In essence, the stages of the phenomenological approach in this research are illustrated in Figure 1.

Figure 1. Stages of Applying the Phenomenological Method



RESULTS AND DISCUSSION

The Implementation of Syirkah Agreement at RMU Pandan Village, Tanah Abang District, PALI Regency

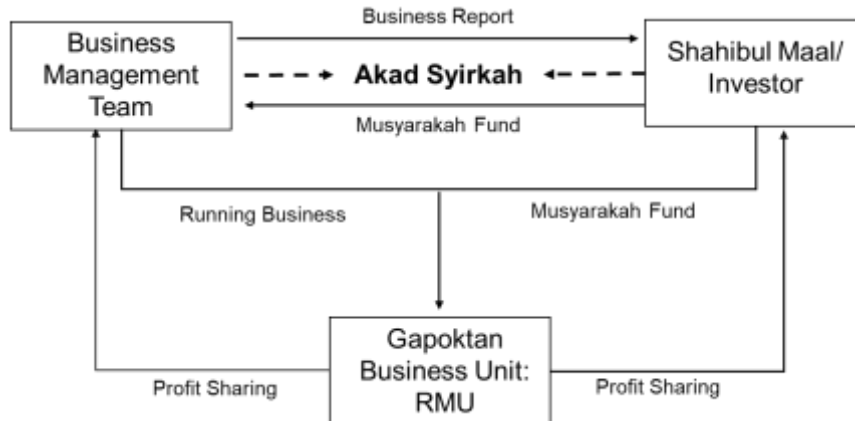
The implementation of *syirkah* agreements in agricultural financing has garnered significant attention. *Syirkah* is a form of partnership or collaboration based on the principles of risk-sharing and profit-sharing (OJK, 2016). The term '*syirkah*' or '*musyarakah*' originates from the Arabic root words '*syirkatan*' and '*syarika*,' which mean partner, associate, company, or union. Linguistically, '*syirkah*' means *al-ikhtilath* or merging. In general, *syirkah* can be categorized based on the proportion of capital participation, namely, it can be '*syirkah inan*' if the capital shares of the involved parties are unequal or '*syirkah mufawadhah*' if each party provides an equal amount of capital (OJK, 2016). According to Khan et al. (2015), this financing model holds promise as a solution for addressing the financing challenges faced by farmers, especially those without access to conventional financing. Through the *syirkah* agreement, farmers and investors can collaboratively invest in agricultural ventures, with profits and risks shared according to the agreement.

The RMU, managed by Gapoktan Lematang Indah in Pandan Village, PALI Regency, commenced its operations in 2022. The RMU's construction, machinery, and equipment were made possible through government assistance provided via the budget allocated by Indonesian legislative members. Subsequently, Gapoktan Lematang Indah oversees its management with the guidance of the BPP of Tanah Abang District and the Department of Agriculture of PALI Regency. As a startup venture, the RMU's operations encountered challenges related to capital, particularly in terms of acquiring essential raw materials, specifically rice, and covering other operational expenses. Consequently, at the initiative of BPP of Tanah Abang, business financing will be conducted through a *syirkah* agreement. In this context, the community or Gapoktan members can invest their capital in the form of rice or cash for the operationalization of the RMU.

As a collectively managed endeavor, the implementation of the *syirkah* agreement in the RMU business has encountered several challenges. Farmers and the community in Pandan Village were not yet familiar with the *syirkah* agreement, despite often using profit-sharing patterns in their daily transactions. Therefore, education and fostering an understanding of the patterns and mechanisms of the *syirkah* agreement were initial priorities during its application in the RMU. Additionally, considering that the activities involve numerous individuals and require a substantial amount of capital, efforts were made to establish trust among the community or capital owners regarding the enterprise. This was

accomplished by forming a team composed of Gapoktan officials, BPP of Tanah Abang, and the Department of Agriculture of PALI Regency. The RMU management team then deliberated and devised provisions related to the implementation of the *syirkah* agreement for the operationalization of the RMU in the form of a business proposal. This business proposal will subsequently be presented to potential investors or *shohibul maal*. In general, the pattern of the *syirkah* agreement application scheme in the RMU business in Pandan Village is presented in Figure 2.

Figure 2. The *Syirkah* Agreement in the RMU Business of Gapoktan Lematang Indah



Furthermore, the funds successfully gathered from the *shahibul maal* will be utilized to run the RMU business. During the production process, the rice produced by the RMU is packaged in 5 kg bags under the brand name 'Pandan Sri.' The main market for this rice consists of the local community and the village government, which will later distribute the rice to the villagers as part of food security initiatives. In this regard, Gapoktan Lematang Indah's RMU business model already benefits from a well-defined and stable market.

The profits generated from the venture will be distributed to the *shahibul maal* according to the agreed-upon ratio. In this case, the ratio offered by the RMU management is 40% for the operators, 40% for the *shahibul maal*, and 20% for Gapoktan as the business unit owner of the RMU. To ensure transparency and build trust among the *shahibul maal*, RMU management periodically provides business performance reports to the investors/ *shahibul maal*. In its implementation, an iterative process takes place between the management and the investors. In this context, the management presents business performance, while investors can offer feedback to facilitate improvements in the venture.

Based on the findings from the implementation of the *syirkah* agreement in financing the RMU business managed by Gapoktan Lematang Indah, crucial aspect that determines the success of business activities is the quality of the human resources managing the business. The quality of human resources significantly impacts business performance (Rohimah, 2018; Cahyanti and Anjaningrum, 2017). The decision of the *shahibul maal* to invest their funds in business activities is influenced by the character and quality of the business managers. Furthermore, the success of the RMU business heavily depends on the quality of its management, which, in turn, affects the quality of operations and the level of profits obtained. Moreover, to enhance investor confidence, RMU business managers can incorporate the legal framework as an essential element of their business activities. As highlighted by Syarif (2019), an effective legal framework can cultivate investor confidence and alleviate potential abuses that could jeopardize the stability of financial relationships.

Replication of *Syirkah* Agreements to Boost Rural Economy

The *syirkah* agreement financing model has the potential for replication in other agricultural activities (Amalia, 2016; Widiana and Annisa, 2017). As a pilot project, the BPP of Tanah Abang has endeavored to implement the *syirkah* agreement financing model in various agricultural ventures, including oyster mushroom, peanut, and rice cultivation. In practice, these initiatives are managed by agricultural extension officers at BPP of Tanah Abang, utilizing investment capital from the community or fellow BPP of Tanah Abang staff. The pilot implementation of the *syirkah* agreement has demonstrated its success in improving the operationalization and production of various agricultural commodities. This pilot project also functions as a form of training for the human resources at BPP of

Tanah Abang in managing agricultural enterprises with a profit-sharing scheme involving capital owners. Furthermore, it serves as an educational platform for farmers and the local community within the jurisdiction of BPP of Tanah Abang to directly witness business practices conducted under a profit-sharing framework utilizing the *syirkah* agreement.

The application of agricultural financing through the *syirkah* agreement offers significant potential to drive rural economic development (Ash-Shiddiqy and Ibrahim, 2022; Ibrahim, et al., 2022). The *syirkah* agreement, as a financial instrument grounded in sharia principles that emphasize partnership, risk-sharing, and economic justice, provides an innovative solution for farmers and investors seeking access to funds and financial support for their agricultural endeavors. In the agricultural context, this model enables farmers and investors to collaborate, sharing both capital and risks in agricultural enterprises. In this way, the *syirkah* agreement streamlines financing access for farmers, especially smallholders, who often struggle to secure loans from conventional financial institutions. The risk-sharing principle within the *syirkah* agreement also serves to shield farmers from excessive losses in uncertain agricultural circumstances. Moreover, *syirkah* financing fosters active farmer participation in their business decision-making processes, reinforcing the partnership between them and investors. Additionally, this model upholds principles of economic justice, which, in turn, can help address the economic disparities frequently observed in rural areas. Through the implementation of agricultural financing via the *syirkah* agreement, farmers can boost their productivity, enhance their well-being, and ultimately contribute to rural economic growth.

The replication of *syirkah* agreement-based financing innovations in various agricultural activities is anticipated to alleviate the problem of farmers' restricted access to financial resources. The implementation of the *syirkah* agreement in agricultural business practices mirrors the principles of economic justice in sharia law. The *syirkah* agreement permits the distribution of profits and losses as agreed upon, thereby preventing a single party from shouldering all the risks. Furthermore, this approach can stimulate more inclusive economic growth in rural areas by aiding small and medium-sized farmers in enhancing their productivity, consequently boosting the well-being of the local community.

From a social standpoint, the implementation of the *syirkah* agreement in various agricultural activities has the potential to cultivate a spirit of cooperation, mutual assistance, and community support among farmers and other community groups. Furthermore, the profit-sharing scheme employed can enhance the motivation and work ethic of the key participants and entrepreneurs who have earned trust from the *shahibul maal*. Additionally, from a spiritual perspective, the adoption of the *syirkah* agreement in agricultural activities encourages farmers to conduct their farming ventures in alignment with religious guidance by abstaining from conventional financing with usurious systems, potentially invoking blessings.

CONCLUSION

The implementation of the *syirkah* agreement in financing the RMU business managed by Gapoktan Lematang Indah represents an innovative solution for rural business activities. The adoption of this financing innovation in various other farming activities has the potential to serve as an engine for driving rural economic development. This model combines fundamental sharia principles of partnership, risk-sharing, and economic justice. As a result, farmers and investors can collaborate in RMU ventures without facing excessive financial burdens, and business risks are shared equitably. Consequently, the application of the *syirkah* agreement provides easier access to financing that supports RMU development, ultimately enhancing efficiency and productivity in rice processing. With this improvement, rural economies receive a significant boost, creating new employment opportunities, expanding local markets, and increasing the income of the local population.

The application of islamic financial principles, such as the *syirkah* agreement, in the agricultural sector can offer increased opportunities for farmers and rural entrepreneurs to collectively enhance their economic prospects and elevate their living standards. Furthermore, this approach aligns with the principles of financial inclusion and sustainable development, which are key focal points in constructing an equitable and sustainable economy.



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