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ISLAMIC FINANCING MECHANISM FOR SMALL MEDIUM ENTERPRISES IN AGRICULTURE SECTOR: A PROPOSED MODEL

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Abstract

This paper aims to discuss the construction of proposed model on the Islamic financing mechanism of Islamic banking system for the agriculture and small medium enterprises sector. A qualitative approach used in this study employing the Participatory Rural Approach and Focus Group Discussion using Triangle Microfinance Concept. The result shows that the synergy of the various sectors ranging from the central government through the Institute of relevant Ministries e.i Ministry of Finance Ministry of Agriculture, Local Government, Non-Profit (Zakat) Organization (BAZNAS/LAZ), Universities, Non-Government Organisations, Supporting Institutions i.e. Islamic agriculture Insurance, Islamic Financing Deposit Insurance, and Rating Agency need to be synergized. Additionally, the distrust of Islamic banking industry is found to allocate a financing to farmers and SMEs actors. Farmers and SMEs actors should be prepared through the empowerment in terms of skills, moral and financial literacy. Establishment of Agriculture Purpose Vehicle is urgent to support the flow of Islamic Financing as to solve the problem of off-farm agriculture, collateral, and positive cooperative relationship.This paper contributes to the bridge the gap between the regulator, Islamic bank's trust to farmers and SMEs development.

Keywords:*Agriculture Sector, SMEs, Islamic Financing, PRA,Islamic Microfinance Institutions*

INTRODUCTION

A stable and measurable economy is an important achievement in national economic practice. The Indonesian government through the highest authority in the economy and finance, namely Bank Indonesia and the Financial Services Authority (OJK) has facilitated various efforts to achieve these goals. The OJK's great mission includes creating financial services on a regular basis, fair, transparent, accountable, growing sustainably and stably, able to protect the interests of consumers and the communities, developing sharia banking for the benefit of society that has a wide reach touching the real sector and contributing optimally to the national economy . Islamic banking as an intermediary institution actively undertakes business development in various parts of Indonesia with an expansion strategy.

The unique features of Islamic finance through Islamic Banking institutions and Non-Islamic banks Institution are able to attract the public to emigrate and have an attachment in a broad sense. One unique product is Islamic financing based on profit sharing, cooperation, justice and help. The great potential of Islamic finance and banking can be seen from the beginning of 1992 until now. There was a significant surge in Islamic banking assets until the end of 2011 from 37,754 billion to 148,987 billion (OJK, 2012), and there was a development slowdown in 2012-2015, but the number of Islamic banks increased to 13 banks in 2016.

Based on data of the Central Statistics Board (BPS Indonesia) (2016) shows that the number of poor people in Indonesia reached 28.01 million, approximately 10.86% of the total population.

This amount is a warning to the government in ruling the state, especially for the stability of the national economy. The comparison of urban and rural poverty rates is inversely proportional. Urban poverty experienced a downward trend from 8.22% in September 2015 to 7.79%, while the rural poor population increased from 14.09% in September 2015 to 14.11% in March 2016. The data shows that poverty is greater in rural areas than in urban areas with professions core as farmers, fishermen, small-scale businesses and others. In this case, government policies on poverty alleviation are emphasized at the village level.

The agriculture sector is one of the backbones of the national economy as Indonesia is the largest agrarian country in the world. Gross Domestic Product (GDP) from the agriculture, livestock, forestry and fisheries on the basis of constant 2010 prices was 1.174.5 trillion in 2015 and 1.129.5 trillion in 2014 or experienced a growth of 3.98%. While the role of the agriculture sector in Indonesia's GDP in 2014 grew from 13.35% to 13.52%, which was ranked second, which had a contribution to GDP after the manufacturing sector was 20.84%.

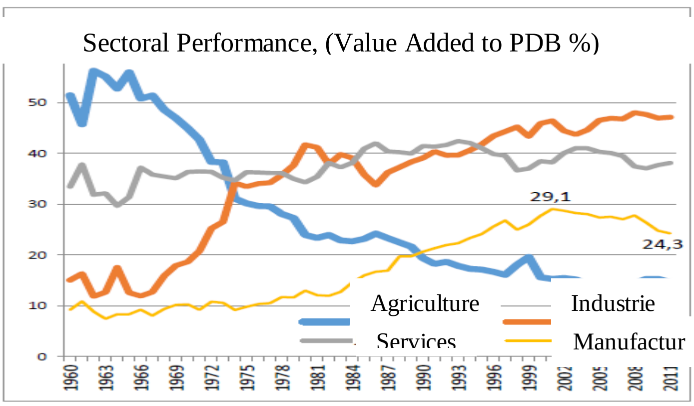
Table 1.1
Growth and Distribution of GDP by Business Sector 2013-2015 (%)

Business Sector		Growth Rate			Distribution		
		2013	2014	2015	2013	2014	2015
A	Agriculture, forestry and fisheries	4,20	4,42	4,02	13,36	13,36	13,52
B	Mining and excavation	2,53	0,72	-5,08	11,01	9,87	7,62
C	Processing industry	4,37	4,61	4,25	21,03	21,01	20,84
D	Procurement of electricity and gas	5,23	5.57	1,21	1,03	1,08	1,14
E	Water supply, garbage management, waste and recycling	3,32	5.87	7,17	0,08	0.07	0,07

Source: BPS (Data of Socio-Economic on July, 2016)

Amir (2014) stated that there had been a shift from the pattern of the Indonesian economy. In the past half century, the face of the national economy was initially based on agriculture into an industry-based economy. The contribution of the agricultural sector declined sharply from 56.3% in 1962 to 14.7% in 2011.

Figure 1.1
Shifting Sectoral Economy from Agriculture to Industrial (1960-2011)



Source: Amir (2014).

The priority work of the government of the Republic of Indonesia in 2014-2019 has the purpose of fulfilling sovereign food needs. Food sovereignty is translated in the form of the nation's ability in terms of: (1) fulfilling food needs from domestic production, (2) regulating food policy independently, and (3) protecting farmers as the main actors of food agriculture business (Ministry of Agriculture Strategic Planning 2015-2019). It is very clear, that the agricultural sector is given top priority in the Indonesian economy.

In addition to the agricultural sector, the Micro, Small and Medium Enterprises (MSMEs) sector has an important role in the pace of the national economy. The MSMEs sector aim to grow businesses in order to develop national economies based on equitable economic democracy. This sector is able to provide employment opportunities, broad economic services to the public and play a role in the process of equity and increase community income and encourage economic growth and national stability. In 2013, MSMEs contributed 55.6% of GDP to 673.9 trillion of total GDP growth. Investment value of 640.4 trillion or 52.9% of the total value of national investment comes from MSMEs. this shows that MSMEs have a significant contribution to the national economy.

On the other hand, business players in the agricultural sector and MSMEs have faced a major obstacle, namely the problem of capital and access (Ratnawati, 2009 in Ashari, 2009, Hidayat, 2009, and Beik, 2012). Both sectors have similarities in some characteristics such as business actors, scale and risk. The agricultural sector is considered to have a high risk, so that financial institutions have less tendency to channel funds to them. Syukur, et al (2000) identified the agricultural sector credit risk mitigation; (1) the determination of interest is quite high, (2) high selectivity, only in high value commodities, (3) more as channeling of government credit programs. Therefore, not all actors in the agricultural sector are easy to access the capital, especially food crops or organic farming that often experience a risk of harvesting season.

The Government conducts various programs to solve their capital problems. the government programs such as Farmer Credit Enterprises (KUT), Food and Energy Security Loans (KKP-E), People's Business Credit (KUR), Cattle Breeding Loans, PartnershipProgram and Community Development (PKBL), Micro and Small Business Loans (KUMK) and others, are deemed not yet to solve these problems. The interest rate system is still applied through the distribution of conventional state-owned banks. Even the above programs contribute in reverse to the determination of interest, which results in arrears in farm loans, or small businesses that are unable to repay them. The interest set ranges from 6-7%.

Reflecting on the problems above, a solution is needed to unravel the problem. Islamic banking offers sharia-based financing. based on a minimum of 3 things, including: (1) interest free, interest waived to uphold justice between transactors, (2) principle of profit sharing and loss (loss-profit sharing), this system is very suitable for farming and MSMEs, where the results will be shared with the profit or loss borne, (3) profits are distributed at the end of the business, in line with the principle of justice that profits are shared after seeing the results of the money (Ashari & Saptana, 2005). The Islamic financing philosophy has characteristics including; monotheism, justice, balance, freedom, trust and responsibility (Hafidhiddin & Syukur, 2008)

The reluctance of formal financial institutions to look at and plunge in the agricultural sector industry and MSMEs are funded with a minimum of 5 things, namely, (1) lack of financial capital, generally capital ownership is individual / family, closed, use of own resources, small scale, illegal status and infrastructure constraints, (2) limited lack of accessibility, non-smooth access to financing from financial institutions due to administrative and technical requirements such as the inclusion of financing collateral, (3) lack of collateral, insurance coverage what is required by financial institutions is an obstacle for Microfinance Institutions to get cash flow, (4) lack of management and information technology (IT) support , low competency for governance, and less able to adopt the latest technology

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to improve competitiveness and access to consumers at large, (5) poor business networks and low market penetration, low market orientation, domestic market, weak competition with limited product numbers and less competitive quality and lack of marketing infrastructure such as promotions and others (Field Visit, 2014).

Furthermore, the Islamic banking industry, both Islamic banks and Islamic business units have taken a role to contribute to fulfill the needs of financial services for farmers and micro-small businesses. Recorded in sharia banking statistics until the end of May 2016, the financing of sharia BUS or UUS for the agriculture, hunting and forestry sectors was only 7.757 billion worth 3.56% of the total financing. As for MSMEs, Islamic banking is able to contribute 22.89% of the total financing available. This is still recorded with a small number when compared to the national scale, with only Islamic banking assets only around 4-5% of total banking assets in Indonesia.

Table 1.2
MSME Financing by Islamic Commercial Banks – Islamic Business Unit (Billions of Rupiah)

Type of Usage and Business Category	2014	2015	2016
	Dec	Dec	Mei
1. Working Capital	77,935	79,949	80,224
a. MSME	40,205	33,382	33,208
b. Non- MSME	37,729	46,567	47,016
2. Investment	41,718	51,690	52,409
a. MSME	19,600	16,909	16,675
b. Non- MSME	22,118	34,781	35,734
3. Consumtion (Non- MSME)	79,677	81,357	85,225
Total Financing	**199,330**	**212,996**	**217,858**

Source: Statistics of Islamic Banking, OJK (May, 2016)

Financing of Islamic banking in the agricultural sector and MSMEs is still in a small number, therefore a model is needed to bridge Islamic banking to be able to access further every layer of small and medium-sized society. Various models are offered to reach the wider community, such as linkage models from banks to levels below such as Islamic Rurals Financing Banks (BPRS), Baitul Maal wa Tamwil (BMT), Islamic Financial Services Cooperatives (KJKS) and others. The financing model that occurs in practice uses three types of linkage models, namely: executing, channeling and joint financing. Ministry of Cooperatives and Small and Medium Enterprises Regulation No. 03 / Per / M.KUKM / III / 2009 describes the rules of the game for banks (commercial banks) that do the type of the linkage model.

The problem frequently occurs in the linkage program is the distrust that happens on one side. This distrust arises because several factors emerge, such as the demand for guarantees with the increase of funds flowed. the guarantees required are in the form of physical guarantees which cause the inability of the Islamic microfinance institutions (IMFI) to provide them. This is what triggers distrust is the professionalism of IMFI which is considered less accountable, credible, inadequate human resources and so on. In addition to distrust, internal and external factors become its own constraints.

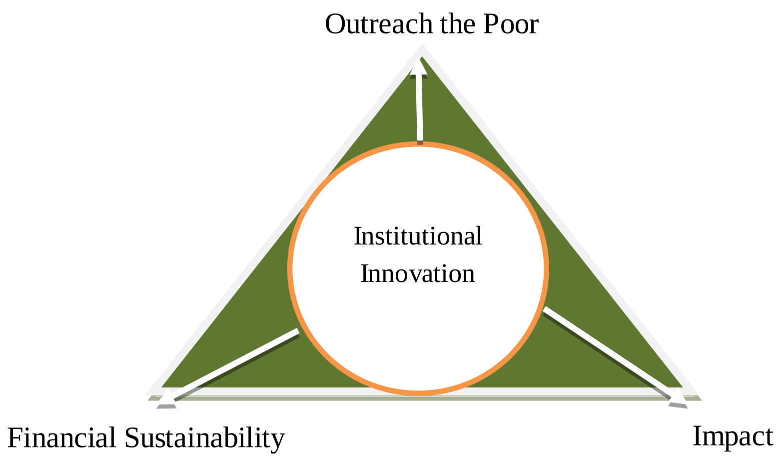
A comprehensive grand design model is needed to accommodate the needs from upstream to downstream, from the government, intermediaries (financial institutions), sub-intermediaries (Islamic microfinance institutions) to the people in the agricultural sector business and MSMEs. This paper aims to develop a integration model of Islamic finance as a solution to the problems of the agricultural sector and MSMEs.

RESEARCH METHOD

In line with research objective, a qualitative approach is applied. According to Merriam (2009), qualitative research allows researchers to understand how people interpret their experiences, how they build their world and interpret their attributes to their own experiences.The selection of qualitative research methodology can explain further and deeper on the ability to produce comprehensive information to find out how far the role of government and institutional integration, regulation and connectivity among Islamic banking industry players. Given that, the short answer to structured questions will not be able to provide the full information needed in-depth.Information to adequately assess existing problems can be achieved by semi-structure interviews (Weischedel et al., 2005).By using participatory action reseach, qualitative features of individual feelings, views, and patterns are expressed without the control or manipulation of the researcher (MacDonald, 2012)

This study uses a qualitative approach with the Participatory Rural Appraisal (PRA) technique found by Chambers (1994). The PRA describes a growing family (community) of an approach and method to make local people to share, improve and analyze their knowledge of life and conditions, then they can plan and implement it. This PRA can be used for participatory research activities, agrosystem analysis, applied anthropology, field research on agricultural systems and rapid rural appraisal (RRA). This PRA can reveal the complexity, diversity and rationality of many irregular and unsistematic events in agricultural practice. The steps presented by Chambers (1994) have 30 detailed steps but in this study are summarized into 9 major steps including; Secondary resources, Semi-structured (in-depth) Interview, key informants, Group of variants types, Participatory of secondary and maping models, participatory linkage diagramming, Institutional "Chapati" diagrams, Short timings of standard schedules and lastly by writing a report. The PRA is synergized with the triangel microfinance theory by Zeler & Meyer (2002) illustrated in the figure below.

Figure 2.1
The Triangel Microfinance



Source: Zeler & Meyer (2002)

Field visits were conducted in 2014 and 2015 on the island of Java. Two regions in Central Java, namely Pati and Demak Regencies, West Java in Bogor and Subang Regencies, East Java, namely in Pasuruan Regency, Sidogiri. In addition to farmers and MSME players, Indepth interviews were also conducted to Regulators (OJK), Islamic Bank Practitioners, BPRS and BMT.

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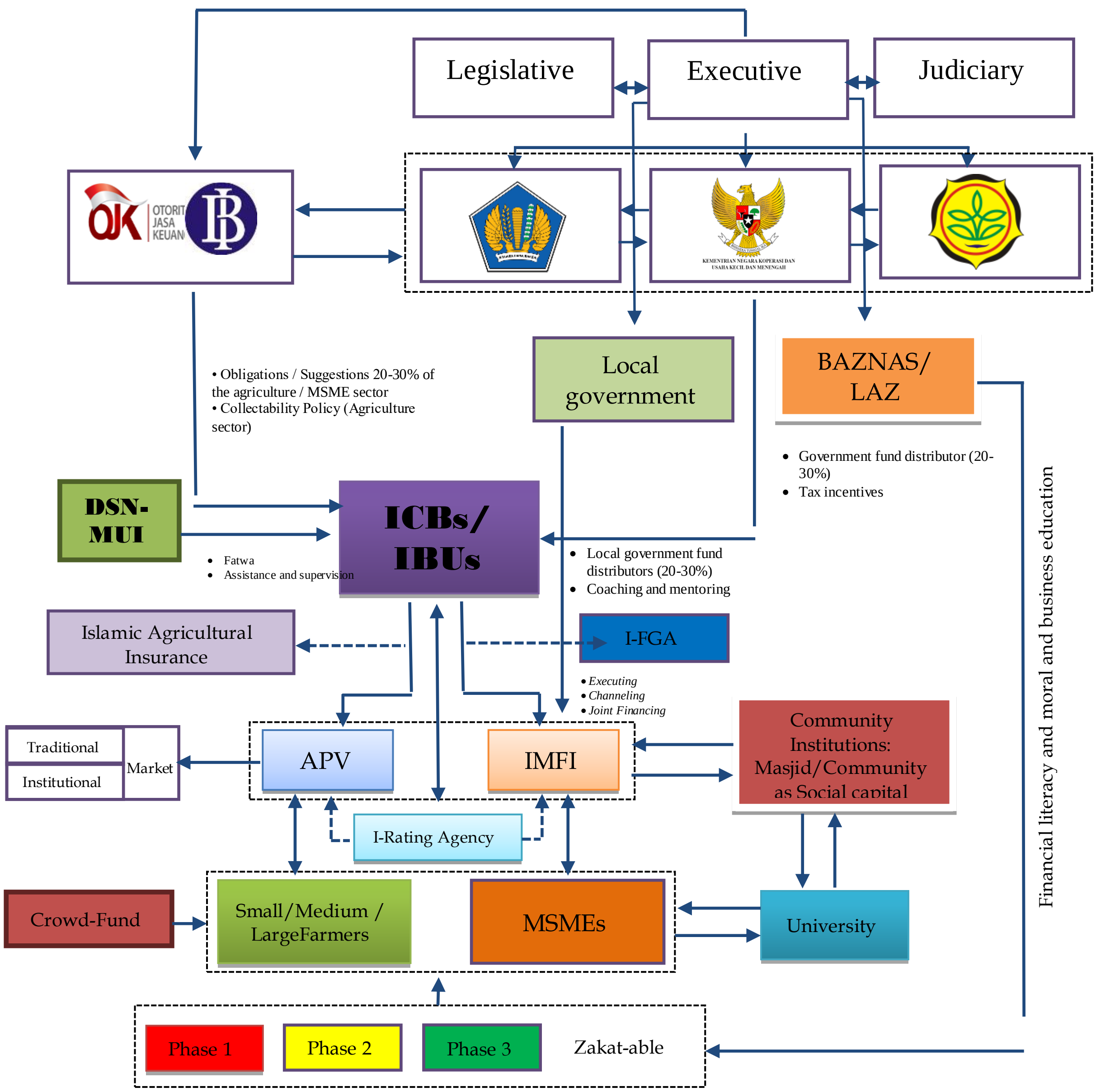
RESULTS AND DISCUSSION

Strengthening the Integration of the Role of the Government in the Development of Sharia Banking: From the Authority to the Bottom-Line Business Actors

Strategic issues were identified to develop an integrated model of government, authority, actors of sharia financial institutions), IMFI and ended with grassroots business actors both agriculture and small and medium enterprises. The scheme to strengthen the role of government in the Islamic banking industry can be seen in Figure 3 as follows;

Figure 3.1
Integration Model of Financing mechanism and strengthening of MSMEs and Agriculture Sector



The diagram is obtained through the PRA process with 9 major steps. All elements are formulated to be able to explain and describe in detail the conditions and conditions of capital, financing and work procedures of the strengthening model for the SME and agriculture sectors. Explanation of the diagram above is as follows:

1. *Policy Authority holder*

At the highest level, the highest level of regulatory authority is the legislative which consists of the DPR and MPR, the Executive namely the President and the Judiciary are the Supreme Court, MK and KY. The parties directly involved are the central government consisting of the Ministry of Agriculture, the Ministry of Cooperatives and SMEs and the Ministry of Finance and local governments. On the other hand, the financial authority is held by the Financial Services Authority (OJK). These three parties must play a role with policies that encourage the development of Islamic banking financing for the agricultural sector and MSMEs. It is expected that the Ministry of Agriculture provides a policy in the form of channeling 20-30% of government funds to the agricultural sector to Islamic banking as a channeling program.

Islamic banking is involved to channel funds in order to facilitate the flow and to become Ministry of Agriculture partners for the development of the agricultural sector. Counseling farmers, saprotan assistance and so on is still encouraged to support the bottom line, namely farmers in implementing grass root technicalities. Likewise for the Ministry of Cooperatives and SMEs as the regulator that oversees cooperatives. As it is known, that almost all cooperative IMFI are both BMT and KJKS. On the other hand, the Ministry of Cooperatives and Small and Medium Enterprises is the companion partner for small entrepreneurship activities in the lower middle class. The Ministry of Finance through the Tax Directorate provides tax incentives to both Islamic and conventional banks that carry out special financing for the agricultural sector and MSMEs.

OJK in this case encourages Islamic banks to collaborate in channel financing of at least 20-30% of the total financing from the bank for the agricultural sector and MSMEs. In addition to recommending or appealing for this, OJK is expected to provide a specific policy in the form of loosening the level of collectibility of payments to Islamic banks that finance specifically the agricultural sector. When Islamic banks are able to make adjustments to the level of collectibility of financing, the level of health for the bank can be considered good. This is driven by the nature of business in the agricultural sector. The uniqueness of payment at harvest needs to be addressed with regulations that accommodate this narrative. The three parties collaborate by supporting each other in harmonious regulations. Good coordination will facilitate the rate of development of Islamic financing for these two important sectors. The government also plays an important role to initiate regulation, this can be in the form of presidential decree for cross-sector coordination to achieve one of the goals namely food sovereignty and state independence.

2. *Intermediary Institution : Islamic Banks and Non-Bank Institutions*

Intermediaries listed in the model diagram are Islamic Banks, Islamic Micro Finance Institutions (IMFIs) and Agriculture Purpose Vehicle (APV). Islamic charge is supported to participate in financing by having the competences (CIBEST, 2014), those are;

a. *Financial stability,* where Islamic banks must be able to reach the level of financial stability. The bank enables to provide services to the general public on an ongoing basis, not relying on government subsidy or any distribution program. When Islamic banks have been able to channel financing to the agricultural sector and MSMEs, businesses can run stably and not stagnate. When the business is running, and there is a capital blockage, those who will be harmed are related business field actors.

b. Welfare impact oriented, which intends to expand public benefits, does not significantly focus on profit orientation. When orienting for public welfare, Islamic banks are encouraged to create product innovations that are directed at the needs of the community as a whole.
c. Human resource business Segment, Islamic banks are expected to know very well the business core that is being carried out by business people. Along with understanding human resources on the agricultural sector and MSMEs, the potential for moral hazard, default, and other errors have been well mitigated. Coaching, training and up-grading of human resources in the agricultural sector and MSMEs are very supportive of future success.
d. Good Image by trust, a good perception by the general public towards Islamic banks through maintaining trust is an absolute requirement that must be possessed.
e. Product differentiation, creating products that have special value and distinctiveness makes a differentiation that will attract customers. The products offered vary with the practicality and friendliness of the agricultural sector and MSME customers.
f. Infrastructure, to reach the agricultural sector and MSMEs which in fact are rural, good infrastructure is needed with wide coverage. Customer comfort can be achieved by offering strong and adequate infrastructure such as KCP and cash offices in the country.
g. Social Capital, to solve the problem of collateral, social capital can be a solution to be improved through existing communities. Farmers' associations and small proposals can be collaborated to strengthen the financing process and reduce NPF levels in the future. The rural social structure is known to be thicker than urban so this makes it unique to be a back-up of financing.
h. Collaboration, in this case, the linkage model must be operated into IMFIs which are at the forefront of the layers of the peasant community and MSMEs. Linkage is expected in the form of channeling, executing and joint financing. Channeling is done between Islamic banks to IMFIs in the form of BPRS, BMT, KJKS or other forms. Determination of an appropriate contract is an important factor in the success of financing the agricultural sector and MSMEs. While Executing is able to be done when the financing process that has been carried out by certain IMFI to customers who do have a good track record. Data from competent customers in doing business from IMFIs is a reference by Islamic banks to carry out executing via the IMFIs. The weakness of data by IMFIs is one of the obstacles in the executing process. Joint financing can be made to a particular project within the scope of the IMFIs area. Such as rice commodities in the area of rice producers with estimated harvest values based on annual habits, and this can be done in other commodities such as coffee, cacao, palawija and others.
i. Competitive Cost Product, pricing on the linkage model needs to be calculated properly. The advantages for IMFIs and APV also need to be taken into account, so that the cost of the product does not soar.

IMFIs can be in the form of BPRS, BMT, KJKS or other forms. As for qualifications for IMFI, it is similar to Islamic banks, focusing on trusted institutions, social capital, and welfare oriented. Agricultural sector and MSME customers will be easily hooked when high confidence from IMFIs appears on the surface of the wider community. On the other hand, the APV that appears in the model is a modification of SPV in sukuk as Hafidhuddin (2015) points out. APV here acts as a bridging institution between Islamic Commercial Banks (ICB)/ Islamic Business Unit (IBU) to customers, guarantor institutions (sharia agriculture insurance) and markets. The APV will optimize with the support of the government in the form of legal clarity for APV. APV can be in the form of a Islamic Financial Institution under the ICB/IBU (linkage partner), the Company, a Limited Company (Ltd), or a consortium of several Islamic financial Institutions to come to the agricultural business.

APV in this case more freely its role and function than APV in sukuk issuance, APV in the agricultural sector serves to bridge four directly related parties, namely BUS / UUS, agricultural sector businessmen, both institutional markets such as bulog, international markets and traditional and guarantor institutions in the form of agricultural insurance. This APV will connect the BUS to farmers and the market, so that the BUS does not experience difficulties to sell which commodities are harvested to which markets, APV becomes a partner on two sides, the side as a distributor and becomes an agent for sales.

In addition, APV can also be a collateral-providing institution from farmers to Islamic commercial banks or Islamic business units where constraints on collateral limitations can be resolved. Then, APV has a significant role for farmers in the form of collective premium payments to the guarantor institution (agricultural insurance), it will greatly facilitate farmers to get easier facilities.

3. Lower Business Actors: farmers and MSMEs

The qualifications of farmers who can become customers of the Islamic financing integration model are definitely those who become local IMFIs customers. There are two types of farmers, namely landowner farmers and land cultivators. The results of the field visit (Central, east and West Java) showed that the type of landowner farmers were rare, they have rented their land to farmers who were ready to work on the land. Farmers who did farming are mostly land cultivators. Some characteristics that requirements to be considered are;

a. Farmers Character, it becomes the main foundation for financing allocation. This character can be revealed from the track record in the community, and IMFIs where he become a customer. BUS cannot directly access farmers with good and bad characters, so IMFI is expected to be able to support the data of farmers with a persistent, diligent, honest and trustworthy character. The failure of the KUT program promoted by the government was the assumption of the farmers that the KUT fund was a gift that did not need to be returned, and the lack of assistance related to the financial literacy to succeed the program.
b. Business capability, It is an important factor in financing distribution. Excellent farmers will be able to create maximum opportunities to achieve optimum results. An expertise of agricultural knowledge will support the smooth process of financing.
c. Recorded in IMFIs/community/association/Agribusiness Microfinance Institution, financing customers are prioritized in IMFI records or become permanent members of the local IMFI so that it is easy to handle management and collateral loss. In addition to the agricultural community approach, customers can also get from community communities, such as being a congregation of a mosque, other community associations that have good credibility in the eyes of the local community. This can replace the physical collateral which is often included to be a financing requirement. Capital social can be a collateral with a beginner stage, or the lowest level of financing, as happened in the As-Salam Demak BMT customer, which is five million below.
d. Farm scale, with grouping into 3, namely; small-scale farmers with two groups of micro-farmers ranging from 1-5 million and small farmers ranging from 5-10 million, medium scale farmers ranging from 10-50 million and large-scale farmers / companies starting 50 million and above. This grouping is to facilitate targets and more efficient management for the practice.

Furthermore, MSMEs that are eligible to become financing customers are categorized as micorbankable, in the sense that those who have passed the category of community empowerment phases are carried out by non-profit organizations / social organizations / NGOs such as BAZNAS / LAZ, small business community and so on. It is also not true for farmers, empowerment 1 is for those who are at the absolute mustahik level or recipients of zakat, infaq and shadaqah in the asnaf priority, while phase 2 empowerment is those who are starting an independent business start-up with assistance and financial support from funds ZIS and crowd-fund. Phase 3 dissemination, are those who are classified as MSMEs in the business expansion, able to access financing with existing businesses. There are currently more than 57 million MSMEs in Indonesia, and only a small percentage of them are able to access Islamic finance. This is because the weak access that can be received by these MSMEs, BAZNAS / LAZ and other NGOs will facilitate Islamic banking to channel financing to decent and competent MSMEs.

4. Supporting Institutions

To expand the expansion and acceleration of Islamic Financing to sector ageiculture and MSMEs, it is necessary to optimize existing institutions and also encourage the initiation of the formation of new institutions, these institutions are:

a. National ShariaCouncil –Council of Indonesian Islamic Scholar (DSN – MUI)
   All the validity of the business contract carried out by Islamic banks must be based on the DSN-MUI fatwa. This fatwa is binding on all institutions and individuals who conduct transactions in Indonesia. The role of the MUI is strengthened by a legitimacy from the government, namely the special regulation or Perpres related to the binding of transactions in the sharia financial industry environment, both banks and non-banks must refer to the DSN-MUI fatwa.
b. Islamic Financing Guarantee Agency (I-FGA)
   This institution is a guarantor institution for Islamic financing carried out by Islamic Commercial Banks or Islamic business units to IMFI in both channeling, executing and joint financing linkage programs. This institution is actually a modification of the conventional Guarantee Institution in the form of jamkrindo. The flexibility of this LPPS is able to provide guarantees in the form of intangible assets included by IMFI to BUS. This is in the form of IMFI's good reputation through a stable track record and financial report. The LPPS is expected to be able to attract Islamic Commercial Banks or Islamic business units for business expansion to the MSME sector with Islamic financing.
c. Islamic Agricultural Insurance
   The government has launched an agricultural insurance program which is considered very beneficial for the development of agricultural financing. This is to anticipate risks that arise such as crop failure and others. The government is expected to provide subsidy schemes for farmers, such as 70% covered by the government and 30% contribution from farmers. Agricultural Insurance is considered able to attract Islamic banking LKS to enter the agricultural sector. To facilitate the mechanism for collecting donations, APVs can be representatives of farmers to collect with the Agricultural Insurance, while the APV can become an agent of the insurance, synchronize the data of farmers, and also apply for the disbursement of claims from Agricultural Insurance Agency to farmers. Mutual relations will be intertwined with each other.
d. Community Institutionsor NGOs
   The support of Community Institutions or NGOs needs to be encouraged. Community institutions are unique social structures that exist in rural communities. This institution can be based on mosques, pesantren, regular weekly studies with local actors, community with good credibility and so on. IMFI will be easier to capture farmers and MSME customers with the

help of community institutions as mentioned above. For example, the mosque congregation or the study of pesantren who are diligent and diligent in following the study into capital to get financing from IMFI, or the congregation remains the morning prayer of a mosque will be a priority to be a customer. this institution works as a social capital and guarantor remains in the financing process for the initial level.

e. Universities or Higher Education level
Universities are expected to have a role in customer assistance and preparation. Universities with participation in empowering farmers and MSMEs can minimaze moral hazard issues which are often a separate mathematical problem. In addition, universities can provide education in the form of skills and financial literacy for prospective customers and customers of the agricultural sector and MSMEs. So far, University has only conducted a field education model in the form of real work lectures with student placement and learning for the community. In fact, people with expectations that university with students sent can provide a positive color with counseling or short training related to the competence of the area. For example, the agricultural area is expected to provide complete information to students and experts and lecturers can provide solutions to the community.

f. Islamic Rating Agency
This institution is expected to be built to make it easier for BUS / UUS to fund linkage models to IMFI or APV below to become partners. Stratafication or ratings for LMKS and APVs are expected to encourage IMFI and APV to improve performance and meet standards. Like in sukuk and bonds, this rating becomes an independent institution that provides value objectively, and likewise for rating agencies for IMFI and APV. Islamic microfinance institutions in Indonesia such as BMT have been gathered to the BMT Association which makes the related BMT eligible to be a partner in the linkage program. A holistic ranking is not only based on the performance of the financial statements, but also on the social aspects of the social order.

g. Crowd-Funding community (Financial technology)
This community has developed a lot in Indonesia and other countries, which focus on social activities, education and health. It is also inevitable that the business sector is one of the concerns in theword-funding community. Capital owners voluntarily provide capital with very easy terms. This capital is in the form of cash which is expected to be able to become a business start-up for both the agricultural and MSME sectors.

5.Conformity of Contract

The selection of a contract will be the core key in Islamic financing. Contract options that occur can be attributed to the Islamic bank or Islamic Business Unit with IMFIs, Islamic I-FGA and forwarded to MSME customers, Islamic Commercial Banks or Islamic Business Units with APV and continued to agricultural customers and agricultural insurance. The contract that can be developed from the Islamic bank or Islamic Business Unit to APV are*mudharabah bis salam, musyarakah bis salam atau wakalah bis salam*.

Between Islamic banks or Islamic Business Units with APV using mudharabah, where ICB and IBU acts as *shahibul maal* and APV as its mudarib. If the second contract is used, the Islamic Commercial Bank or Islamic Business Unit and SAV contribute funds and management according to the rules of the Musharaka agreement. Whereas if the third contract is used, then SAV becomes the representative of the Islamic bank or Islamic Business Unit in financing farmers. While between APV and farmers used the greeting contract. Thus, there is a guarantee that farmers will hand over their crops to APV and not to parties other than APV.

The selection of Salam contract in agriculture is a special characteristic given by the Prophet to the agricultural sector related to food. The Apostle gives flexibility to greetings when goods are not available and in the provision of special expertise.While APV with farmers can be developed through a contract of *mudharabah bil murabahah, musyarakah bil murabahah maupun wakalah bil murabahah* or murabahah paid upon harvest (yarnen). For the provision of agricultural facilities and infrastructure, it can also use murabahah paid upon the harvest because farmers will pay when the harvest arrives.

Related contracts for Islamic banks or Islamic Business Units with IMFIs in small and medium micro enterprises can use mudaraba, musyarakah or murabahah. It is expected to use two contracts in the future as a profit-loss sharing contract in joint capital, and it does not encourage the murabahah sale and purchase contract. Murabahah must be adjusted to the detailed provisions by the MUI and not violate the terms and conditions.

Mapping Strategic Issues in Strengthening Islamic Banking Financing

Mapping on issues and callanges obtained from desk study, field visits, in-depth interviews and FGDcould be done to produce an integrated model. Islamic banking financing strategies can be formulated from strategic issues, including:

1. Qualifications of Business Actors: Superior qualified farmers are a priority. The provisions of farmers to be able to become customers are determined not only on the basis of collateral, but more on social capital in the form of supporting data from the nearest IMFI, as well as other parties such as local community leaders. Moral Hazard must be put forward to avoid repayment problems at the end of financing, both for agricultural business and MSMEs. The main capital is to provide the best performance to become a trust which is basically more basic Islamic financing to trust.
2. The Conformity of Contract, the contract selected must be in accordance with the nature of the business. The agricultural sector certainly cannot pay in installments every month, because harvests can be harvested at 3-4 months from plants. Then it is necessary to modify the contract, as well as murabahah yarnen (pay harvest). On the other hand, there is a need for concessions from the regulators not to specify call conditions 1, 2, 3 for cases of agricultural fees that are in nature needing time.
3. Types of agriculture business and Micro, Small &Medium Enterprises: the agricultural sector, are divided into two types, namely food crops and annual (seasonal). Food crops consist of several commodities such as; rice, corn, sugar cane, and others. Annual crops as well; coffee, kakau, clove, rubber, palm and so on. For this reason, it is important to ascertain the type of farming that can be financed. The same is true for MSMEs, having a business type variant. It is necessary to ascertain the form of the business, for example; catering businesses, handicrafts, small industries, making complementary foods and others. value commodities will also determine the financing.
4. The capital problems of IMFIs related to the low level of third parties and guarantees, need to be formulated an effort to strengthen the capital of MFIs that finance farming and MSMEs. Support can be done with channeling or joint financing linkage. As for executing, it is too risky due to lack of knowledge from the Islamic bank on the character of the customer and also minimal collateral.
5. The mechanism of financing, payment and supervision must be adjusted to the typical farming conditions and the nature of the MSME.
6. Regulatory aspects that impede, existing regulations still consider farming to be the same as other businesses so that it inhibits. Therefore, it needs to be considered to issue policies that are in accordance with particular farming.

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7. Institutional aspects, especially partnerships between financial institutions in a more credible and accountable and professional manner.
8. Affirmative policy, a policy that can encourage financing institutions to increase financing for food crop agriculture is needed. Considering the current financing for the food crop agriculture sector carried out by financial institutions is still very low. Such as reviewing specifically for financing the agricultural sector, the level of banking callability can be loosened so that it is not subject to bank health thresholds. Supporting regulations are also needed, such as pulling of funds from each existing contract, so there is no mixing between contracts that should be separated from each other. With this separation, Islamic banking can grow naturally as stipulated in the Sharia contract, namely by nature.

CONCLUSION

The study strengthens the role of the government in the development of the islamic banking industry. It concludes that collaboration is required from various sides, starting from the government, authority, bank and non-bank sharia financial institutions, business actors as grass root level, or in terms of top-down and buttom- up there is strong synergy. The Government through the ministry consists of the Ministry of Agriculture, the Ministry of Cooperatives and Small and Medium Enterprises, and the Ministry of Finance collaborates and coordinates across sectors to produce harmonious policies and support the development of Islamic finance for the agricultural sector and MSMEs. The policy of encouragement to channel 20-30% of ministry funds to both sectors is to support the acceleration and sustainable development. Then issue policies related to supporting institutions such as Islamic agriculture insurance, Islamic insurance guarantee institutions, rating agencies and university participation in community empowerment in the broadest sense.

Banking and Non-Islamic Banks should look at agriculture and MSMEs, considering both sectors are the backbone of the country'sy and real sector-based. Linkage program is one of the best distribution strategies by escorting and conditioning econom sharia financing as well as possible.

New institutions are encouraged to be established such as the Agriculture Purpose Vehicle and Rating Agency to facilitate the pace of Islamic financing well. APV becomes a mediation between Islamic Commercial Banks with farmers, markets, and agricultural insurance. Farmers' constraints in distributing their products will be resolved with APV as a bridge for traditional and institutional markets such as bulog and others. On the other hand, APV helps banks to channel funds with broader provisions in the agricultural sector.

Finally, BAZNAS / LAZ, NGOs and Universities are expected to be able to synergize to contribute in the form of broad community empowerment. BAZNAS / LAZ with ZISWAF-style empowerment is expected to stage farmers and poor MSME actors who are categorized as empowering 1.2 and 3. NGOs, too, are expected to be able to become social capital-based mosques, pesantren, associations and other social institutions. While the Higher Education can optimize the Tri Darma of higher education in the aspect of community service by providing solutions and real contributions to the community.

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