The Application of Sukuk Mudharabah and Sukuk Salam for Agricultural Sector Development in Indonesia

Irfan Nurfalah

Agriculture sector has a strategic and important role for Indonesia's economic growth. The accrued problems are lack of capital for developing this sector, agriculture modernism, uncommitted human resources and ignorance of farmer's welfare. At the same time, the development of sukuk develops rapidly in the world. Sukuk is used for financing all aspects that are needed into finance. So, this is such an opportunity for Indonesia to integrate sukuk for financing in developing agriculture sector in Indonesia. This paper proposes some concept of financing for developing agriculture sector with mudharabah sukuk and salam sukuk. This concept may achieve many capitals for agriculture in Indonesia. Because except the fund achieved for sukuk, the government also gives the budget allocation for this sector. Thus it, the capital problem such as technology, excellent seed, fertilizer, infrastructure, marketing and many other problems may overcome soon.

Keywords: Agriculture; Indonesia; Mudharabah sukuk; Salam sukuk
INTRODUCTION

Indonesia is an archipelago with a variety of natural resources. From Sabang in Aceh with agricultural potential that supports the community's economy to Merauke in Papua with mining potential that contributes more than 50% of Papua's economy. If detailed again there are still many hidden potentials of the State of Indonesia. But unfortunately, the potential that has promising opportunities is not well cared for and managed, so that the potential is not channeled. Especially in the field of agriculture, the agricultural sector is the most vital sector among all sectors of economic support, because this sector is related to the consumption of primary needs of the lower, middle and upper classes. So, agriculture should be the main pillar of the Indonesian economy, because Indonesia is an agrarian country. In addition, Indonesia is also a country with the second highest level of biodiversity after Brazil (Hitipeuw, 2011). This can be used as a reason that Indonesia with its tropical climate has a good level of soil fertility for farming.

With this evidence, Indonesia should be able to utilize its advantages with good agricultural system management in terms of capital or technology. So that Indonesia can be self-sufficient in food and even achieve national food security. Around 1980, Indonesia was able to prove this with food self-sufficiency, especially rice, even at that time the World Food Organization (FAO) gave a special award to the Indonesian government. However, this did not last long after more than two decades passed, the food self-sufficiency that the whole country was once proud of is now gone. Indonesia seems to have lost the energy to achieve food self-sufficiency again. Compared to the 1980s, today's agricultural technologies are more sophisticated and capital is easier to obtain.

The Indonesian government's inability to maintain the strength of the agricultural sector is partly due to the lack of clarity of government policy in deciding the direction of the Indonesian economy. Policies continue to change with the change of leadership, causing the direction of the economy which is supported by the agricultural sector as the main support to rely on the industrial sector as a substitute for the agricultural sector. Even though the goals in the agricultural sector have not been fully achieved, but have turned to other sectors that are predicted to be more promising.

In reality, the predicted better sector did not make Indonesia better, instead it backfired on Indonesia. The sidelined agricultural sector has become one of the triggering factors for the country's inflation or deflation. In addition, food shortages are solved by imports, causing Indonesia's trade balance to be in deficit. It is time for the government to think long term to solve these problems. The author innovates in solving this agricultural problem by using Islamic capital market instruments, namely sukuk.

The development of sukuk in the world is increasing rapidly, sukuk has become an alternative financing for all sectors and has even become the main source of financing capital. Since the first sukuk was issued by Bahrain, sukuk has become a boom and spread throughout the country. Even countries that are Muslim minority also apply sukuk in project financing to support their economy and beat Muslim majority countries in the issuance of sukuk. Examples of countries that have issued sukuk as effective financing capital are the United Kingdom, France, Germany, Bahrain, Qatar, Pakistan, South Korea, Japan, Hong Kong, Singapore, Malaysia and others. But among the many sukuk issuing countries, Malaysia dominates the global sukuk market share of 80%. While Indonesia occupies the fourth position with a percentage of 4.8% after Saudi Arabia 9.1% and the United Arab Emirates 5.3% (IFN, 2012). With a large market share, Malaysia has become a barometer of world sukuk issuance.

Sukuk are divided into several types including: sukuk murabahah, sukuk mudharabah, sukuk salam, sukuk istishna, sukuk ijarah, sukuk musyarakah, hybrid sukuk and others. The most commonly used by Indonesia is sukuk ijarah because the risk is lighter and the distribution of margins is more profitable. Meanwhile, other types of sukuk are still rarely used in Indonesia and there are even types of sukuk that have never been issued. In contrast to Malaysia, almost every type of sukuk has been issued and the most widely issued sukuk in Malaysia is sukuk musyarakah with a percentage of 58%, then sukuk murabahah with a percentage of 19%, for sukuk ijarah the percentage is 11%, sukuk istishna has a percentage of 9%, sukuk salam 2% and finally sukuk mudharabah 1% (Malaysian ICM Quarterly, 2008).

From this percentage, it is clear that the issuance of sukuk in Malaysia is dominated by musyarakah sukuk while the salam sukuk and mudharabah sukuk have a low percentage. This proves that the use of the two sukuk is still less desirable. So, this is an interesting issue for the author to research what are the causes of the low use of sukuk salam and sukuk mudharabah and whether these two types of sukuk have the possibility to be applied in Indonesia, especially for real sector financing in agriculture. If it can be applied, what are the examples of applications that are in accordance with the conditions of agriculture in Indonesia. Therefore, the research objectives in this study are: (1) Knowing the factors of agricultural problems in Indonesia; (2) Knowing the concept of sukuk mudharabah and sukuk salam to encourage agricultural development in Indonesia.
LITERATURE REVIEW

The term sukuk is an adopted word from Arabic, namely 'sakk' which means certificate. Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) defines sukuk as equal-value certificates that are proof of undistributed ownership of an asset, benefit rights and services or ownership of certain investment projects or activities (Huda & Heykal, 2010).

The National Shari'ah Council (DSN) of the Indonesian Ulema Council (MUI) defines sukuk as a long-term security based on shari'ah principles issued by the Issuer to Sukuk holders which requires the Issuer to pay income to Sukuk holders in the form of profit sharing / margin / fee and repay sukuk funds at maturity.

The Capital Market and Financial Institutions Supervisory Agency (Bappepam-LK) defines sukuk as sharia securities or proof of ownership that is equal in value and represents an integral or undivided participation in the ownership of certain tangible assets, the value of benefits and services of certain project assets or certain investment activities, or ownership of certain project assets or certain investment activities (Bappepam-LK, 2009).

According to the Directorate of Islamic Financing of the Ministry of Finance, sukuk is a certificate of equal value that represents undistributed ownership of a tangible asset, the value of benefits (usufruct), or ownership of assets from certain projects or certain investment activities and sukuk does not provide interest but rather rewards, margins or profit sharing and the issuance of sukuk requires an underlying asset so that it is completely safe from usury.

From these definitions, it can be concluded that sukuk is a valuable capital market securities instrument issued by the Issuer to sukuk holders whose issuance requires underlying asset and requires the Issuer to pay profit sharing / margin / fee to sukuk holders within a certain period of time.

In principle, sukuk are the same as conventional bonds, both offering the sale and purchase of valuable certificates. However, the difference lies in the sharia concept used by sukuk. Sukuk is a capital market securities instrument for financing, has an underlying asset and the profit obtained from sukuk is not interest but margin / profit sharing / fee. So that it does not trade debt and credit. Several recent studies related to sukuk in Indonesia, for example, were carried out by Rusydiana et al., (2023), Laila & Anshori (2020), Rusydiana & Ali (2023), and Rusydiana & Avedta (2023).

Whereas conventional bonds are capital market securities instruments for lending transactions within a certain period of time, there is no underlying asset and the profit obtained by the lender is the interest on the loaned funds. From these differences it is clear that conventional bonds violate sharia rules because interest in sharia is usury. The following table shows the differences between sukuk and bonds (Huda & Heykal, 2010).

<table>
<thead>
<tr>
<th>Description</th>
<th>Sukuk</th>
<th>Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publisher</td>
<td>Government, Corporations</td>
<td>Government, corporation</td>
</tr>
<tr>
<td>Nature of the Instrument</td>
<td>Certificate of ownership/participation in an asset</td>
<td>Debt recognition instrument</td>
</tr>
<tr>
<td>Income</td>
<td>Reward, profit sharing, margin</td>
<td>Interest/coupons, capital gains</td>
</tr>
<tr>
<td>Time Period</td>
<td>Medium short</td>
<td>Medium length</td>
</tr>
<tr>
<td>Underlying asset</td>
<td>Need</td>
<td>No need</td>
</tr>
<tr>
<td>Related parties</td>
<td>Obligor, SPV, investor, trustee</td>
<td>Obligor/issuer, investor</td>
</tr>
<tr>
<td>Price</td>
<td>Market price</td>
<td>Market price</td>
</tr>
<tr>
<td>Investor</td>
<td>Islamic, conventional</td>
<td>Conventional</td>
</tr>
<tr>
<td>Principal payment</td>
<td>Bullet or amortization</td>
<td>Bullet or amortization</td>
</tr>
<tr>
<td>Use of issuance proceeds</td>
<td>Must be Islam-compliant</td>
<td>Free</td>
</tr>
</tbody>
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Sukuk Mudharabah and Salam

There are several types of sukuk including sukuk mudharabah, the concept of sukuk mudharabah is the same as mudharabah contracts in general. There are investors as capital owners and there are mudharib as managers of the capital. The difference lies in the transaction, sukuk mudharabah transactions represent a certificate that is used to fund projects with the principle of mudharabah contracts. In sukuk, the sukuk issuer is referred to as the capital manager (mudharib), while the sukuk buyer is referred to as the investor (Ayub, 1951).
The application of sukuk mudharabah transactions in Indonesia is divided into several transaction schemes carried out by companies, including those carried out by PT Indosat Tbk. 2002.

Meanwhile, a salam contract is the sale of a specific commodity that is defined in terms of quality and quantity and will be delivered to the buyer at a predetermined time in the future and payment is made in cash. While sukuk salam is a valuable certificate issued for the purpose of salam capital mobilization and the goods are delivered on the basis of salam which becomes ownership for the owner of the certificate (Wilson, 2006).

Agriculture in Indonesia

Indonesia is an agricultural country with a tropical climate, this is very supportive for plant growth and fertility. The vast country that stretches from Sabang to Merauke is Indonesia’s potential in advancing domestic agriculture. When viewed from the type of agricultural products, Indonesian agriculture has different varieties such as: rice, palm oil, rubber, cloves, tobacco, coffee, tea, cinnamon, coconut and others. From these various types and varieties, it adds to the belief that Indonesia has promising agricultural potential.

Some of the promising potentials are that Indonesia is the third largest cocoa producer in the world, the second largest natural rubber producer in the world, the second largest black pepper producer in the world, the number one nutmeg producer in the world, the second largest crude palm oil producer in the world, the fourth largest coffee producer in the world, and the fifth largest tea leaf producer in the world. Indonesia was once a respected exporter of sugar during the Dutch colonial era, but is now the second largest importer of sugar. In addition, Indonesia was once the third largest rice producer in the world, but now Indonesia is unable to do so, so currently Indonesia is a rice importing country (Hariwijaya & Sukaca, 2009). It is unfortunate that an agricultural country like Indonesia is a rice importing country.

It is unfortunate if the potential of Indonesia as an agricultural country is not utilized as well as possible. Unlike Israel, a barren place and less likely to be planted with various types of plants, but Israel can produce quite good agricultural products. With the limited land, Israel is creative in creating agricultural technology to support agriculture there. However, Indonesia, with its abundant natural resources, fertile land and vast expanses, has become complacent, so it cannot do anything about it. Now, when the land is gradually disappearing due to the expansion of development and the need for food is increasing, only then does Indonesia realize and regret it. As land is shrinking, production is getting squeezed, food demand is increasing, imports are the mainstay to solve all this.

Imports by the government only have a temporary impact in solving the problem. If imports are carried out continuously while exports are smaller than imports, it will result in a deficit trade balance. Imports are not the right solution to solve food scarcity, but rather backfire on the government and sacrifice the people. The government should strive to improve the quality and quantity of domestic agriculture. Not only thinking in the short term, but thinking in the long term.

**RESEARCH METHOD**

The method used in this research is qualitative research methods. Qualitative research methods (Wilson, 2006) are research methods based on the philosophy of postpositivism used to research on natural object conditions, (as opposed to experiments) where the researcher is the key instrument, data collection techniques are triangulated (combined), data analysis is inductive / qualitative, and qualitative research results emphasize meaning rather than generalization (Sugiyono, 2008). The philosophy of postpositivism is often referred to as an interpretive and constructive paradigm that views social reality as something holistic / whole, complex, dynamic, full of meaning, and the relationship between symptoms is interactive (reciprocal).

Qualitative research is descriptive. The data analyzed is not to accept or reject the hypothesis (if any). The results of the analysis are in the form of a description of the symptoms observed and do not have to be in the form of numbers or coefficients between variables. However, qualitative research is not impossible to have quantitative data (Subana & Sudrajat, 2005). The type of data used in this research is secondary data. Secondary data is primary data that has been further processed and presented either by the primary data collector or by other parties, for example in the form of tables or diagrams.

Qualitative research is a research procedure that produces descriptive data in the form of written or spoken words from the people and circumstances observed (Bogdan & Taylor, 1997). This research uses data analysis techniques that rely on a continuous complementary role between data collection and analysis through questioning and theoretical comparisons (Efferin et al., 2004). The data obtained by researchers from the results of data collection are compared with the indicators from the literature study.

In order to obtain scientific truth, this research is carried out by paying attention to several stages, namely the stage of presenting evidence or facts (skeptic), paying...
attention to relevant problems (analytic), and the stage of considering objectively to think logically (criticism).

**ANALYSIS**

**Agricultural Problems in Indonesia**

Agriculture is one of the most vital sectors among other sectors. Because agriculture involves the consumption of basic needs or the basic needs of society in general. In an agrarian country like Indonesia, the agricultural sector should be the main sector supporting the people’s economy. But the reality is different, Indonesia does not seem to know where its economy is heading. In contrast to Thailand, Thailand is also an agricultural country and utilizes it for the prosperity of its people. It can be imagined how incessant the Thai government is in developing the agricultural sector, there are date plantations in Thailand and fruitful as those planted in the Middle East. In addition, the income of pepper farmers in Thailand reaches Rp 600,000,000 / ha / year. There are several factors that make Thailand able to succeed in agriculture: first, a workforce that is committed and knows new technology to support the development of agriculture. Second, the agricultural system, where the Kingdom of Thailand considers agriculture as an industry. At the same time, the kingdom builds agricultural infrastructure by providing processing of each region’s products. Third, the selection of superior seeds, fourth, consistent fertilization. Fifth, the marketing system which involves the Thai Airways airline company using quality transportation and packaging.

In addition to Thailand, another Southeast Asian country with a thriving agricultural sector is Vietnam. There are 2 secrets to the progress of the development of the agricultural sector in Vietnam: first, the implementation of a diversified basic price system. The basic price is applied to determine the minimum price of agricultural commodities during the harvest season. And the basic price is not only applied to one type like BULOG in Indonesia, but Vietnam applies the basic price to multi-varieties for various types of rice. Vietnam knows that if the floor price is only applied to one type of variety, it will be prone to being played by food speculators. Second, agricultural modernization is closely related to the application of agricultural science and technology in the management, control and processing of agricultural products. For this modernization capital, Vietnam invites investment in agriculture, especially in agricultural technology.

It is unfortunate that agricultural development did not spread to Indonesia, even though before Thailand and Vietnam advanced in agriculture, they learned to develop agriculture from Indonesia. They learned about a bank product called Simpedes that handles all matters concerning agriculture from capital to the welfare of farmers. It turns out that this simpedes product was applied by Thailand and Vietnam until the agriculture of the two countries developed rapidly, while Indonesia got rid of the product. Evidence of the lack of government support can be heard from the words of Hatta Rajasa, Coordinating Minister for the Economy of the Republic of Indonesia, reported by Kontan Online, Five years from now Indonesia must have a rice surplus of 10 million tons: ”Coordinating Minister for the Economy Hatta Rajasa explained that relevant ministries have discussed strategies for Indonesia to have a rice surplus of at least 10 million tons. The key to achieving this target is to boost domestic food productivity. Concrete steps include the expansion of new agricultural land, the increase of new seeds, the printing of rice fields, and irrigation. He is optimistic that the more agricultural land that is cultivated with a good irrigation process, the more the results will be. "This means that there are rice fields that can be harvested two or three times".

There is no statement about modern technology that should be applied in the agricultural sector. In fact, apart from the factors stated, technology is an important part of agriculture. Unlike the Chinese government, which realizes that the amount of land will not increase, it will decrease, production will decrease, so technology is needed so that production remains sufficient. If we look at the data from the Ministry of Agriculture, it shows that from 2000-2013, Indonesia’s rice production has increased. And rice imports from other countries are decreasing.

From year to year, Indonesia’s production has increased and from the second diagram, the number of rice import quotas has decreased. However, an agricultural country like Indonesia should at least be able to meet local food needs without importing and should even be able to export various domestic agricultural food commodities. And the number of imports in 2013 from January to July was quite a lot around 266,899,783 kg. This import problem can be reduced by increasing production and the question is how long Indonesia can meet the needs of local food, if production is still done using conventional methods without the help of modern technologies. So, if Indonesia wants to advance the agricultural sector, Indonesia can learn from Thailand and Vietnam. And can adopt the system they built such as: Committed human resources, agricultural systems,
It can be concluded that from the building to advance agriculture, capital support or funding sources from both the government and investors are needed. In the 2013 state budget (APBN), the food sector budget allocation amounted to Rp. 83 trillion. The food budget only covers 2 activities, namely food price stability for the fulfillment of people’s needs of Rp. 64.3 trillion and irrigation infrastructure development of Rp. 18.7 trillion. This allocation is less than ideal due to limited state revenues, in addition the allocation for this sector is only one third of the personnel expenditure budget which reaches Rp. 241 trillion.

**Sukuk for Agricultural Development**

Sukuk is an instrument that is used as a tool to absorb capital from within and outside the country. Sukuk is a forum for the government to obtain capital at the beginning of the project which is used in completing the project from start to finish. In addition, the underlying asset that must exist in sukuk, makes sukuk excellent for investors to invest because sukuk is more crisis less risk. On the other hand, the rapid development of sukuk over the past five years (2002-2007) has caused sukuk to be used as a means of reaping capital as well as profits for investors and sukuk issuers. According to data published in the Malaysia Islamic Finance Information Service, in 2000 the growth of sukuk only reached 366 million US dollars, while in 2007 it grew to 47 billion US dollars, the average growth reached 40%. Sukuk has become important in supporting the level of development of the product structure offered by Islamic banks and takaful. Financing on sukuk can be used as medium or long-term capital in Islamic banks and takaful.

The rapid development of sukuk in the world is only centered on a few types of sukuk. And those that are widely used include sukuk musyarakah, sukuk murabahah, sukuk istisna and ijarah. Meanwhile, mudharabah sukuk are rarely used. The following is the percentage of sukuk usage based on the sharia contract principle:

![Sukuk Approved 2007 Based on Various Shariah Principles](image)

Source: Malaysian ICM Quarterly Bulletin, (January, 2008), Securities Commission Malaysia

The government can issue sukuk for agricultural development in two types: sukuk mudharabah and sukuk salam. The sukuk mudharabah and sukuk salam are issued through SPVs as authorized sukuk issuing institutions. Then sukuk are traded in the Islamic capital market, and purchased by investors in accordance with the mudharabah contract or salam contract. For the issuance of sukuk mudharabah, the government through the SPV issues sukuk mudharabah with a certain value, and at the same time investors submit a sum of funds equal to the value of sukuk mudharabah to the SPV. The sukuk issuance has the following structure: (1) The proceeds from the sukuk issuance are used by agricultural institutions for agricultural development; (2)
From these agricultural activities, income is obtained which is then distributed as profit-sharing income; (3) The distribution of shared income for investors and SPVs comes from the income of agricultural activities obtained in a predetermined period in accordance with the agreed ratio. The calculation and percentage of the profit sharing ratio is based on the income of the object used as the *underlying* in the sukuk issuance (but not the direct income of the *underlying asset*); (4) At maturity, the SPV/agricultural institution repays the capital to investors at the value of the sukuk at the time of issuance.

The structure of sukuk salam is as follows: (1) The Indonesian government, in this case the agricultural institution, issues sukuk through the SPV; (2) The SPV issues sukuk salam to be purchased by investors; (3) The proceeds from the sale of sukuk salam are used to finance agriculture using a salam sale and purchase agreement; (4) After the harvest, the farmers hand over their crops to the SPV and the SPV sells them back to the farmers to replace the capital and pay profit to investors.

Furthermore, funds derived from sukuk mudharabah and sukuk salam are combined with the annual government budget allocation for agriculture or APBN funds. After that, agricultural capital can be the combined results of the APBN and sukuk and this capital is distributed according to the portion of the capital needs of each problem. Such as how much is budgeted for agricultural technology from capital from sukuk and APBN and how much for agricultural infrastructure as well as for superior bibit, fertilizer, marketing and others.

It can be seen that the agricultural sector from 2009-2012 was the third largest contributor to Indonesia's Gross Domestic Product (GDP) after the processing industry and hospitality. If we look at the potential of Indonesia's agriculture which has quite superior achievements, then this agricultural sector requires special attention to be developed. Based on data from the Central Statistics Agency (BPS) in May 2012, the workforce in the agricultural sector reached 41.20 million people or around 43.4% of the total population of Indonesia. This figure increased by 4.76% or 1.9 million compared to August 2011. According to BPS data (2012), Indonesia ranks third in the world after China (66%) and India (53.2%). The agricultural sector in Indonesia is very strategic to improve the standard of living of the rural population, providing food for the entire population of Indonesia. Therefore, the development of the agricultural sector in the future should be with the main target of improving the welfare of the farming community and strengthening national food security. So, to achieve these targets the author innovates in the development of this agricultural sector.

In addition, in principle, all of these concepts must be supported by government policies that are pro-agriculture. Like the Thai government which has a policy that the agricultural sector is considered to be an industry so that efficiency and effectiveness are created in this agricultural sector. And produce superior and satisfying results.

**CONCLUSIONS**

There are several main factors inhibiting the development of the agricultural sector in Indonesia: (a) Human resources (HR) that are not yet committed, (b) agricultural systems that are less supportive, (c) agricultural modernization that is very lacking, and (d) farmer welfare that has not been achieved.

The concept of sukuk mudharabah and sukuk salam can be used for the development of the agricultural sector in Indonesia. The two concepts in detail are as follows. Mudharabah Sukuk Concept: (1) Agricultural institution (Government) through SPV issues sukuk mudharabah; (2) The mudharabah sukuk that have been issued are then traded in the Islamic capital market; (3) After investors purchase sukuk mudharabah, the funds obtained are used for agricultural activities; (4) The yield from the farm is shared with the investor as profit/margin; and (5) At maturity, the SPV/agricultural institution repays the capital to investors at the value of the sukuk at the time of issuance.

Sukuk Salam Concept: (1) Agricultural institution (government) issues sukuk salam through an SPV; (2) Sukuk salam that have been issued are traded in the Islamic capital market; (3) Investors purchase sukuk salam by paying at the beginning of the agreement for future refinancing use with an agreed contract; (4) Capital from investors is collected by the SPV to be used as initial capital for farmers in agricultural activities within a certain period of time and will be returned to the SPV; and (5) The SPV takes the assets and resells them to the farmers. This process is done to recoup capital and pay profit to investors.

The recommendations of this study include: (1) The government must be more serious in achieving national food security by increasing the allocation of state budget funds; (2) It is hoped that there is an institution that can predict the potential absorption of sukuk funds in Indonesia in order to become a reference...
and attract investor interest; (3) It is hoped that there will be other studies using quantitative research.

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