



The Role of Islamic Banks Managing Waqf Institutions to Promote the Indonesian Agriculture Sector

Faaza Fakhrunnas^{a*}, Jannatul Liutammima Musta'in^b

^a *Department of Economics, Faculty of Economics, Islamic University of Indonesia,*

^b *Center of Islamic Economics and Business Research, Gajah Mada University*

**Corresponding author: fakhrunnasfaaza@gmail.com*

Abstract

The agriculture sector has absorbed numerous labourers to work in this area as a farmer. However, it still has many issues such as a low level of educational background and financial constraints experienced by the farmers. This study delineates the role of Islamic banks in managing waqf institution to promote the Indonesian agriculture sector. By adopting an extensive review on this particular issue, this study finds that firstly, an Islamic bank is needed to manage waqf funds professionally in Indonesia. Secondly, Islamic banks can act as a social intermediary to enhance human resource quality by empowering the farmers' education in the field of agriculture. Thirdly, the Islamic bank can be a financial intermediary, which will provide subsidies to the farmers to buy fertilizer, seed, and other inputs. Furthermore, the Islamic bank can also be a third party guarantor to the farmers when they are borrowing money or give direct financing to the farmers by adopting an Islamic financial scheme. This study provides suggestions to overcome several issues in the agriculture sector by managing waqf funds and it accordingly adds to the literature thereby deepening the knowledge in related fields.

Keywords: agriculture sector, Islamic bank, waqf institution

© 2017 International Islamic University Malaysia

1. Introduction

Agriculture can be an important sector to be financed by waqf funds. Waqf funds will provide a number of advantages to increase development. This particular activity has been practiced in the West Bank, which is located in Palestine (Anwar, Muhammad Abbas, Kamal Mujan, Sidik, & Sidek, 2014). The waqf land is professionally managed by the government. By entering into financial contracts, such as *muzaraha*, it provides profit-sharing when the harvest is due. By obtaining profit-sharing, the Palestinian government will acquire more money to manage its area (Anwar et al., 2014). Learning from that, it can also be potentially implemented in Indonesia, which has a significant number of farmers and agriculture land. Based on the Central Bureau of Statistics (BPS, 2016), the agriculture sector absorbs the highest number of workers compared to any other sectors such as trade, construction, mining, industry etc. In 2000, the agriculture sector dominates the labour force reaching 45.28%, which was equal to 40.7 million people, even though the number in 2015 reduced to only 38.3 million people, which is equal to 31.75% of the labour force in Indonesia. In terms of contribution to GDP, in 2015, the contribution of agriculture sector to GDP touched 12.03%, which second only to the trading sector, which contributed 18.02%. Therefore, the agriculture sector provides a significant effect in redounding economic growth in Indonesia as well as establishing self-sufficiency in fulfilling the necessity of providing food for the local population.

Unfortunately, many problems exist in managing the agriculture sector in Indonesia especially concerning human resource and financing activity. Figure 1 delineates the level of education of the farmers in Indonesia from 2000 to 2015. As can be observed, most of the farmers have an educational background, which is not higher than primary school. In 2000, 45.4% (40.6 million) of the labour force were farmers, of which 35% of the farmers did not proceed beyond the primary school level as yet. From that data, it can be interpreted that the majority of the farmers only have basic knowledge, such as basic arithmetic and reading at a primary school level. Fifteen years later, and the data has not significantly

changed. The educational background of the farmers has only slightly improved. In 2015, 31.9% and 38.7% out of 38.3 million farmers have not finished primary school and have graduated from secondary school, respectively. It means, 7 out of 10 farmers in Indonesia do not have an educational background much beyond primary school level. The remaining farmers mostly have secondary and senior high school background reaching 16.4% and 11.8% respectively, while only 1% of the farmers were able to reach college or university level (BPS, 2016). Therefore, the data confirms a lack of educational background of the farmers in Indonesia. The low level of education will surely affect the performance of the farmer, whereas a higher level of education acquired by the farmer will facilitate the ability to manage and develop the agriculture business (Gershon, Rinku, & Jaime, 2003).

In terms of financing activity, based on the recent data issued by BPS in 2013, as revealed in Figure 2., it shows that Indonesian farmers try to finance their business by mostly using own capital, reaching 87%, or more than 24 million farmers. It is followed by 5% from non-bank sources, which the majority involves inter-personal financing. Then, bank credit and others only finance 3% and 5% respectively, or not more than 3 million farmers. Based on BPS data in 2013, the small level of bank credit may potentially constrain some innovation, access to technology and diversification of agriculture products caused by inadequacy of financial source (Biradar, 2013).

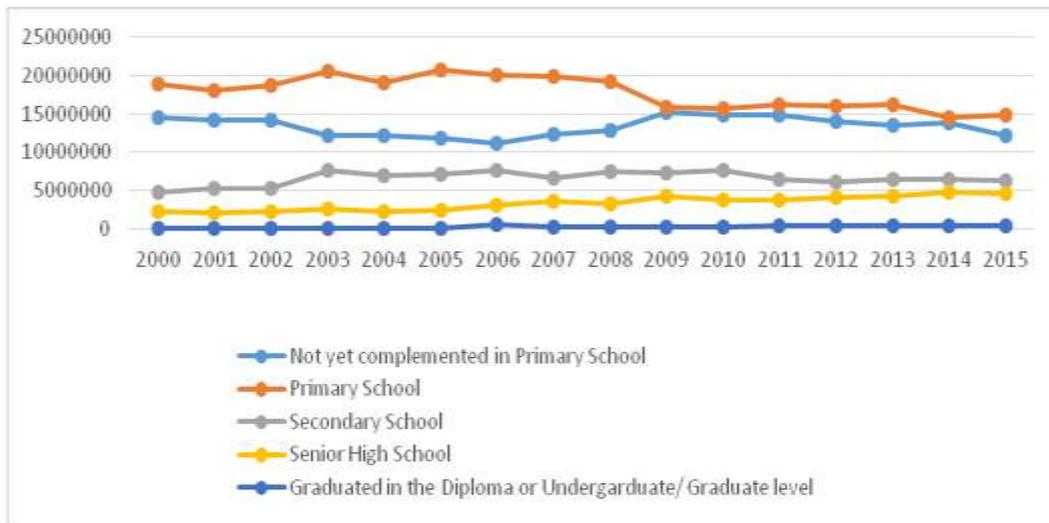


Figure 1: Farmer's Highest Level Education Completed in Indonesia from 2000 to 2015

Source : BPS 2016

The main reasons as to why farmers do not have a good financial accessibility to bank credit are due to not having collateral asset, complexity of administration, living in the remote area, and etc. It shows that the farmers still have many obstacles in accessing bank credit. Moreover, the farmers in the agriculture sector actually have an adequate track record in paying back the loan to the bank better than any other sector (Weber & Musshoff, 2012). The recent census in agriculture exhibits that most of the farmers can only earn a small amount of income from the agriculture sector. In 2013, the average income of agriculture households in the paddy sector only reached Rp 3,142,080 (US\$ 314) (BPS, 2013). It reveals the extend of possible expenditure spent by the farmer will not exceed US\$ 0.86 per day and confirms that the average farmer spends below US\$ 2 per day, which is less than poverty line as stipulated by the World Bank.

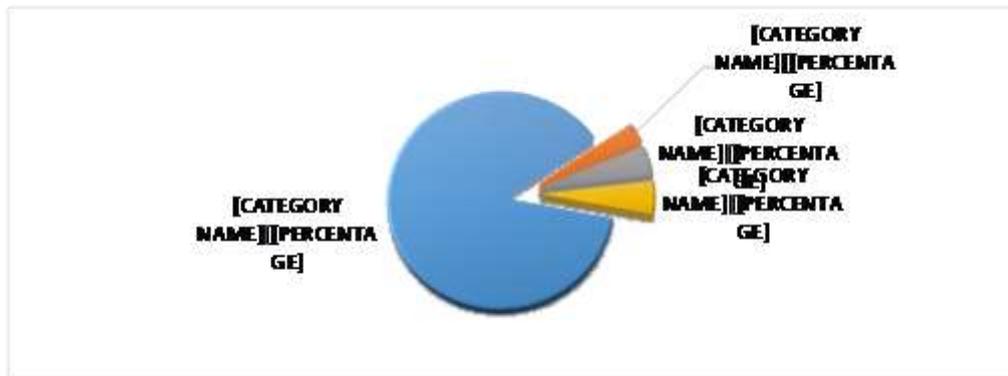


Figure 2.:Source of Financing in Agriculture Sector in Indonesia

Based on these conditions, it is necessary to overcome the problem appropriately from an Islamic perspective. In previous studies, there is no research which addresses this topic specifically, although the similar research had been conducted by some scholars. Weber and Musshoff (2013) find the financing problem in agriculture sector usually happens in developing countries including Indonesia. The farmers living in the rural area and having only small amount land also face difficulties to meet appropriate loan requirements to finance their business. Considering farmers who are Muslim, Zafar et.al (2015) suggest to use Islamic financial structured products in financing the farmer's enterprise. By using *qard-al-hassan* extended by Islamic banks, the agriculture sector will find the exact manner of financing aligned with *Shari'ah* (Zafar, Saqib, Khan, Roberts, & Aliya Mueen Zafar, 2015).

To overcome the issue mentioned above, this paper will provide a suggestion as well as fill the existing research gap. By conducting extensive review on waqf and its management to enhance human resource quality and manage the financial issue in agriculture sector as the method of the study, this paper will be organized in to several part. Firstly, it will be begun with introduction followed by explaining the nature of waqf and management. Secondly, this paper will give an idea in terms of using banks for waqf institutions, to enhance the human resource quality and deal with the financial issue in the agriculture sector. Finally, the last sections will provide some concluding remarks.

2. The Nature of Waqf and Its Management

The word waqf or *awqaf* (plural) are derived from Arabic root which connotes to cause a thing to stop and stand still (Cizakca, 1997). Among the *fuqaha'* or Muslim jurists, they defined waqf as a movement from private property (*ayn*) to property owned by Allah s.w.t. and its proceeds to be used for charitable purposes (Mohsin, 2013). Another definition involves waqf as a religious and social institution in fostering the welfare of needy, the poor and destitute, the family, and the society (Shah, 2014). Some specific feature is embedded in managing waqf funds. Firstly, the asset of the waqf can not be disposed of (Sadeq, 2002). Secondly, the asset of waqf must be held in perpetuity. And thirdly, if the *waqif* (a founder of a waqf) creates a waqf, it can not be revoked anymore (*irrevocability*) (Mohsin, 2013). Based on the typology, waqf can be divided in to two types which are *Waqf al-Ahli* and *Waqf al-Khayri*. *Waqf al-ahli* is given to the member of the family as heirs of the family wealth. Otherwise, *Waqf al-Khayri* aims to give usufruct to the public and society broadly. The form of endowment can be in the form of school, field, hospital, university and certain productive asset to boost economic activities. Apparently, both types of waqf have the same purpose to provide the basic needs of each people such as education and health facilities. Moreover, both sorts of waqf may be able to empower the economic life of the society to liberate from the poverty (Raimi, Patel, & Adelopo, 2014)

In the waqf management, there has a rule to manage waqf rightly. Organizing waqf funds needs waqf manager (*nadzir*) to collect the fund, distribute, and organize it. Yet, there are many waqf organizations, which are not managed professionally in collecting waqf funds (Masyita & Febrian, 2004). It is asserted that waqf management usually has no accountability in reporting liabilities, waqf asset, revenue, and expenses (Yaacob & Hameed, 2006). Thus, the society needs to be convinced by the waqf institutions to donate the money as waqf funds. If it can not be realized and be addressed well by the waqf institution, the society's trust will be eroded. Because of these reasons, the waqf manager must be professional, capable, and has affiliation with waqf institution. In managing the waqf, the capability of the *nadzir* to promote accountability and handle the waqf funds become the main issue. If the *nadzir* is eligible to perform that, the waqf can be optimized for the interest of *ummah*, or conversely, if the *nadzir* is not competent.

2.1 Islamic Bank Managing Waqf Institutions

Currently, the research relating to the role of Islamic bank to promote the agriculture sector in Indonesia is still rare where many researches tend to discuss about the role of Islamic bank in microfinance initiative. One example done by Dusuki (2008) stating that Islamic bank has to appoint special purpose vehicle (SPV) to manage waqf. Then, SPV will manage waqf funds to empower small medium enterprise (SME) at which SPV plays as financial intermediary that will educate SME and make it eligible to have financial access to financial institution. In pooling waqf fund, Islamic bank can promote waqf to its customers whereby it will be utilized in social objective to amplify SME (Dusuki, 2008).

Masyita & Febrian (2014) suggests Islamic banks which focus on the microcredit sector, to be an institution which should manage waqf funds. There has many reasons why bank can manage waqf ; firstly, it can support small business development effort. In this term, the role of the bank can be the protector to small business in unfair competition among the firms. Then, the outreach of the small business enterprise to the capital is accessible. Secondly, Islamic bank already understands small business production relating to its characteristic and nature. Islamic bank can boost small business enterprises and educate the business entities to give value added in their business by using sophisticated technology. Thirdly, Islamic bank can promote small business enterprise in doing marketing properly. Commonly, Islamic bank knows the market and market information. Then Islamic bank can suggest and recommend the small business enterprise to choose segmentation, packaging the product properly, selling the product in the right place and price. Fourthly, Islamic bank can reduce non performing microcredit. Subsequently, the waqf fund can be invested partially in low risk investment by the bank in term of generating money like mudharabah deposit investment, sukuk, and other products. Then the money gained from waqf fund can be used as social purpose (Mohsin, 2013).

The role of Islamic bank to manage waqf institution will achieve the ideal objective of Islamic bank itself. As a part of Islamic finance institution which is a subset of Islamic economics as well, Islamic bank is not only to have commercial purpose but also social purpose as well (Dusuki, 2008b). Islamic bank will promote social justice and human well-being as the principle of Islam. Therefore, the social and financial aims of Islamic bank are not inseparable. Consequently, Islamic bank has to equalize between profit maximization and social responsibility. The study conducted by Dusuki (2008) reveals that Islamic bank must ascertain that all transactions will not only align to *Shari'ah* compliance and legal form but also contribute to the socio-economic development as a pure objective of shariah. Specifically, Islamic bank can be a part to solve poverty reduction and improve human welfare. Thus, Islamic bank may utilize zakat and promote waqf to achieve its real objective.

In collecting waqf, Muslim jurists from the Shafii, Hanbali, Maliki, and Hanafi believe that the waqf can be collected from moveable asset or liquid asset which are inherently perpetual in nature (Suhaimi, Rahman, & Marichan, 2014). By having those kind of asset in collecting waqf, the *nadzir* is more flexible to administer waqf asset. It is also a big opportunity for Indonesian having a large population and the majority are Muslim. However, by collecting waqf funds from moveable or liquid asset does not mean the waqf manager will ignore the importance of other kinds of waqf assets such as waqf for religious purposes or social purpose, such as mosque and burial ground. As mentioned above, the aim of the waqf is mainly to tackle poverty. Consequently, it can be broaden in to social economic function such as empowering the poor society, spiritual development in terms of educating people religiously and catering worship facilities like mosque and Islamic school. In a nutshell, waqf financing can be appropriate to the

farmers who have low educational background, small business enterprise in agriculture sector and the farmers society in unfolding the business.

2.2 Enhancing Human Resource Quality

Education background can be an indicator to determine what quality that the community has in the society. Based on the previous explanation, it is already established that the majority of farmer's education background is not much higher than primary school. Not least formal education in primary up to university level, but also informal education is needed to make the farmers knowledgeable. Education can create a difference in term of the agriculture business (Panda, 2015). Educated farmers tend to have better creativity and innovation in organizing the product. It can be connoted the farmers positions himself as a manager of the agriculture business in order to be efficient and effective in allocating resources. It means that profit earned by educated farmers it likely to be higher than uneducated farmers, which will clearly make them wealthier than before (Panda, 2015). Thus, in order to enhance the human resource quality, it is undeniable that education will be able to create a difference in organizing the agriculture business. Furthermore, education can be divided in to three types ; entrepreneurship education, specialized education, and formal education (Cruz, Escudero, Barahona, & Leitao, 2009). Specifically, by emphasizing in the entrepreneurship education, the character of the farmers can be shaped to incorporate a non-agriculture business entrepreneur's identity, which is growth oriented and involves an optimistic person as well as an innovative businessman (Vesala, Peura, & McElwee, 2007).

By focusing on education, the eligibility of the farmers will be able to fulfill the requirement of the bank credit criterion if those farmers willing to propose a business partnership to the bank. Two main shortcomings of the farmers can be tackled by using waqf funds, which has a role as social intermediation to enhance farmer's capability. Social intermediation has a different perspective compared to other contracts, for instance in financial intitution, which will encourages the person to be a client to its financial institution after joining a social intermediation program and then signing a contract involving reciprocal obligation. (Dusuki, 2008a). Education and financial problems can be tackled by using an Islamic bank to manage a waqf institution in order to perform as a social and financial intermediary institution. *Firstly*, the Islamic bank in managing a waqf insitution will collect waqf donations from the society. The Islamic bank will promote waqf collections from the society that consists of government institutions and private institutions as well as the bank's customers. The type of waqf can involve cash waqf funds. Then, the bank will manage the funds in productive sectors so as to specifically generate profit for the waqf funds (Suhaimi et al., 2014).

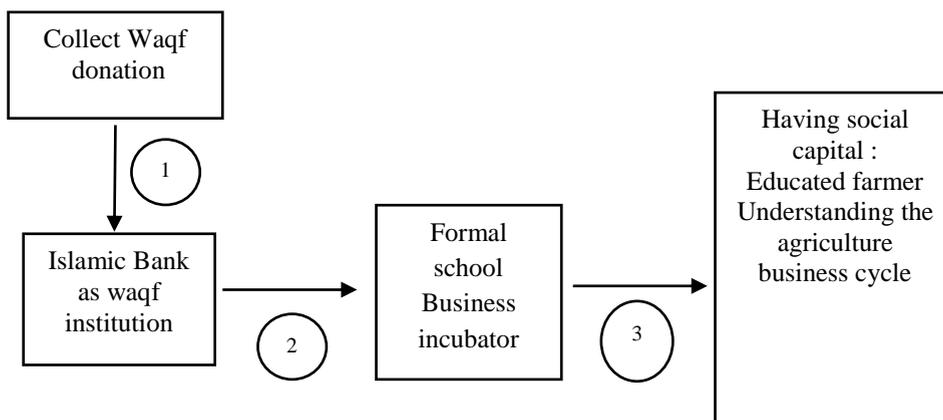


Figure 3: The Role of Bank to Enhance Human Resource Quality

Source : Author

Secondly, the bank finances the establishment of an agriculture school, as a farmer and business incubator, by using waqf funds. The school of farmers would be established in order to prioritized and be concerned with the formal education of the farming community. Besides a school of farmers, the establishment of a business incubator is also required. The business incubator has a pivotal role for economic development, specifically in small-medium enterprises (SME). Moreover, it can be a tool to

effectively and innovatively support start-up businesses (Al-Mubarak & Busler, 2014). It can also be defined as a useful mechanism for a fledging business entity, as a company, to survive and grow in a fair business environment (Cameron, 2007). One of the examples of business incubator in Indonesia is the Farmer Field School (FFS) promoted by the World Bank (Gershon et al., 2003). In the FFS concept, not all the farmers will attend, but only some will attend the program. Those farmers that attend will promulgate the educational information to other farmers in the same farming community. It will develop farmer-trainers to other farmers, which is expected outcome of establishing the FFS in the farmer's community. The FFS in Indonesia has had a positive effect on the farmers, who have been able to increase productivity and reduce the usage of pesticide (Gershon et al., 2003). Notwithstanding that it has been used since 2000, it still has some problems, which are in the diffusion of information and the expenditure of the fund.

Although it has certain shortcomings, this program has had a positive effect on the farmers and the effectiveness of the FFS can be optimized by conducting a certain agenda. The first step, the waqf funds will build a business centre as well as business incubator as a place to study in the FFS. This can be a centre of business information. Therefore, the diffusion of information can be minimised. With the bank as managing waqf institution, it can construct the building by appointing a third party to build it, then it can be kept as an asset in perpetuity. The second step, is to solve the financial problem in performing FFS activity, such that the bank cooperates with other insitutions like universities, non-government organizations (NGO), and also the government, in order to render education trained by practitioners and academics who have the capability in this field. This collaboration will be performed continuously as a voluntary activity, or it can be funded by waqf instituion, where the source of funds is income generated from waqf investments, which will thus have a positive and significant effect (Haneef et al., 2015).

Thirdly, waqf as a social intermediary will make a change in the farmer's society which will improve the farmer's capability based on education, involving formal and entrepreneurship education, and independence in managing the product to ensure that farmers generate higher farm incomes.

2.3 Financial Issue in Agriculture Sector

The financial problem experienced by the farmer will not be far from access to credit as mentioned above. This relates to capital as the basic requirement that the farmers should have to start planting process (Firdausy, 1997). Afterwards, the farmers can not pick and have seeds which has a good quality and proportional stock when they want to plant it. Eventually, the planting result harvested by the farmers can not be optimal. Conversely, if the farmers having sufficient capital to start a planting process, they will obtain higher productivity as well as innovation and creativity. The farmers will buy fertilizer and seeds of the correct quality and quantity. In obtaining the funds, if the farmers have access to credit from financial institutions, it will be hard for the them to return the intial payment plus interest fee, because of a lack in risk management. Consequently, the farmers are likely to be penalized by the financial institution, due to the inability to repay the money. (Tadesse, 2014).

2.4 Fertilizer Cost

A higher price in the cost of fertilizer is a serious obstacle to the farmers to obtaining the best results in planting process (Firdausy, 1997). The more expensive the price, the less opportunity for the farmers to use it. One of the methods to reduce the expensive cost spent by the farmers to buy fertilizer is by introducing a subsidy. Subsidies are needed to establish sustainability in performing the agriculture business. It means that a subsidy can provide two benefits to the agriculture business sector. Firstly, it will support a newly established agriculture business, and secondly, it will ensure the agriculture business is more viable over the business life-cycle, due to the affordability of the materials. An example of a subsidy is experienced by poor people in Bangladesh with Gramen Bank as the intermediary institution in managing it, which obtains the subsidy from the World Bank and from a large number of personal donors given as a grant (van Eijkel, Hermes, & Lensink, 2011). Then, the Grameen Bank will finance the farmer and small-scale producers with lower interest and initial finance. However, the amount of the subsidy is typically uncertain. Also due to the non-commitment of donors in delivering the money clearly and trasparantly, the donor also will consider the performance of the intermediary insitution as the main consideration to donor participation (Armendáriz & D'Espallier, 2010). The donors try to encourage the intermediary institution to be more productive in financing the agriculture sector than saving money. It connotes the intermediary institution has to provide a social impact in helping business as well as making

people wealthier. Nevertheless, there is uncertainty if the intermediary institution can not deliver on these impacts.

From the Islamic perspective, a grant to help the needy people to start up and keep the viability of the business can be addressed by using waqf funds (Obaidullah, 2008). The waqf institution where in this paper is concern to the bank can manage the fund professionally to generate profit and transfer it to help the needy people in terms of implementing social function (Adnan & Ajija, 2015). Investing in the capital resource denotes the waqf funds has to invest in the productive sector, which is aligned to the *Shari'ah*. It keeps the nature of waqf funds as perpetual funds. Furthermore, the funds generated from waqf investment can be a source as subsidy given to the farmer to purchase fertilizer in the planting process from the outset. Afterwards, the farmers can commence their business with the knowledge that waqf funds will provide subsidies.

2.5 Financial Constraint Issue

Credit constraint can be caused by ineligible borrower to fulfill the provided requirement, which commonly involves collateral as a guaranteed asset. It is used to mitigate the risk experienced by financial institution. If there is no collateral, it will be quite imposible to get a loan (Masyita & Ahmed, 2011). Hence, if the borrower defaulted because of certain reason, the financial institution will have an asset as collateral (Turvey & Shee, 2010). In the conventional perspective, the absence of collateral asset will make the financial institution face higher risk, which will make increase the amount of interest given to the borrower.

In the agriculture sector, the issue of collateral is one of the reasons that inhibits good access to credit from a financial insituition. It is caused by the agriculture sector which has a lack of collateral owned controlled by the farmer's business and is thus typically referred to as a financial constraint (Turvey & Shee, 2010). Then, the financial institution endeavours to overcome the problem relating to the collateral issue conventionally, by reducing the loan amount, which has decreases the level of risk in so doing it (Menkhoff, Neuberger, & Rungruxsirivorn, 2011). By only having limited money, the farmer will utilize it appropriately without spending it in non-productive expenditure.

From an Islamic point of view, there the loan contract involves *qardul hasan*, which is defined simply as an interest free loan (Rahman, 2010). In handling the collateral issue when the farmers are given *qardul hasan* by the financial institution, it requires a third party who will guarantee the farmers to return the money (Menkhoff et al., 2011). Furthermore, the institution who becomes the third party also deserves to control the famers to ascertain the utilization of money in the appropriate expenditure (Hong & Zhou, 2013). Reciprocally, the lender will obtain the benefit from the third party, who ensures the farmer will return the money borrowed. The third party can be managed by Islamic bank as managing the waqf institution, which provides a guarantee to the farmers when they obtain *qardul hasan* from any other financial institution. Moreover, the farmers will ask the guarantor before borrowing the money from the financial institutions. The guarantor will analyze the farmers to acquire a guarantee by considering them based on personal characteristics. According to the *Shari'ah*, trust as social capital is the main foundation to believe a person (Rahman, 2010). The personal characteristics involve honesty, track record in borrowing money, and capability to managed money, which will be guided by Islamic bank. Afterwards, the farmers can borrow from the lender and the guarantor will state to the lender that the institution will guarantee it. With a guarantor it can increase the attractiveness to the Indonesian farmers who are Muslim majority (Obaidullah, 2008). The service given by guarantor deserves a fee as s financial service, or it can also be designed in a non-profit framework, as the social service given by the Islamic bank and waqf insitution are aligned to the objectives of waqf to alleviate poverty (Amuda, Embi, & Babatunde, 2014). The guarantor as third party will control the farmer to manage the funds well (Hong & Zhou, 2013).

Besides being the third party, the waqf institution can be a financial institution, which will give financing scheme directly to the farmers needing a capital. The scheme of financing which is potentially can be used in agriculture business is *muzara'ah*, *bai salam*, and *qardul hassan*. *Muzara'ah* can be defined as business partnership among two parties in agriculture sector which both parties will be capital provider including farmland and monetary capital and another party (the farmer) can manage the capital (Al Zuhayli, 2002). Then, the profit will be treated as pre-determined in profit sharing (Rahman, 2010). The waqf institution has many asset obtained from people who donate their funds and asset to social purposes aligned to shariah. Furthermore, it can be managed as a land which can be utilized by farmers to manage a land as farmland. Surely, allocating a land as farmland can be treated as investment scheme

which tends to give farmers a profit in developing waqf funds and asset. It can also give the farmers an opportunity to earn money and develop agriculture business.

Then, *bai salam* (forward sale agreement) is defined as a contract of sale of goods where the good is given in the future and the price is fully paid in the beginning especially in agricultural business (Muneeza, Yusuf, & Hassan, 2011). *Bai salam* is effective to be implemented in Indonesian agriculture sector. It will help a farmers who have small farmland with small capital to run the planting process. The farmers will get the fund from another party to start the business from the beginning and it can give the farmer flexibility to manage the fund well. The benefit is not only for the farmer, but also for the waqf institution that will invest the money to evolve the waqf funds. The main objectives of *bai salam* are identifying the farmer's problem at the cultivating time and exploring impediments faced by the farmer at harvesting time (Kaleem & Wajid, 2009). Besides *muzara'ah* and *bai salam*, *qardul hasan* is considered as an appropriate financing scheme for agriculture sector (Zafar et al., 2015). The funds given as *qardul hasan* can be from waqf funds which uses the profit of waqf as the cost of lending to the farmer. In a *qardul hasan*, the farmer does not pay any cost of borrowing, which would be recognized as interest.

Because the farmers only have small assets as collateral and since the waqf institution can not be a third party guarantor and also the money extended to the farmers must be repaid, it requires other schemes of financing to ensure the transaction works well. To overcome the problem, group lending can be proposed as the main solution. The term of group lending comes from conventional theory which means providing a loan to the borrowers in one group (Hermes, Lensink, & Mehrteab, 2006). However, from this perspective, the main focus involves behavioural issues emphasizing how the group works. Basically, the group consists of many members who are near and live in the same community. If they have a better access and knowledge of each other (Mukherjee & Bhattacharya, 2015). In the group, every members will have joint liability to be utilized as a form of collateral, which makes each members of the group supervise each others to utilize the fund wisely and repay it to the lender in time. Group lending will also mitigate the risk such as adverse selection and moral hazard, which can possibly be done by the borrowers due to group monitoring and group selection when the group is established (Kong, Turvey, Canna, & Peng, 2015).

3. Conclusion and Recommendation

The agriculture business in Indonesia absorbs many people who work in the sector. However, there are a number of problems, including a low level of human resource quality and financial problem. Given these problems, the waqf funds have opportunities to address it. Furthermore, the waqf funds could to be managed by the bank as a professional institution in Indonesia. The bank managing a waqf institution will increase contributions and property from the people who want to donate it as waqf. The bank can also offer cash waqf funds to enable many people to participate in donating their money as waqf funds. Then the waqf funds donated by many people will be invested in certain financial products to generate profit. Not only invested in financial products, waqf funds can also be utilized to empower the farmers by building formal education in a school and business incubator. Utilizing waqf funds managed by the bank as a social intermediary will dignify the bargaining position of the farmers to the society. Then, the farmers are expected to have social capital, which will strengthen their position as a business entity amongst other business participants as well.

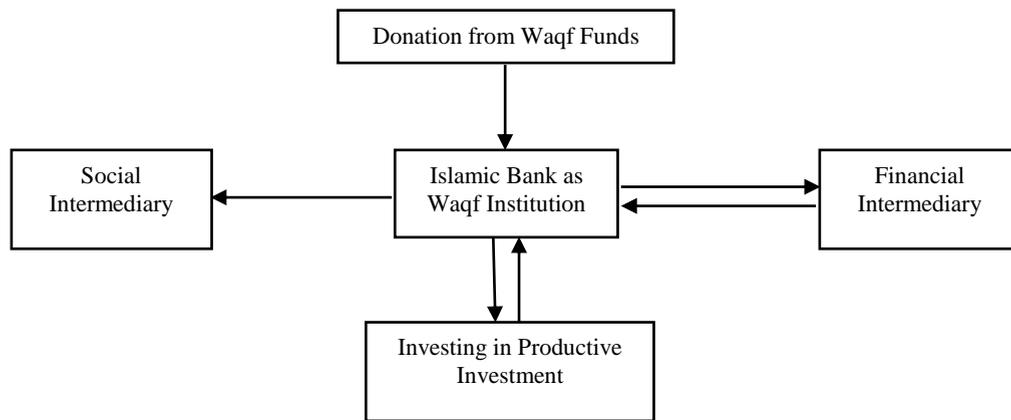


Figure 4 :The Role of Waqf in Agriculture Sector

Source : Author

The money generated by waqf funds investment can be used as a subsidy to the farmers in buying fertilizer, seeds, and any other inputs in farming process. Furthermore in solving financial constraint problem, the role of the bank managing the waqf, can firstly be a third party to guarantee the farmers' to other financial institutions. Afterwards, the bank can ask a fee as a reward from the farmers, or it can be also free as a service given to them. The second role, which can be performed by Islamic bank, is a function the bank as financial intermediary to the farmer by utilizing waqf funds to finance the farming projects. Islamic bank can finance the farming process by using *muzara'ah* contract, *ba'i salam* contract, dan *qardul hasan* contract. Especially for *qardul hasan*, the cost of financing spent by Islamic bank will be covered from profit of waqf funds. Subsequently, in term of *qardul hasan*, Islamic bank manages the financing process by using group lending scheme in which every members will join their liability. In this scheme, the farmers will manage the business within the partnership so that the bank does not spend capital to supervise it. By using these financing processes, the bank can maintain the waqf funds as perpetual funds as well as assisting the farmers to develop their financial capability.

References

- Adnan, M. A., & Ajija, S. R. (2015). The effectiveness of Baitul Maal wat Tamwil in reducing poverty. *Humanomics*, 31(2), 160–182. <http://doi.org/10.1108/H-03-2012-0003>
- AL-Mubarakhi, H. M., & Busler, M. (2014). Incubator successes: Lessons learned from successful incubators towards the twenty-first century. *World Journal of Science, Technology and Sustainable Development*, 11(1), 44–52. <http://doi.org/10.1108/WJSTSD-08-2013-0030>
- Amuda, Y. J., Embi, A. C., & Babatunde, O. H. (2014). An Agriculture Approach to the Commercialization of Cash Waqf between Malaysia and Nigeria. *Journal of Advanced Management Science*, 2(4), 344–348. <http://doi.org/10.12720/joams.2.4.344-348>
- Anwar, H. M. M., Muhammad Abbas, E., Kamal Mujan, W., Sidik, R., & Sidek, M. (2014). Waqf land in the West Bank and investment current state of affairs. *Asian Social Science*, 10(14), 23–39. <http://doi.org/10.5539/ass.v10n14p23>
- Armendáriz, B., & D'Espallier, B. (2010). Subsidy Uncertainty and Microfinance Mission Drift. *The Second European Research Conference in Microfinance*, 32, 1–42. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1731265
- Biradar, R. R. (2013). Trends and patterns of institutional credit flow for agriculture in India. *Journal of Asia Business Studies*, 7(1), 44–56. <http://doi.org/10.1108/15587891311301016>
- Cameron, A. (2007). Farmers' markets as small business incubators and safety nets: Evidence from New Zealand. *International Journal of Entrepreneurial Behaviour & Research*, 13(6), 367–379. <http://doi.org/10.1108/13552550710829179>

- Central Bureau of Statistic (BPS)(2016). *Statistic of Indonesia 2000-2015*.
- Central Bureau of Statistics (BPS)(2013). "Nilai Tukar Pertanian," [Retrieved November 2015] http://www.bps.go.id/website/pdf_publicasi/watermark%20_Statistik%20Nilai%20Tukar%20Petani%20di%20Indonesia%202013.pdf
- Cizacka, M. (1997). Towards a Comparative Economic History of the Waqf. Kulliyah of Economics and Management Science IIUM Unpublished Paper.
- Cruz, N. M., Escudero, A. I. R., Barahona, J. H., & Leitao, F. S. (2009). The effect of entrepreneurship education programmes on satisfaction with innovation behaviour and performance. *Journal of European Industrial Training*, 33(3), 198–214. <http://doi.org/10.1108/03090590910950578>
- Dong, F., Lu, J., & Featherstone, A. M. (2012). Effects of credit constraints on household productivity in rural China. *Agriculture Finance Review*, 72(3), 402–415. <http://doi.org/10.1108/00021461211277259>
- Dusuki, A. W. (2008a). Banking for the poor: the role of Islamic banking in microfinance initiatives. *Humanomics*, 24(1), 49–66. <http://doi.org/10.1108/08288660810851469>
- Dusuki, A. W. (2008b). Understanding the objectives of Islamic banking: a survey of stakeholders' perspectives. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(2), 132–148. <http://doi.org/10.1108/17538390810880982>
- Firdausy, C. M. (1997). Effects of the subsidy removal of fertilizer on rural poverty in north Sulawesi, Indonesia. *International Journal of Social Economics*, 24, 207–222. <http://doi.org/10.1108/03068299710161223>
- Gershon, F., Rinku, M., & Jaime, Q. (2003). Sending Farmer Back to School : The Impact of Farmer Field Schools in Indonesia. *World Bank Policy Reseach Working Paper*, (2003), 41.
- Haneef, M. A., Pramanik, A. H., Mohammed, M. O., Amin, M. F. Bin, & Muhammad, A. D. (2015). Integration of Waqf-Islamic Microfinance Model for Poverty Reduction ; The Cse of Bangladesh. *International Journal of Islamic and Middle Eastern Finance and Management*, 8(2015), 246–270.
- Hermes, N., Lensink, R., & Mehrteab, H. T. (2006). Does the group leader matter? The impact of monitoring activities and social ties of group leaders on the repayment performance of group-based lending in Eritrea. *African Development Review*, 18(1), 72–97. <http://doi.org/10.1111/j.1467-8268.2006.00133.x>
- Hong, Z., & Zhou, Y. (2013). Can third party's collateral arrangements tackle the financing problem of small-medium enterprises? *China Finance Review International*, 3(4), 353–380. <http://doi.org/10.1108/CFRI-08-2012-0094>
- Kaleem, A., & Wajid, R. A. (2009). Application of Islamic banking instrument (Bai Salam) for agriculture financing in Pakistan. *British Food Journal*, 111(3), 275–292. <http://doi.org/10.1108/00070700910941471>
- Kong, R., Turvey, C. G., Canna, H., & Peng, Y. (2015). Factors Affecting Farmers's Participation in China's Group Guarantee Lending Program. *China Agriculture Economic Review*, 1(2015), 45–64.
- Masyita, D., & Ahmed, H. (2011). Why is Growth of Islamic Microfinance Lower than Conventional ? A Comparative Study of the Preferences and Perceptions of the Clients of Islamic and Conventional Microfinance Institutions ' in Indonesia. *8th International Conference on Islamic Economics and Finance*, 1–22.
- Masyita, D., & Febrian, E. (2004). The Role of BRI in the Indonesian Cash Waqf House's System.
- Menkhoff, L., Neuberger, D., & Rungruxsirivorn, O. (2011). Collateral and its Substitutes in Emerging Markets ' Lending Lukas Menkhoff Doris Neuberger Collateral and its Substitutes in Emerging Markets ' Lending Abstract. *CESifo Working Paper*, 3585(2011), 1–46.
- Mohsin, M. I. A. (2013). Financing through cash-waqf: a revitalization to finance different needs. *International Journal of Islamic and Middle Eastern Finance and Management*, 6(2013), 304–321. <http://doi.org/10.1108/IMEFM-08-2013-0094>
- Mukherjee, S., & Bhattacharya, S. (2015). Optimal Group Size With Joint Liability Group Lending Strategy. *Indian Groth and Development Review*, 8(2015), 2–18.
- Muneeza, A., Yusuf, N. N. A. N., & Hassan, R. (2011). The possibility of application of salam in Malaysian Islamic banking system. *Humanomics*, 27(2), 138–147. <http://doi.org/10.1108/08288661111135135>

- Obaidullah, M. (2008). *Role of Microfinance in Lessons From Experiences in Selected Poverty Alleviation*. <http://doi.org/978-9960-32-175-2>
- Panda, S. (2015). Farmer Education and Household Agriculture Income in Rural India. *International Journal of Social Economics*, 42(2015), 514–529.
- Rahman, A. R. A. (2010). Islamic microfinance: an ethical alternative to poverty alleviation. *Humanomics*, 26(4), 284–295. <http://doi.org/10.1108/08288661011090884>
- Raimi, L., Patel, A., & Adelopo, I. (2014). Corporate social responsibility, Waqf system and Zakat system as faith-based model for poverty reduction. *World Journal of Entrepreneurship, Management and Sustainable Development*, 10(3), 228–242. <http://doi.org/10.1108/WJEMSD-09-2013-0052>
- Sadeq, A. M. (2002). Waqf, perpetual charity and poverty alleviation. *International Journal of Social Economics*, 29, 135–151. <http://doi.org/10.1108/03068290210413038>
- Shah, S. N. (2014). Integrating Zakāt and Waqf into the Poverty Reduction Strategy of the IDB Member Countries. *Islamic Economic Studies*, 22(1), 79–108.
- Suhaimi, F. M., Rahman, A. A., & Marichan, S. (2014). The role of share waqf in the socio-economic development of the Muslim community. *Humanomics*, 30(3), 227–254. <http://doi.org/10.1108/H-12-2012-0025>
- Tadesse, M. (2014). Fertilizer adoption , credit access , and safety nets in rural Ethiopia. *Agriculture Finance Review*, 74(2014), 290–310. <http://doi.org/10.1108/AFR-09-2012-0049>
- Turvey, C. G., & Shee, A. (2010). Collateral Free Lending with Risk-Contingent Credit for Agriculture Development. *Cornell University - School of Applied Economics and Management and Pennsylvania State University*, 1–38. <http://doi.org/10.2139/ssrn.1612504>
- van Eijkel, R., Hermes, N., & Lensink, R. (2011). Group lending and the role of the group leader. *Small Business Economics*, 36(3), 299–321. <http://doi.org/10.1007/s11187-009-9223-5>
- Vesala, K. M., Peura, J., & McElwee, G. (2007). The split entrepreneurial identity of the farmer. *Journal of Small Business and Enterprise Development*, 14, 48–63. <http://doi.org/10.1108/14626000710727881>
- Weber, R., & Musshoff, O. (2012). Is agriculture microcredit really more risky? Evidence from Tanzania. *Agriculture Finance Review*, 72(3), 416–435. <http://doi.org/10.1108/00021461211277268>
- Yaacob, H. H., & Hameed, S. (2006). Waqf Accounting in Malaysian State Islamic Religious Insitutions: The Case of Federal Territory SIRC. *Kulliyah of Economics and Management Science, IIUM unpub.*
- Zafar, M. A., Saqib, L., Khan, K., Roberts, K. W., & Aliya Mueen Zafar. (2015). Local Agriculture Financing and Islamic Banks: Is Qard-al-Hassan A Possible Solution? *Journal of Islamic Accounting and Business Research*, 6(2015), 122–147.