



Gala (*Ar-Rahnu*) as Micro Financing Instruments in Islamic Financial Institution in Aceh

Ikhsan Fajri,^a Muksal,^b Eddy Gunawan,^c and Teuku Meldi Kesuma^d

^a Faculty of Syariah, University of Serambi Mekkah, Banda Aceh, Indonesia;

^b Faculty of Syariah, University of Serambi Mekkah, Banda Aceh, Indonesia;

^c Faculty of Economics, Syiah Kuala University, Banda Aceh, Indonesia;

^d Faculty of Economics, Syiah Kuala University, Banda Aceh, Indonesia.

Abstract

Gala is a traditional financing model that practiced among Aceh society starting from the 18th century until now. The presence of Gala as an alternative solution to poverty alleviation through Islamic microfinance products should be accommodated by the government either at the provincial or district/municipal. The involvement of local Islamic financial institutions that operate in the region is necessary in order to make Gala as one of recognised Islamic financing instruments. By doing so, the lower and middle-income groups of Aceh society can have an easy access to Gala. They can also conduct business transactions by using Gala as an Islamic financing product at each of Islamic financial institutions. In this research, the researchers made a direct observation in Manggeng and Kuala Batee sub-districts of Aceh Barat Daya district, Indonesia, by adopting the field research approach. Significantly, this research motivates to place traditional Gala as an instrument which is based on *Shari'ah* as one of Islamic financing products and to bring local wisdom or value to Aceh's Lembaga Keuangan Syariah or LKS by recognising Gala.

Keywords: Gala, Financing, Islamic microfinance, Islamic Financial Institutions

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1. Introduction

The rapid business competition between Islamic and conventional financial institutions has created a new climate in micro-business activity in Aceh. This phenomenon is very interesting to be considered since these financial institutions will continue to make various innovations in their financing products in order to improve their services. This is also important to attract the society to vote which one of these financial institutions as the most appropriate financial institutions for the community in conducting business transactions. The society of South West coast of Aceh (especially the society that live at Aceh Barat Daya) has a close connection with the Islamic financial institutions. As to provide a micro-economic solution, Islamic financial institutions in Aceh can create new innovations by looking at traditional practices among locals. It is important to consider local wisdom or value as a role model in creating new microfinance financing products that can be operated in Aceh. By having such in mind, the presence of these Islamic financial institutions will be more apparent by taking into consideration the local wisdom or value as taken by the lower and middle level of society in Aceh.

The recognition of Gala or traditional pawn as a part of business activities leads to its continuous practice in the midst of Aceh society and prevents its disappearance. Gala has become a source of economy and a need among the lower and middle class of the rural society in Aceh. It is used in solving a variety of micro-economic problems, regardless at the village, district or sub-district levels.

In fulfilling the needs of lower and middle class of the society, Gala as a traditional financing model is very easy to be found in practice among the society of Aceh starting from the 18th century to the present. The practice of Gala as an alternative solution to poverty alleviation through microfinance products from Islamic financial institutions should be accommodated by the government. This is either at the level of provinces or districts/municipalities by the involvement of local Islamic financial institutions that operate in

those territories. Since Gala is derived from local practice and based on *Shari'ah*, the lower and middle class of society can easily attract to do business transaction with Gala. Therefore, Gala should be considered as one of financing products by Islamic financial institutions. It is possible to implement Gala. Aceh has the Law of Aceh Government (UUPA). Under the UUPA, there is a chance for the government of Aceh to coordinate Islamic financial institutions and to bring the public desire in practising Gala to the attention of Financial Services Authority (OJK) and Bank Indonesia (BI). By doing so, Gala can be re-introduced as a financing instrument in Islamic financial institutions that are operating in Aceh. Moreover, Aceh has the motivation to apply Islamic law based on *Muamalah*.

Islamic financial institutions that are operating in the region of Aceh should be more concerned and respond to every desire of the Aceh society that incline towards practising Gala. They should be more productive and positive in making Gala as one of financing products in Islamic financial institutions. Islamic financial institutions must be aware that they are not only serving as a financial institution that promotes profit-making only. However, they must also play a role on social, religious, and local value, which in this case, all those aspects are contained in Gala as a traditional financing instrument.

Gala is similar to *Ar-Rahnu* as provided under Islamic law. There are several advantages of *Ar-Rahnu* to the society, such as: (i) there is no interest (*riba*) involved in the transaction. Only the fee for safekeeping of the pledged item is allowed. (ii) The pawned item will remain in its original position. In relation to land, the ownership of the land is still belonged to its owner. (iii) In a case of failure to repay the debt as obtained from *Ar-Rahnu* transaction, the owner must be notified properly regarding the sale for the purpose of getting back the payment; and (iv) if the sale of the pawned item exceeds the remaining debt, the surplus of the price must be given back to the owner.

2. Literature Review

The society in Aceh is a society that has a variety of traditional financing instruments that have been applied since a long time ago. One of traditional financing instruments that is still valid until now is Gala. Gala is a form of transaction in the economy which is based on the contract of *Ar-Rahnu* (pawn) which arises from a debt system (loan) by mortgaging valuable goods such as gold, land, or other property to support their financial needs. The practice of Gala as a traditional financing product is born with values that grow, develop, and embraced by the society of Aceh. This practice of Gala derives from the culture and customary values that grow in the society (Fitriani, 2013).

Gala is almost the same as the existing pawn system from its practice. Gala is a loan mechanism in which a person handed over land, gold, or other valuable possessions to fulfil his urgent financial needs and the consumer's daily needs. In the 1980's, there was no letters or written agreements used between parties that practiced Gala. In the following years, the practice becomes more official with written agreements or a kind of letters of agreements with an indefinite period (Mahmud, 2001).

The establishment of Gala is inseparable to the culture or custom of society in Aceh. In order to survive and solve the financial problem, Gala comes into the practice. Thus, this practice that continuously undertaken by people of the society becomes well-accepted culture. This culture is used by the people as a way out of their financial problem and becomes a way of life and followed as a guidance in their behaviour (Fitriani, 2013).

3. Research Methodology

Under this section, the researchers provide the details on methods, data source, and data collection method.

3.1 Methods

This study adopts several methods including the field research approach that involves a direct observation of Gala's activities. This is conducted in certain selected sub-districts of Aceh. In this study, the researchers studied and conducted direct observations in sub-districts of Manggeng and Kuala Batee of Aceh Barat Daya. Subjects of observation may include institutions of social organization and government's institution

(Suryabrata, 1998). The data analysis that researchers used is the qualitative method. This is done by analyzing the data without calculating any numbers. It is purely depended on relevant sources of information, observations, interviews, and documentation. Through this method of data analysis, it is believed that Gala's practice can be observed closely in addressing the issue of poverty in Aceh Barat Daya, Indonesia.

3.2 Data Sources

The data that researchers use in this study comes from two sources. They are: (i) primary, and (ii) secondary sources. Primary data source is the source of data that directly provide data to data collectors (Sugiyono, 2009). Primary data in this study is obtained directly from the researchers' observation of society by providing questions through interviews and other tools. In this study, the primary source of data comes from the direct data obtained from the results of observations with the respect of the practice of Gala as executed by givers and receivers of Gala from Manggeng and Kuala Batee Sub-district of Aceh Barat Daya district, Indonesia.

Secondary data sources are data sources obtained through reading, studying, and understanding about the practice of Gala from other written sources, such as from literatures, books, and the collected data from the Central Bureau of Statistics of Aceh Barat Daya (Sugiyono, 2009).

3.3 Data Collection Methods

In achieving the findings of this research, the data collection will be done by: (i) observation, (ii) interviews, and (iii) documentation.

- (i) Observation: the observational method is adopted to find out the general condition in Manggeng and Kuala Batee sub-district of Aceh Barat Daya district in Aceh, Indonesia. The selection of observational method is considered suitable in achieving the objective of this study. Through this said method, the researchers obtain accurate data while studying the experience directly from an individual or a group of individuals that active in the society that lived in Manggeng and Kuala Batee. The researchers gather the information about the society's participation in Gala by observing what the members of the society did, hearing what they think about Gala, and participating with the activity that was carried out by the members of the society. This is done in a structured manner according to the guidelines of observation (Singarimbun and Efendi, 2009).
- (ii) Interviews: this method is done to collect responses from respondents voluntarily. Their answers are not limited by the researchers. In this study, the implementation of Gala's practice in Manggeng and Kuala Batee is important to be observed. Thus, interviews were done with givers and receivers of Gala. Here, the researchers interview them on the process of Gala's implementation, their opinions on the practice of Gala that they are undergoing, and the utilization of Gala, and the yield of land held through Gala.
- (iii) Documentation: the documentation that the researchers done is relating to the data obtained by collecting existing documents that relevant to Gala's practice. This covers books or writings, as well as the village monographs and demographics that present in the selected location.

4. Findings

The findings as obtained by the researchers are divided into two sub-headings. They are provided as follows: (i) Gala (*Ar-Rahnu*) as model of Islamic financing instrument and local wisdom or value; (ii) Challenges and the role of *Lembaga Keuangan Syariah* or LKS government in responding to Gala financing products.

4.1 Gala (*Ar-Rahnu*) as Model of Islamic Financing Instrument and Local Wisdom/Value

The society of Aceh has been practicing Gala since the 18th century. Such practice was passed down through generations. Gala is allegedly born from the cultural behaviour of the society in Aceh that historically has been influenced by migrants. These migrants involved in trading activities. Majority of these migrants are from Arab, China, Europe, Persia, Aden, Abitinia, Armenia, Gujarat, Malabar, Sailan, Pattani, Egypt, Siam,

and Pegu. By considering Aceh at once upon a time was a well-known strategic and central area in doing export activities for the world's best pepper spice. The strategic location of Aceh in this region created a great interest among foreigners in doing their trades. Consequently, Aceh became the centre for global shipping and trade in Asia. The patterns of business and trade practices at that time is so diverse. Many business activities which carry out by the society of Aceh are influenced by foreign cultures. This can be seen from the practice of Gala and other business practices as done by the society in Aceh currently.

In traditional practices of Gala, there are three (3) models of Gala which frequently used by the society in Aceh. This proves that the society in Aceh has a great interest towards Gala. It is also an important Islamic financing instrument in conducting business activities, especially among the inland communities throughout Aceh. The practices of Gala as applicable in Aceh's society can be based on either conventional or *Shari'ah* compliance practice of Gala.

The first model of Gala depends on the conventional practice. It is popular among the members of the society that lived around the region of South West Coast of Aceh. It is identified that there are many problems occurred rather than benefits with this conventional model of Gala. This model is less considerate on social conditions of the middle or lower class of society. Regardless whether they are economically desperate for financial support to continue their business or for the urgent needs of their family, the increase in the payment will not be stopped. The conventional Gala may involve two or more persons. An illustration can be based on Gala's transaction concluded between A (the land owner), B (Gala's receiver/pledgor), and C (third party/pledgee).

Illustration of the conventional Gala (the first model): A (the land owner) will pawn the land to B (Gala's receiver). The pawned land will be valued either in money, gold, or based on other objects of value. In this first model of Gala, B acts just like a loan shark who gives the value of any pawn requested by A without considering the ability of A to pay back the pawn's value back. This model of Gala will be problematic in the future especially when A fails to pay back the value of his pawned land. Moreover, A is economically from a lower-class that has limitations in paying off the value that he gets from B. In paying back the value of pawned land, A maybe will take up to eight (8) to ten (10) years. The time span of eight (8) to ten (10) years will also lead to a shift in the value of the pawned land. In a situation, where B used an object in the exchange of the pawned land to A, the value of the object may also change.

If A receives money for the value of the pawned land, A will have an advantage since the value of money is decreasing and only has a nominal value. However, if A takes the value of his pawned land with gold, then A will face difficulty in paying back the value of pawned land since the value of gold increases day by day. This may lead to injustice to A in so far as benefits are concerned.

Moreover, under this conventional Gala model, it does not provide a space for the pawned land to be managed by A. The pawned land will be used by B himself. Sometimes, the profit earned by B from the pawned land may be greater than the value of Gala as obtained by A as the owner land. In increasing the profit, B (Gala's receiver/pledgor) will make a pledge to C (third party/pledgee). This causes a double layered of pawnbroking. A pawnbroking over another pawnbroking has become a practice commonly done in certain parts of Aceh.

By using this first model of Gala, moral values such as to help, relief, trust, and religious as promoted by the traditional culture of Aceh were ignored. This model of Gala is influenced by European culture that entered Aceh through channels of trades in the 18th century. It less concerns with social aspects and more inclined towards business activities that only promote worldly interests. It solely seeks profit-making (as much as possible) in order to achieve economic goals. This Gala's model has long been done by some members of the society in Aceh. Unconsciously, they have adopted a capitalist economic system in Gala that only promotes profit and does not create religious/moral elements in business activities.

The custom stakeholder, religious scholars, and Aceh government should have eliminated the conventional model of Gala model since there is a lot of problems rather than benefits. Moreover, the value of goods in this Gala's model is greater than the nominal value obtained by the Gala's receiver. Occasionally, the Gala's giver has to give up on his/her land since it takes a long time to reach eight (8) years of Gala. The

land ends up to be owned by the loan shark. Such practice is threatening the sustainability of life for the lower class of society in Aceh. This situation should be taken seriously by the custom stakeholders, religious scholars, and Aceh government since they are obliged in making Aceh to have implementation of *Shari'ah* based system.

The second model of Gala is practiced among members of society of South West Coast Region in Aceh. Generally, they apply the concept of Gala that carries the values of justice, equality, transparency and religious. This second Gala derived from an Islamic concept of *Ar-Rahnu*. *Ar-Rahnu* is a concept of pawnbroking in Islamic economy. The practice of this second model of Gala is claimed as a cultural practice by the society without any relation to religiosity and the concept of Islamic economic, although they are the same in practice.

Illustration of Ar-Rahnu-based Gala (the second model): where A is Gala's giver who owns paddy rice fields and B is Gala's receiver. B is also well-known as a merchant who has business with paddy rice. A pawns his paddy rice fields to B. Instead of taking the paddy rice fields for himself, B gives back the said fields to A, so A can continue working with his paddy fields. This is subject to certain agreed terms. The consideration is given here on the reason that A as the owner of the paddy fields will no longer have other job to do. Moreover, B also does not have the skill to manage the fields. By applying the concept of mutual trust between A and B, they can work together in achieving each party's benefits. A will be given fees for his works on the pawned paddy field by B. Eventually, A will use the fee that he received to pay back the money that he got from B from pawnbroking his land.

Rice fields that are pawned usually at eight (8) aree. This term is used by referring to *Shari'ah* terminology that is referred by the society in Aceh. The money that has been given to A as the owner of the rice field is usually without any additional cost. When come to harvesting time, it can be up to 8 aree (16 liters). The owner of the capital will be given the yield of 1 gene. It is not required, but it is usually given to B. If the result is 4 aree (8 liters), it will be given ½ gunca.

The third model of Gala carries values of justice, equality, transparency, and religiosity. *Illustration of entrepreneurship-Gala (the third model):* in this model of Gala, A is the owner of paddy rice field, and B is an entrepreneur. A then pawns his land to B. B wants to manage the said paddy rice field, he must pay the rent to A as the owner of the paddy rice field. The value of the pawned paddy rice field is usually around Rp10, 000,000 for 3 years. It is usually paid in instalments for the borrowed money around Rp1,200,000 to Rp1,500,000 per 4 months. In a year it can be paid up to Rp.3.000.000 and can be ascertained for 3 years. After three years, if the owner of the land fails to pay off the value of pawned land, the extension period of the pawnbroking will take place.

Among of these three (3) models of Gala, the second and third Gala models are very useful to help farmers in obtaining fund quickly without having to deal with Islamic financial institutions that offer microfinance products. They take a long time to release the required financing and that make farmers and members of society to re-think whether to take such financing product or not. The researchers believe that the concept of Gala is influenced by *Shari'ah* concept of *Ar-Rahnu*. Under this concept, the social aspect is considered without only prioritizing the benefit itself. Additionally, the mutuality towards each other is also considered under this concept.

Gala has similarities features with Islamic pawnbroking or also known as *Ar-Rahnu*. According to Imam Ibnu Mandur, *Ar-Rahnu* is what is given as a guarantee for a merchant's goods. Islamic pawnbroking or *Ar-Rahnu* in Islamic law has a strong legal basis. Its legality can be found in Al-Qur'an, based on the verse no. 283 of Surah Al-Baqarah. It is also narrated by Bukhari and Muslim, from Saidatina Aishah binti Abu Bakar, she explained that Rasulullah (bless and peace be upon him) had purchased food from a Jew by making his armour as a guarantee. Some scholars' have the opinions that the said armour was used as the security for the pawned value. Muslim scholars from Syafi'e and Hanbali schools of legal thought are in the opinion that the maintenance fee of the pawned item is under the responsibility of the person who makes the pawnbroking because the goods is his property. According to Ibnu Rushd, a small number of Muslim scholars from Maliki school of legal thought said that the pawnbroking can be made at any price and on all kinds of trading, except

for the sale and purchase of currency.

In the opinion of Hanafis, the making of goods as a guarantee for a receivable right may be used as the right of the payer, either in a whole or in part. Muslim scholars from Syafi'e and Hanbali schools of legal thought interpret *Ar-rahnu* as the making of material goods as a debt guarantee which can be used by the debt payer if the person who makes such guarantee cannot pay for it. *Ar-Rahnu* concept is practiced around the South West Coast area of Aceh. It is allegedly brought and influenced by Muslim traders from Arabs, Egypt, and Turkey. They systematically apply *Ar-Rahnu* in their Islamic economic system.

4.2 Challenges and the Role of Government's Lembaga Keuangan Syariah (LKS) in Responding to Gala Financing Products

The presence of LKS in Aceh should be able to provide positive and productive values. LKS as a financial institution is expected to revive the micro-economic sector for all lower-level society in Aceh. LKS has a mission to put forward a change through a social mission. It stands as a financial institution and it is also expected to have a social mission that relevant to the concept of Islamic economics, i.e. the principles of help and equity.

LKS as a financial institution is also expected to response to economic behaviours that currently developed in the society of Aceh. It is a correct time for LKS to direct all forms of micro-financing to the productive sectors. It is also necessary to abandon the consumptive pattern that is not in favour of the populist economy. LKS in the future is expected to be more sensitive and responsive toward popular economic issues. LKS which operates in Aceh should understand the local wisdom or values by responding to the desire of the society. They should be positive and productive in making Islamic-based Gala models as Islamic financing products at all LKS institutions that operate in Aceh. It is very important for LKS to consider Gala by looking at the future competition between LKS and conventional financial institutions. Realistically, the government should consider to have a regulation in dealing with such competition.

The Government of Aceh and Regency/Municipal government have the comprehensive authority through the Law of Aceh Government or UUPA in considering the productiveness of the micro sector and the competition that faced by LKS. The government should and need to find a way to formulate *Qanun* (a regent regulation) that suitable with LKS's Islamic financial institutions in the future. By doing so, LKS can operate accordingly to the government's mission and able to nurture the micro-economic sector. This needs to be realized immediately by the government in increasing the LKS market that is able to encourage the economy of the lower class of the society. Besides the government, the members of the society must also contribute to the progress of LKS by encouraging LKS to response positively towards the local phenomenon and economic behaviours that occur among the society's members from the lower class.

The government is expected to direct LKS in finding answers for the micro-economic problem in Aceh. They also may direct the acceptance of Gala as one of financing products in LKS. This can be a solution in alleviating economic problems that are faced by the society's lower class in Aceh. Moreover, it can create a more productive sector by changing the consumptive behaviour.

Aceh is a special region of Indonesia that has a special autonomy to implement Islamic system. Aceh should be able to create the added value and prosperity for its society, so that it will be a synergy between the government, LKS and society. This can be done by realizing the economic independence of the society. The presence of UUPA as a new legislation can be a new motivation for the Government of Aceh in realizing all interests of the society. Moreover, it is also mentioned that under UUPA, the Government of Aceh through the Governor has the right to coordinate LKS. Thus, LKS institutions can perform activities in accordance with the vision and mission of Aceh Government in realizing economic independence among the society's lower class in Aceh.

5. Conclusion

Gala is a traditional financing instrument that has been applied and practiced for a long time in Aceh, especially around the West Coast region. There are three (3) models of Gala financing. They are: (i) the conventional Gala; (ii) *Ar-Rahnu*-based Gala; and (iii) the entrepreneurship-Gala. The society from the South West Coast region of Aceh and majority part of Aceh are generally expecting Gala can be applied by Islamic financial institutions.

Due to the limited traditional financing of Gala, the presence of LKS is becoming the new platform in improving the micro-economic sector in Aceh. LKS as a financial institution must be more sensitive towards economic issues and patterns that exist among the lower class of the society. Thus, the presence of LKS in the future will be no longer stood as a financial institution that only prioritizes profit, but also considerate towards the society's social aspects. The researchers hope that LKS can pay more attention in making the traditional Gala that based on the principles of Shariah can be applied. While, LKS can create Gala as Islamic financing product, they can also bring local wisdom or values in its operation.

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