

INNOVATION AND ISLAMIC FINANCIAL FATWA IMPROVING AGRICULTURAL PRODUCTIVITY

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Abstract

The Islamic financial system and its innovations can stimulate agricultural productivity and provide welfare for farmers. This study aims to: (1) reveal the views of farmers about innovation and the fatwa of ulama, (2) farmers' opinions on the Islamic financial system, and (3) farmers' statements about the traditional Islamic financial system in increasing productivity. The research uses a descriptive qualitative case study method with a Giddens structuration approach. This research is concerned with meaning, context, and emic perspective. Data analysis by analyzing important statements, formulating, describing, and reducing data to findings, propositions, and conclusions. Data collection and analysis were carried out simultaneously, prioritizing observation and interviews and the researcher himself as the main instrument. The research findings show the importance of innovation in Islamic finance. Farmers feel very helped by traditional Islamic financial systems such as partnership, one-third share, and one-half share models. The system can help farmers, both the landowner and land manager. The existence of the traditional Islamic financial system supports the welfare of the farming. Better if Indonesia Islamic financial institutions adopt the system. So that financing for farmers becomes easier and encourages the progress of the agricultural sector in Indonesia.

Keywords: *Profit and Loss Sharing; partnership; one-half share model; one-third share*

Abstrak

Sistem keuangan islam dan inovasinya dapat menstimulus produktivas pertanian dan memberikan kesejahteraan bagi petani. Penelitian ini bertujuan: (1) menyingkap pandangan petani tentang inovasi dan fatwa ulama, (2) Opini petani terhadap sistem keuangan Islam, (3) Pernyataan petani tentang sistem keuangan Islam tradisional dalam meningkatkan produktivitas. Penelitian menggunakan metode deskriptif kualitatif studi kasus dengan pendekatan strukturasi Giddens. Penelitian ini mementingkan makna, konteks, dan perspektif emik. Analisis data dengan melakukan analisa pernyataan penting, merumuskan, mendeskripsikan, mereduksi data menuju temuan, proposisi dan kesimpulan. Pengumpulan dan analisis data dilakukan secara simultan; memprioritaskan observasi dan wawancara dan peneliti sendiri sebagai instrumen utamanya. Temuan penelitian menunjukkan pentingnya inovasi dalam keuangan islam. Petani merasa sangat terbantu dengan



adanya system keuangan islam tradisional seperti pertelon, paruhan dan bawonan. System tersebut dapat membantu petani baik dari pihak pemilik lahan maupun pengelola lahan. Keberadaan system keuangan islam tradisional tersebut turut mendukung kesejahteraan masyarakat petani. Akan lebih baik, jika system tersebut dapat diadopsi oleh lembaga keuangan islam di Indonesia. Sehingga pembiayaan bagi petani menjadi mudah dan mendorong kemajuan sector pertanian di Indonesia.

Kata Kunci: *Sistem Bagi Hasil; Bagi hasil; Separuhan; Pertigaan*

INTRODUCTION

Financial innovation has a positive effect in many ways (Rafikov & Akhmetova, 2020; Rosly, 2010; Khan, 2010; Ayub, 2009). No exception to increasing the productivity of agricultural products. Evidence shows that Islamic finance innovations alleviates the 2008 global financial crisis in the United States (US). Furthermore, the ulema's fatwa on business transactions also increases the yield of agricultural products. Innovations and ulema's fatwas in agriculture have been carried out sporadically in several countries, including the US, Iran, and Sudan. The results prove financial innovation increases agricultural productivity (Djakfar et al., 2019; Khasanah, 2013).

Khasanah et al., (2020) stated that farmers still have difficulty getting liquidity as their agricultural business capital, both from the government and conventional banking circles. Therefore, they seek business capital in other sectors, namely the informal sector, including moneylenders, cooperatives such as banks, and other sectors (Karim, 1989; Chapra, 2000; Chapra, 2011). Residents forced to take money from moneylenders and fraudulent financial institutions are subject to high-interest rates ranging from 20% to 40%. Luckily, residents who get capital from Islamic financial institutions with an interest-free system can fully develop their businesses. Still, these Islamic financial institutions are very limited in number (El-Komi, 2010).

The countries of the G7 and G20 groups, which are most developed countries, have taken strategic steps by innovating their financial systems (Djakfar, 2019). The conventional financial system carries out financial innovations by lowering interest rates to as little as zero percent. The result is that countries hit by the financial crisis gradually recover. Thus, the financial innovations carried out by these developed countries are essentially the same as the prohibition of usury, namely interest-free loans. Because usury is haraam, which economically can lead to financial inflation, which can reduce the value of welfare (Buzed, 2004).

At the end of the New Order government by President Soeharto, Indonesia changed its economic policy from initially relying on the products of



its agrarian traditions to finally getting a world achievement known as self-sufficiency in food. After that, however, Indonesia relied more on science and technology products and the conventional financial industry. At its climax, Indonesia experienced economic bankruptcy due to the economic crisis, and Suharto stepped down as president.

The New Order not only marginalized agriculture but ignored the aspirations of the citizens. Because, in essence, many Indonesians are agricultural citizens (Umrotul, 2015). Economic development does not pay attention to society's sociological and empirical aspects. When Indonesia still relied on its agricultural products, Indonesia achieved world achievements, namely winning the championship of the first in the field of rice self-sufficiency in 1984. After agriculture was neglected for the next four years, the rice crisis hit in 1998. Indonesia imported 6 million tons of rice, equivalent to 25% of rice on the world market, making Indonesia one of the largest rice importers in the world.

Thus, in other words, government policies greatly influence the productivity of the agricultural industry. Since 1984 the government has not prioritized agriculture in its development concept, even the industrial and service sectors. The evidence says that four years later, in 1998, Indonesia became the largest rice importer in the world. Even though the people did not protest, history has proven that the New Order's actions were wrong.

The productivity of the agricultural sector carried out by farmers is influenced by three things. First, innovation related to production management needs. Second, fatwas from local clerics related to plant cultivation. Third, financial resources to drive agricultural productivity (Djakfar 2019). These three factors determine the success of farming. If the management wants.

As an agricultural country, Indonesia experienced an economic crisis in 1998 and a global financial crisis in 2008. Santosa (Kompas, 26 September 2016) stated that the international economic order hegemonized Indonesia. Indonesia may rely on agricultural products, but its rural production facilities still depend on products from developed countries, namely the United States and Europe. Meanwhile, the government of developing countries such as Indonesia is still a continuation of developed countries. International companies that produce production facilities in developed countries are known as Transnational Corporations (TNC). This TNC has seeds, chemical fertilizers, and pesticides. Developed countries that own TNC asks developing countries to market TNC production facilities to farmers.

The US and Europe were victorious in World War II, followed by developing countries. Developed countries change the orientation of economic policy from the direction of economic nationalism and protectionism to an



open economy. Thus, the industrial giants of developed countries expand developing countries so that their farmers buy agricultural facilities from developed countries. From the 1970s to the 1990s, developed countries made the World Trade Organization (WTO) a vehicle for dictating developing countries.

Antonio (2001) reveals that there are about four models in the Islamic financial system: mudharaba, musharakah, muzara'ah, and musaqah. Many Indonesian farmers practice two models, namely, mudharabah and musharakah. Only Iran practices the mudharabah system. Islamic countries that are predominantly Shia practice mudharabah as their national financial system (Makiyan, 2003). Mudharabah can run effectively due to two things: the Islamic management system and the involvement or policies of the Iranian government. It is based on the results of research conducted from 1984 to 1994. That is, during the change from the conventional financial system to an interest-free sharia system (Hudayati, 2009; Kaleem, 2009). The sample is applied to all Iranian banks. The mudharabah agreement proves that the repayment of loans to banks can run correctly and avoid inflation. The Iranian government nationalized its entire financial system into an Islamic Bank (Rahardjo, 2003). Another proof is that since the superpower countries embargoed Iran, Iran's financial system is still stable.

Iran's financial system is a model and example for other countries. One of them is a country that has embargoed Iran, America. US agricultural sector went bankrupt after the economic crisis hit in the 1980s (Crane & Leatham, 1995). Thus, US farmers cannot rely on debt or credit from the banking world. Furthermore, the US government recommends that US financial intermediaries innovate by doing mudharabah to provide external equity capital for agricultural production. The 1970s were an era of progress in the farming world in the US because banking interest was close to zero, and the leverage was high, making it profitable. Whereas in the 1980s, commodity and land prices were low, bank interest rates were high and unstable. This causes the profit of agricultural products to decrease and increases the risk of agriculture. Furthermore, this condition triggers the emergence of bad loans, loan delinquencies, foreclosures, and bankruptcy in the agricultural world.

The next financial innovation was carried out in a country in the African region, namely Sudan. Sudan is categorized as an emerging country with its financial system using the interest system. As a result, Sudan almost went bankrupt (Al-Harran, 1996). Since 1990, Sudan has innovated its financial system into an Islamic financial system, namely the musharaka system. When using the interest system, the Sudan economic development paradigm tends to ignore the virtual perception of its citizens. This Islamic financial innovation helps the poor and is a non-touched bank. With the existence of financial



innovation with a musharaka contract, the Sudan economy is excited again. All financial resources are formatted with a musharaka system. This system focuses on developing agriculture and animal husbandry, especially for small entrepreneurs. The Sudanese economy has improved within three years with indicators of changes in Gross National Product (GNP). In 1990, Sudan's GNP was still minus; in 1991, it rose to 7%; in 1992, it rose again to 11.3%; and in 1993, it reached an average of 15%-19%.

Adopt an Islamic financial system to support the community to overcome their financial problems through medium and long-term financing. Small farmers, small entrepreneurs, and small artisans can put forward their hopes to achieve their goals through Islamic financial institutions. In the conventional economic system phase, they do not get the opportunity to receive any credit from conventional financial institutions because they are considered creditworthy.

Based on the last studies, the researchers examined agricultural products' productivity after the ulama's fatwa and innovations. Thus, this study focuses on analyzing the extent to which agricultural productivity is influenced by the fatwa of ulama and innovations in the agricultural system. Thus, it is hoped that the research results can affect agricultural cultivation because agricultural productivity will further increase the contribution to the welfare of farmers.

LITERATURE RIVEW

Innovation in the process of developing Islamic Law is a necessity. In other words, the Islamic economic perspective on innovation is a must. The aim is to decipher the nash (instructions) that require renewal in at least one hundred years (Al-Qasim, 1977). Renewal is in line with the concept of innovation. In the field of muamalah, there must always be innovation. Innovation is the answer to emerging problems.

Economics and muamalah are dynamic and complex aspects of life. New problems often occur that have not arisen in previous lives. It follows the Hadith of the Prophet

"Inna Allah yab'ats li hadzih al-ummah 'ala kulli ra's mi'ah sanaah man yujaddid laha dinaha"

That means "Indeed, Allah sends to this ummah at the end of every hundred years a person who renews." Strictly speaking, this hadith explains that human life is full of dynamics and challenges, so there may always be new unsolved problems.

Financial innovation to reduce costs, improve product quality, improve services, design better products, longer product life cycles, respond to



customer needs and demands, develop new products and services, and new marketing techniques (Khasanah, 2019; Evangelista et al., 1998). Innovation has a significant and strategic role in the global management arena because innovation serves to achieve competitive advantage (Hitt et al., 2001; Makiyan, 2003; Kuratko et al., 2005). Next, Zhang et al., (2006) clarifies innovation as a process of applying skills and resources. Resources for developing new products and or services to build new products and operational systems to provide the ability to respond to demands.

In agricultural finance, interest-based credit facilities are insufficient to finance farmers' operations (Arifin, 2002; Chandio et al., 2021; Marr et al., 2016). Agricultural production contains many risks, especially the risk of crop failure and fluctuations in the price of crops played by the mafia. Because of this, interest-based financial institutions have the following weaknesses: (1) they do not reflect a sense of fairness or business fairness, (2) the transaction system is not flexible, (3) banks are worried about returning principal and interest, (4) hindering innovation for small businesses such as agricultural sector and (5) does not encourage the creation of business partnerships. Therefore, some analysts suggest that conventional financial institutions innovate by converting the Islamic financial system. For example, by financing partnership models such as *mudarabah*, *musyarokah*, or *muzara'ah* schemes. Innovations made must be by the problems that arise (Mishchenko et al., 2021; Pradhan et al., 2018). Innovation cannot be separated from the text. This reality requires *ijtihad* (hard work or perseverance) and *istinbat* (legal decision-making) efforts to accommodate these economic problems (Masud, 1977). The phenomenon of legal reform is not enough to understand the compilation of Islamic Law. More than that, it requires an understanding of methodology (*manhaj*). Many life problems contain challenges, so it is necessary to *ijtihad* to reform Islamic Law. Several factors influence innovation, including changing times, industrial progress, trade, services, contract agreements, technology, communication, etc.

Innovation needs to pay attention to several factors, among others, namely (1) The existence of social changes consisting of changes in culture, economy, and politics (Al-Qaradhawi, 1989). Ulama needs to re-examine the past paradigm, (2) The development of science and technology affects public opinion, so it requires *rajih* (a critical study to choose a stronger opinion), (3) Ulama need to examine contemporary problems in complexity and *manhaj* (choose methods) that make it *taisir* (easier) and *al haraj* (avoid difficulties) (Al-Qaradhawi, 1989; Al-Qaradhawi, 1993; Al-Qaradhawi, 2001).

Through the adoption of the traditional Islamic financial system, it is hoped that the level of financial accessibility for farmers will continue to increase. Furthermore, this is a driving factor for the realization of the



revitalization of the agricultural sector. It will trigger and increase agricultural productivity. Of course, It is needed to secure the country's food security and sovereignty system.

Economic Fatwa as the Answer to The Problem

Economic Fatwa is the answer ulama of jurisprudence. In the economy, new problems always require quick and appropriate solutions. Because it is directly related to human life. Thus, the existence of the ulama cannot be separated from the community's life. Society always needs a fatwa from *ulama* when a problem arises. If the community separates itself from the ulama, then there is a possibility that the community will be trapped in error. Fatwa is a religious answer to all the problems of Muslims in everyday life (Amin, 2013). The fatwa process is not only based on the text in the *nushush syar'iyah* (instructions) but also reflects the social conditions surrounding it.

In the early era of Islam, when the Prophet Muhammad was still alive, the Koran and the Sunnah could explicitly answer the people's problems. After the death of the Prophet, the sources of Islamic law were expanded to *ijma'* (consensus) and *qiyas* (the process of deductive analogy). *qoul* (all ulama) compiled Islamic law in the books of Fiqh in the middle of the century (Suyuthi, 1987; Musa, 1989; Al-Zuhaili, 2007; Al-Bugha, 2010;). Thus, the existing law is not sufficient to answer contemporary problems. In dealing with contemporary problems and answering these contemporary problems, *ulama* must reform Islamic law, whose output is in the form of fatwas.

There are several stages in making a fatwa by the National Sharia Council-Indonesian Ulema Council (DSN-MUI) (Barlinti, 2010). The pillars of a fatwa or elements in a fatwa consist of; (1) *Mustafti* (requester/applicant for fatwa), (2) *Mufti* (authoritative cleric in fatwa), (3) *As'ilah* (question or problem submitted to obtain a fatwa), (4) *Ajwibah* (decree of fatwa) or solution of the issues raised in the fatwa (Sam et al., 2011). DSN-MUI performs the fatwa procedure issued as follows. First, problems or questions raised by industry, regulators, or the public to the DSN-MUI Daily Implementing Body (BPH) are then reviewed by the Working Group; Second, the formulation of the problem is submitted to the BPH DSN-MUI; Third, the draft fatwa from the DSN-MUI BPH is then submitted to the DSN-MUI plenary with a series of activities; (1) presentation of the DSN-MUI BPN draft fatwa, (2) plenary responses (general and specific), (3) refinement of the fatwa draft, (4) harmonization with fatwas and other regulations, and (5) fatwa approval. There are provisions for *fiqh* proposals that mention changes in legal fatwas due to changes in times, places, conditions, intentions, and customs (Isma'il, 1985; Amin, 2001; Jumu'ah, 2008). This formulation explains that Islamic law



is flexible and contextual in that it is under the dynamics and developments of the times. This formulation is certainly clear enough to discuss new issues.

This confirms that Islamic Law is declared standard and cannot be changed because Islamic Law or Fiqh results from the *ijtihad* of previous *ulama* who are standard and sacred. The assumption of the power and sacredness of Islamic law is as strong as *nushush syar'iyah* (the instructions) contained in the Qur'an and al-Hadith. Historically it is different, al-Qur'an and al-hadith have been discontinued, but Islamic law continues to change because society continues to change and develop with various problems.

Khasanah (2013) examines the practice of the profit and loss sharing system in the agricultural. The results show that most rice farmers' sources of financing are traditional Islamic financial systems, namely a profit-sharing system called partnership (Java: *bawonan*); one-half share model (Java: *paroan*); one-third share (Java: *pertelonan*). The financing model in the Islamic Financial system is divided into debt-based financing and participation-based financing. The profit-sharing system, which farmers mostly use, is in the category of participation-based financing. The agricultural sector's banking system or financing policy should adopt the traditional Islamic financial system, which farmers mostly practice (Khasanah 2013; Khasanah 2015).

Islamic law discusses issues of worship and muamalah (Asni & Sulong, 2020; Kasdi, 2019; Mursyid, n.d.; Rafikov & Akhmetova, 2020). Worship is an Islamic teaching that regulates human relations with Allah, while muamalah is an Islamic teaching that regulates human relations with other humans. For Muslims, muamalah is still worshiped but is classified as *ghaira mahdlah* (impure) because it is a form of obedience to Allah's teachings.

This discussion of Islamic law is classified into four types, namely: (1) Fiqh, which is the result of *ulama'* thinking based on the Qur'an and Hadith using the *ijtihad* method; (2) The fatwa is the result of the thoughts of *ulama* who relate legal events (*waqi'*) that Muslims question by looking for references in the text of the Qur'an-Hadith and also based on the products of Islamic law created by the thoughts of *ulama* and fiqh; (3) Qanun is a positive law in the form of legislation established by a country; and (4) *Qadha* is a judge's decision in deciding a disputed case in society (Mudzhar, 1994; Mudzhar, 2013).

The constitution states that Indonesia is neither religious nor secular but a state that upholds religious values. Therefore, religion can be a source of law, inspiration, a basis for thinking, and a guiding method in the life system of the nation and state. The constitution opens the adoption of the principles of religious teachings into the legislation. In this context, the DSN-MUI fatwa can be a source of law and a basis for thinking. Especially the MUI fatwa related to sharia economic issues. The faster the development of the Islamic economy,



the greater the challenges. The goal is to make the Islamic economy more competitive than the conventional economy.

Islamic economics combines two disciplines, namely, economics and Islam. Islamic economics must pay attention to the principles that exist in both. Economic practices that do not pay attention to the principles of Islamic teachings can potentially cause imbalances in the economy. The consequences of usury economic practices as shown by the capitalist and socialist economic systems. On the other hand, economic practices that only prioritize sharia principles without regard to economic principles will potentially be trapped in the philanthropic area, which *al-istirbah* (considers the attempt to withdraw profits taboo). In the long term, it has the potential to bring bankruptcy. Therefore, combining economic principles and Islamic teachings in economic practice is necessary.

METHOD

The research method uses qualitative research by utilizing the social paradigm. The research process not only questions cause and effect but deepens understanding of the problem under study in more detail. Weberian states that qualitative research is a deeper identification of problems and social realities. Problem identification is not enough to see the cause-and-effect side; it explores the values, understanding of the innovation system, and the fatwa of the *ulama*. Especially that underlies farmers in cultivating agriculture.

Bungin (2010) states that qualitative research is a process that does not only have the ambition to collect quantitative data. Researchers must try to deepen social phenomena so that researchers understand the phenomena and events that cause these phenomena. Meanwhile, Giddens (1984) sees this social phenomenon from the structuration theory perspective. According to Giddens, qualitative characteristics lie in its emphasis, which focuses on attaching importance to meaning, context, and emic perspective.

The research process is carried out systematically and gradually. Both data collection and analysis are carried out simultaneously, prioritizing observation and interviews and the researchers themselves as the main instrument. Gradually the researcher analyzed the data from data collection, presentation, and data reduction to findings, making propositions to conclusions. Giddens' theory of structuration in designing qualitative research uses multiple hermeneutics. The implementation is to interpret social practice using two levels of interpretation. In the first interpretation, researchers understand social practices based on what farmers understand, understand, conceptualize, believe, believe, interpret, and interpret. In the second interpretation, the researcher interprets the first level interpretation. The



researcher processes the first-level interpretation by elevating it to a high-level language (metalanguage). This interpretation process uses concepts or constructs by using the outstanding scientific repertoire.

RESULT AND DISCUSSION

Farmers' Views on Innovation and Ulama's Fatwa

The traditional Islamic financial system is a financial system helps farmers a lot. Their production increases and makes life more prosperous. The traditional financial system is profit-sharing. The traditional Islamic financial management model practiced in the agricultural finance system is quite varied. However, most farmers practice a profit-sharing system in their agricultural production. The profit-sharing system is an innovative system declared under the fatwa of local ulama.

Two partnership models are best known among farmers to support the management of their agricultural operations. Namely, the profit-sharing system for the partnership, one-half share model, one-third share. This system continues to encourage farmers in the villages to produce the sustainably.

Farmers choose the two models because they are antithetical to the obstacles or obstacles, they face in obtaining financing. Both models of the profit-sharing system are more of a financial innovation effort to find solutions for financing agricultural operations. Farmers hope to continue to be empowered in financing their agricultural production operations. The profit-sharing system is an effort to maintain its existence so that it can build an economically and spiritually prosperous family.

Because Javanese farmers are predominantly Muslim, the model developed is a model that has received legitimacy, such as a fatwa on Islamic law from ulama. There is a strong bond between the farmer and the ulama, especially efforts to make a living for his family. Farmers want things consumed for themselves, and to provide for their families are halal assets and *halan thoyiban* (contain good values for them). Farmers prefer both models because they are simple and easy to implement. Both models of profit-sharing systems are mostly practiced by Javanese farmers, mainly in East Java. Both models of the profit-sharing system in management contain consequences and responsibilities in the operational management of agricultural cultivation, which can be described as follows:

One-third share System

The important thing in agricultural management has at least four components, namely the availability of land, seeds, fertilizers, pest control, and human resources. Human resources must have the expertise to manage cultivating plants. Regarding management, agriculture is divided into



The partnership process with the One-third share system is a cooperation model between capital owners and smallholders. The owner of the capital has details of capital consisting of land ownership, provision of seeds, fertilizers, and pest control. In comparison, the sharecroppers have qualifications in terms of farming. These qualifications are used for agricultural work, including plowing, irrigating, and planting seeds. Furthermore, the work of the process of maintaining plants consists of removing grass, fertilizing, and protecting plants from pests and diseases. The last work is before harvesting and the harvesting process.

The profit-sharing process is carried out after all the harvest processing is complete. All agricultural products are weighed or measured, and a profit-sharing system is carried out. The one-third profit-sharing system with a 2:1 formula, where the owner of the capital gets a two-thirds share, while the sharecropper gets one-third of the overall harvest. For example, if the total amount of the harvest is 3 tons. Then shared between the owners of the capital and the sharecroppers. So, the owner of the capital gets 2 tons, and the cultivator gets 1 ton.

Half Profit-Sharing System

The one-half profit share model is a partnership model in the production process of agricultural commodities between farmers who own land and those with capital. In this case, both parties are owners of capital. The difference is land ownership.

Farmers who own land are only responsible for providing their agricultural land. In contrast, the second party must provide seeds, fertilizers, and pest control. This second party is also responsible for all the farming processes. That includes plowing land, plant maintenance, and harvesting agricultural products.

After the harvest process, Farmers will measure it to ensure the amount of harvest obtained. Next is to share the harvest. Profit sharing with a half system divides the harvest into two equally. The landowner gets half of the agricultural produce, while the second-party capital owner gets half the same as the first party. For example, the yield reaches 10 tons. Thus, the first party gets a share of 5 tons, and the second party gets 5 tons.

Islamic Financial System in the perspective of farmers

Farmers stated that they urgently needed access to finance. Ease of financing can help the operational costs of agriculture. On the other hand, the products available in banking and non-banks are not following what has become the habit of farmers. Existing financial instruments are inadequate to



meet the financing needs of farmers. So, we need a solution to solve obstacles, namely by innovating financial products.

Farmers believe that product innovation of Islamic financial institutions is slow. This is due to the low interest of the Islamic finance industry to innovate. Moreover, the misalignment and disharmony between sharia and civil law are also triggered. Furthermore, sharia law recognizes the existence of a *wa'd* (promise). However, civil law does not recognize it. For this reason, the problem of disharmony between sharia law and civil law requires a deeper analysis. Thus, the existing legal certainty can support the Islamic finance business. To build product innovation, various related parties must work together. As regulators, Bank Indonesia and the Financial Services Authority need to pay attention to the development of Islamic financial products. The two institutions must also provide space for innovation and the development of Islamic financial products.

For example, liquidity facilities such as sharia commodities have not yet received regulatory support. Whereas in Malaysia, sharia commodities have been used as an alternative to obtaining liquidity facilities. The most important thing that can be the main factor driving innovation in Islamic financial products is the coordination between DSN-MUI and regulators. With this coordination, it is hoped that there will be harmonization between sharia and civil law.

The Islamic finance industry must develop more innovative Islamic products. Because until now, there are still many people's needs that have not been covered by Islamic economics. For example, it is still difficult to find a sharia economic system to support farmers in the agricultural sector. This condition is different from finance in the industrial sector.

Next, sharia product innovation will give the community and industry players many choices to take advantage of this Islamic economic system. Indonesia has a Muslim majority population, so the increasingly diverse sharia products will make the Islamic finance industry grow more rapidly. This existence must be put to good use.

Farmers argue that Islamic financial industry players can reflect on conventional ones, which have many variations. Alternatively, Islamic economics can implement a similar program based on sharia from these variations by increasing the sharia program from the existing conventional program. The findings of Islamic financial innovations, which have become a tradition of farmers' finance to finance with the partnership, one-half share model, one-third share, should be adopted into the banking system. In this way, farmers' barriers to access to finance will be solved because the financial instrument from the financial institution is by farmer management.



Traditional Islamic Financial System Increases Productivity

The traditional Islamic financial system increases agricultural productivity. This opinion has the support of demographic human growth. Moreover, the social fact of land ownership also supports it because agricultural land is a means of productive crops. This social reality requires the community to control and own land to benefit agricultural areas and other purposes. For example, housing for the office industry, shops, resorts, hotels, apartments, etc.

There is a tendency to use the land for the benefit of sectors other than the agricultural sector, causing many farmers to be landless. This trend is happening to farmers today. Thus, rice cultivation perpetrators are divided into land-owning farmers and landless farmers, sharecroppers, or farm laborers. This causes the cultivation of rice plants as one of the community's livelihoods. In Malang City, about 10% of the total number of households the population still work as farmers. Meanwhile, in Malang Regency, the number of households working as farmers still dominates at around 60%.

A sorting process between farmers who have land and farmers who do not requires a pattern of cooperation. Of course, in terms of making rice cultivation a livelihood. Because logically, farmers who have large land, it is not possible for them to cultivate their land independently. Therefore, it is necessary to cultivate rice plants to carry out a partnership pattern between landowners and sharecroppers. Profit and Loss Sharing as an instrument can create job opportunities and increase their income (Mubyarto, 2005; Cordier & Santeramo, 2020; Rosly, 2010). Profit and Loss Sharing as an instrument can create job opportunities and increase their income (Mubyarto, 2003; Hasan, 2003).

Field data states that partnership as the basis for profit and loss sharing is a logical reality. This is a consequence of the development of rice cultivation. The structure of land ownership and agricultural workers shows the diversity of rice cultivation management. The existence of two parties in management requires a strong foundation, namely the partnership system. The principle of cooperation is based on an agreement between the parties involved in rice production management.

This discussion is supported by the Qur'an (Q.S. 36, Yasin: 33-35) that in the process of the food production system, three things are important and are key in the process of plants producing food: the presence of land, the presence of water, and seeds. According to the Qur'an, the process of humans endeavor to meet their consumption needs in two ways, namely, directly consuming natural products and fulfilling their consumption needs through the creation of their hands. For example, by working based on the skills they have. In other words, human consumption needs to rely in two ways: first, because of



ownership of assets; Second, the source of human livelihood can also come from the creativity of their expertise.

Partnership in the context of rice production management is also in accordance with the Koran (Q.S.; 4, Surat An-Nisaa':1). Partnership is a necessity in life. According to the Qur'an, the principle of mutual help must be framed positively, namely to build goodness and piety in human life. So the purpose of Partnership is not liberal, free without limits, and arbitrary (Q.S. 5, Al Maidah: 2). The priority of Partnership is to build kindness and laughter on the foundation of brotherhood in the context of social solidarity, distributing income, and opening up job opportunities.

CONCLUSION

Farm business management has at least four components, namely, the presence of land, the presence of seeds, fertilizers, plant-pest-killing drugs, and human resources. Management is grouped into two: *shohibul maal* (farmers who own capital) and farmers who cultivate the land. Meanwhile, there are two models of agricultural business management, namely the partnership, one-half share model, one-third share. Both are declared sharia-based, the one-third share system with a 2:1 formula, meaning that the owner of the capital can share twice, while the sharecropper gets 1/3 (one-third) of the harvest as a whole. The half-profit sharing system is a partnership model where both are owners of capital. The difference is in land ownership. After knowing the results of the harvest, then a profit-sharing system is carried out, namely by dividing the two equally.

The management of Profit Sharing System one-half share model and one-third share needs to be adopted into the banking system so that this financial management will support farmers more. The traditional system adopted into the modern financial system will have many benefits to encourage the world of agriculture to be more advanced. The banking system will help farmers a lot to increase their yields. Then the traditional system will become an applicable modern system. Thus, this is a model of financial innovation in the agricultural world, following the MUI fatwa.

Innovations in the world of agriculture that have been declared halal by *ulama* will be widely absorbed by farmers. Farmers who have applied an innovation system declared halal by *ulama* will increase agricultural productivity. Increased agricultural productivity, in turn, will improve the welfare of farmers. Ideally, this is what all parties want.

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