ISLAMIC MICRO FINANCING FOR AGRI-BUSINESS THROUGH COOPERATIVE UNITS

By
Prof. Dr. Eriyatno
Bogor Agricultural University
Center for Agricultural and Rural Development Studies
Departements of Agroindustrial Technology

17 March 2011
University of Agriculture, Faisalabad, Pakistan
International Seminars on Horticulture and Agribusiness in Developing Country
Islamic microfinance is a form of microfinance that is based on the shariah, or the body of Islamic law.

**KEY PRINCIPLES**

(Daud V. Abdullah and Keon Chee, 2011)

1. Belief in divine guidance
2. No interest
3. No haram investments
4. Risk sharing is encouraged
5. Financing is based on real assets
1. Micro-credit from commercial Banks
2. Rural Banking System (B.P.R)
3. Saving Loan Cooperatives (K.S.P)
4. MFI semi-formal and non-formal
5. Venture Capital
Bank Indonesia Rate

BI Rate

12.75%

6.75%
February 2011

Total Bank Credit = Rp. 1,756 Trillion = 195 Billion USD

- Commercial Bank Rate 11.88%
- Effective Credit Interest
  - Working Capital 14.23%
  - Investment 14.24%
  - Consumptive 15.93%
- Shariah Banking 2-3% of total market
  for Agriculture only Rp 1.76 Trillion (195 Million USD).
  Around 97.5 % Farmers has no access to bank system!
### MSME

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Enterprises</td>
<td>39,660</td>
<td>0.08%</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>520,220</td>
<td>1.01%</td>
</tr>
<tr>
<td>Micro Enterprises</td>
<td>50,700,000</td>
<td>98.90%</td>
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</tbody>
</table>

Estimated financing need: Rp. 304.19 Trillion (3.38 Billion USD)

**MFI**

- Conventional (interest based)
- Shariah (profit and loss sharing)
Intermediaries play an essential role by bringing buyers and sellers together, to perform financial transactions.

S&L Cooperatives

- Conventional (KSP 37,000)
- Islamic (KJKS 1,200)

Growth Rate: 3-4% per year
INDONESIA EXPERIENCES

Ministry of Cooperatives and SME

Coordination

Provincial CSME-Division

Supervision

KJKS (member based organization)

Regulation

Linkage (Capital Strengthening)

Microfinancing

Micro-enterprises (member owned or related)

Capacity Building

Business Development Service

Shariah Banking System
AGRO INDUSTRY MICRO-ENTERPRISES
1. Prohibition of interest (Riba) in all financial transaction, particularly in the forward currency exchange

2. Entitlement to return is due to liability of loss and vice versa

3. Obligations of trust (amanah), covenants (uqud), interdiction against unlawful (haram) earnings and expenditures, fraud of giving less than due in measure and weight (tatfif) and unjust enrichment.

(Islamic Development Bank, 2006)
e.g. interest free formula to evaluate Micro Enterprises loan proposals as well as risk management
Feasibility Analysis for Islamic Microfinance especially in Agrobusiness and Agroindustry (Banking Model and Non Banking Model)
SYSTEM APPROACH

ISLAMIC WAY

INTERDICIPLINARY RESEARCH

MFI

SME