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SHARIA FINANCING MODEL IN SUSTAINABILITY EFFORTS BUSINESS FOR FARMER MICRO (BIR ALI FARMERS GROUP)

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Abstract

Exchange rate fluctuations have long been recognized as a critical factor influencing the financial performance of import–export enterprises, particularly in emerging economies such as Vietnam, where international trade plays a central role in economic growth. This study investigates the impact of exchange rate volatility on the profitability of Vietnamese import–export enterprises through a qualitative descriptive analysis based on secondary data from the State Bank of Vietnam (SBV), the General Statistics Office (GSO), the World Bank, and industry reports from 2015 to 2023. The findings indicate that fluctuations in the USD/VND exchange rate exert significant effects on revenue, production costs, and profit margins of businesses involved in international trade. Import–dependent enterprises face rising input costs when the domestic currency depreciates, while export-oriented firms may benefit from improved price competitiveness abroad. However, the advantages for exporters are often moderated by factors such as exchange rate pass-through, contract rigidity, and rising costs of imported raw materials. The study also reveals that many Vietnamese import–export enterprises still lack effective exchange rate risk management strategies, relying primarily on short-term contract adjustments rather than financial hedging tools. Overall, the results suggest that exchange rate volatility poses substantial challenges to the profitability and long-term competitiveness of Vietnamese import–export enterprises. Strengthening risk management capabilities, expanding the use of hedging instruments, and enhancing financial resilience are essential for mitigating adverse impacts. The findings provide meaningful insights for firms, policymakers, and financial institutions in formulating strategies to stabilize earnings and support sustainable development in the context of increasing global economic uncertainty.

Keywords: *Exchange rate fluctuations; profitability; currency risk; trade competitiveness.*

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INTRODUCTION

Financial institutions play a crucial role in promoting business sustainability, particularly in the agricultural sector. The agricultural sector plays a highly strategic role in international development and is capable of maintaining the country's economic sustainability (Syofya & Rahayu, 2018) . The Central Statistics Agency (2020) recorded a -2.07% decline in economic growth, with gross domestic product (GDP) during the pandemic. However, the agricultural sector maintained stable growth of 1.75%. agriculture provide field the largest number of jobs is 40,757,151 with 27,802,434 workers, some of which, 17,251,432, are micro farmers or commonly called small farmers with micro farmer indicators own wide land not enough from 0.50 hectares.

The highest supplier of rice production in Indonesia is East Java Province, reaching 9,270,435 tons of unhusked rice per year, and Jember Regency is one of the largest contributors to rice production, reaching 9,270,435 tons per year. 623,264 thousand ton annual grain Central Statistics Agency, (2024) (BPS, 2023) . Jember Regency has great potential to develop into a major city, because its fertile land and strategic topographic location are commonly known as agricultural areas, so it is natural that Jember Regency experiences *a surplus of* up to 200 thousand tons per year.

This potential needs to be addressed through efforts and guidance to micro-farmers to increase production yields and maintain business sustainability. To achieve these goals, micro-farmers still face several challenges, including pest attacks, production problems, marketing, and selling prices. Data was collected to determine the biggest challenges currently being experienced by micro-farmers in Jember Regency. The actual phenomenon found from interviews with 7 micro-farmers in five sub-districts confirmed that micro-farmers are currently experiencing many challenges. "According to the source, 'Pest attacks cannot be predicted due to climate conditions, but micro-farmers can still overcome to maintain rice yields and quality, because of that problem. Micro-farmers must spend more production capital for rice maintenance, if there is capital? However, if we do not prepare additional capital, we are forced to find other solutions. Usually by borrowing first from the head of the farmer group, because limited access to capital loans in banks is difficult and must have collateral," said Mr. Eko, a micro-farmer in Jenggawah sub-district. Mr. Halim, Mr. Aris, and Mr. Rohmah from different sub-districts also expressed the same opinion.

Mr. Nurul stated, "Production costs are high but rice selling prices are low, and market competition is very tight. This makes it difficult for micro-farmers to increase production, only enough to meet daily needs. It is not uncommon for micro-farmers to take out daily loans at banks due to these various factors. If borrowing money from banks, the interest is high, and transactions are difficult because they have to be done online for registration. Lay people like us don't understand that." The interview results provided information that pest attacks, production costs, financial literacy, and marketing are major challenges for micro-farmers to sustain their businesses. Micro-farmers speculate that all of these challenges can be overcome by borrowing.

Phenomenon the compared backwards with phenomenon What should happen. Strewart and Nicolas (1998) stated that debt is not always the solution to fulfilling the capital structure. *Pecking Order Theory* is a development of the theory of *According to Financial Resources* , namely, in compiling the capital structure, financial managers rely on internal funds rather than external financing such as debt and equity, the option of making decisions with external financing is carried out if deemed absolutely necessary. This theory considers that a business will be more *liquid* with less debt or equity, because the business will not be dependent and able to grow without liabilities and burdens. There are many benefits to using this theory in capital structure, namely minimizing costs, flexibility, and helping to maintain the ownership structure.

According to the *trade-off theory* , the capital structure will be more optimal when the percentage of debt and equity contributions is optimized to maximize company value and minimize capital costs. The capital structure of companies in the agricultural sector in Indonesia shows *lagged leverage* , profitability, significant growth opportunities, and liquidity, so that *the pecking order theory* is stronger in explaining the choice of capital structure than *the trade-off theory* . The current problems of micro farmers require special attention from various parties to improve business sustainability. The government has helped by providing subsidized fertilizer from Pupuk Indonesia *Holding Company* (2024), debt forgiveness for 6 million micro farmers and fishermen, and the Jember Regency government program that produces and offers locally made fertilizer under the name "Si Jempol".

The government is very optimal in helping micro farmers to increase agricultural yields. Based on the results of previous interviews, micro farmers always try to get loans from banks in fulfilling the capital structure, therefore, it requires cooperation between micro farmers, the government and the financial sector. Banks have issued special financing products for micro farmers, but micro farmers are less interested because of high interest rates and require collateral, but in fact Bank Syariah Indonesia has issued a Sharia KUR product with a Murabahah contract and without requiring collateral for super micro businesses and micro businesses, but 56.58% of the population of Indonesia do not fully understand sharia-based financial products and services Financial Information Services System (2023), so that in addition to interest and collateral, financial literacy issues are also an obstacle for micro farmers to carry out sharia financing.

The financing models currently implemented generally utilize murabahah and musyarakah contracts. Meanwhile, most Middle Eastern countries use Bai Salam and Takaful contracts to help micro-farmers improve business sustainability. This combination of contracts has a positive impact on both micro-farmers and banks (Mahmood and Arshed, 2023:18). The adoption of takaful contracts provides a solution for micro-farmers and banks as a substitute and guarantor of collateral. This issue is crucial in efforts to increase rice production for micro-farmers. If there is no development, it will impact the economic results and income of the agricultural sector. Based on the Neo-Classical growth theory, developed by Solow and Swan (1957) who state that Economic growth depends on the increase in the supply of production factors (population, labor, and capital accumulation as well as the level of technological progress).

The development of this model will be implemented with the goal of ensuring the sustainability of micro-farmer businesses, with sustainability indicators based on calculations of income, welfare, and productivity levels. The results of this research will be disseminated to micro-farmers through financial literacy programs, with the hope of providing them with an understanding of the benefits of agricultural financing. The importance of developing

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this Sharia financing model is to facilitate the community as micro-farmers in improving their livelihoods. sustainability business.

Based on the description above, then this problem can be formulated regarding how the agricultural financing model is in an effort to ensure business sustainability for micro farmers ((Bir Ali farmer group)).

LITERATURE REVIEW

Bagus Prayogi and Daffa Aulia Ramadhan, entitled "Sharia Banking Contract Model: Alternative Financing for the Agricultural Sector in Indonesia," attempt to describe and identify a model for the Salam contract in banking, considering the problems faced by Islamic banks and micro-farmers. This study was conducted due to the suboptimal role of banks in providing financing to customers, particularly in the agricultural sector. This is due to the operational methods of Islamic banking and the limited knowledge of Islamic banking staff regarding Islamic jurisprudence (fiqh) (Prayogi & Ramadhan, 2024).

This study, conducted in 2023, noted that very few banks implement the Salam contract in channeling financing to micro-farmers. Nevertheless, the Salam contract is capable of coordinating credit needs, thus necessitating a role and action to meet the needs of micro-farmers. Following this study, research findings indicated that the Salam contract can be implemented in Islamic banking. However, an integrated model is needed between Islamic banking and microfinance institutions to ensure proper coordination of Salam financing. This study is similar to the upcoming research on Islamic financing models in the agricultural sector. However, this study examines the phenomena that occur between micro-farmers and banks, making the implementation of the model more complex.

Second, the study by Ibrahim Adeniyi Abdur-Rauf and Lukman Raimi, entitled "Aconceptual Discourse on Islamic Finance Investment Modes for Established and Emerging Entrepreneurs: Tripartite Implications," attempts to outline a conceptual discourse capable of bridging the gap by making investments available to micro-farmers to meet their financing needs. The study develops a model or concept for encouraging young and established entrepreneurs to invest in Islamic banking. As is well known, Islamic finance has become a significant player in the global financial market, making it attractive to offer unique investment opportunities consistent with Islamic principles and ethics (Implications et al., 2024).

After conducting the research, the findings suggest that providing resources through investment could be a solution. Thus, with this investment concept, banks are better able to channel financing and contribute to economic growth. This research is certainly related to the planned research, as it can help provide ideas for banks to increase the number of investors as resource providers, thereby channeling financing to the agricultural sector more effectively.

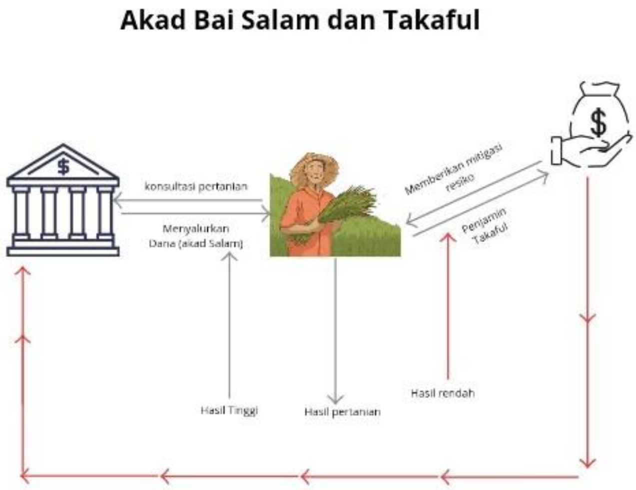
METHODOLOGY

Method Which used in study This is qualitative with approach studies This case study aligns with the research problem formulation and objectives, which are to explore and gain a deeper understanding of the limited interest in agricultural financing for micro-farmers in the Jember area. This research uses a case study approach, meaning the method employed is a thorough and detailed exploration of a case study involving micro-farmers (the Bir Ali farmer group) in accessing agricultural financing.

This research used interview, observation, and documentation techniques, then analyzed using Nvivo with triangulation as a credibility test. The final stage of the research method is data presentation and verification. Data presentation is the activity of organizing the data obtained into a structured form. the form that more easy understood And analyzed. presentation this data done For make report results study. In study This uses narrative text in the form of a chart as a data presentation technique and carries out verification by drawing conclusions to obtain conclusions from several interrelated statements to answer the problem formulation.

RESULTS

The study concluded that mudharabah contracts were ineffective in improving business sustainability, based on indicators like income, welfare, and productivity. However, the implementation of bai salam and takaful contracts, as experienced by one informant, had a slight positive impact on improving business sustainability. The transaction mechanism is as follows:



Sharia-compliant financing contracts with Bai' Salam and Takaful are sales contracts where payment is made upfront, followed by delivery of the goods at a future date, as agreed. These contracts are combined with takaful, or sharia insurance, to protect sharia financing from the risk of crop failure. Therefore, the implementation of these contracts will have a positive impact on both the owner of the capital and the mudharib.

Bai' Salam and Takaful Financing Mechanism:

- Shohibul maal made a salam agreement and a takaful agreement with the mudhorib with the following agreement contents:

a. The buying and selling price between the owner of the capital and the mudhorib

b. agree on the specifications of the goods to be handed over to the seller

1) Item size

2) The amount of goods

3) Form of goods

4) Quality of goods

5) Price of goods

6) The time and place of delivery of the goods must also be

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agreed upon.

c. Sharia insurance agreement with the following mechanism:

1) Each member of the farmer group or mudharib pays a certain amount of contribution (premium) into a collective fund or what is called the tabarru' fund (charity fund). This fund functions as a reserve used to help other members who are experiencing crop failure.

2) Tabarru' funds are managed by shohibul maal

3) If the mudharib fails to harvest, he can file a claim, and payment will be taken from the tabbarru' fund.

4) Thus, the owner of the capital and the mudharib protect each other from unexpected losses. This contract can also replace collateral or security.

- Shohibul Maal pays 100% of the price of the goods at the beginning after the contract is signed.
- Mudharib then uses the capital to produce or procure goods according to the agreed specifications.
- After the harvest period, the mudharib then delivers the goods at the specified time and place.
- The mudharib will receive a net profit from the total revenue minus the initial capital provided by the owner of the capital. The owner of the capital will also receive a profit from sales to distributors, based on the difference between the mudharib's and the distributor's prices.

The Sharia financing mechanisms implemented by these farmer groups are inefficient in increasing income, welfare, and productivity. Based on previous research in Middle Eastern countries, alternative Sharia financing models that have been able to increase income include the use of the Bai' Salam and Takaful Sharia financing contracts. Which has done by Ahmad Hudaifah, Bambang Tutuko, And Tjiptohadi Sawarjuwono with title *"The Implementation of Salam-Contract for Agriculture Financing Through Islamic-Corporate Social Responsibility"* this study tries to describe the formula or model scheme finance Which stable And in accordance with characteristics experience cycle farming paddy. study This participate with public through discussion And interview in a way deep. after done study found results ability micro farmers to raise funds is determined by the processes involved in production. the caused by Because micro farmers own need different during time production, so that micro farmers more choose to get capital from informal than banking. besides There are many requirements that must be met, such as buildings and so on, so that micro farmers feel burdened.

This study, conducted in 2023, found that very few banks implement the Salam contract to channel financing to micro-farmers. Nevertheless, the Salam contract is capable of coordinating credit needs, thus necessitating a role and act to fulfill need for micro farmers. after study This done The research results found that the salam contract can be implemented in Islamic banking. However, required model integration from banking sharia with microfinance institutions to ensure proper coordination of Salam financing. This study is similar to the research that will be conducted on Sharia financing models in the agricultural sector, but differs in that this study focuses on the phenomena that occur among microfinance farmers and banks, making the implementation of the model more complex.

CONCLUSION

The study concluded that mudharabah contracts were ineffective in improving business sustainability, based on indicators like income, welfare, and productivity. Furthermore, the implementation of bai salam and takaful contracts, as experienced by one informant, had a slight positive impact on improving business sustainability.

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