

Financing Product Design for Fisheries Through Sharia Micro-Finance Institutions

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Abstract

Fishermen in Indonesia have limited access to financial assistant from banks because they do not meet criteria set by the bank. One institution that could be able to provide access and solve this problem is sharia micro-finance institution (SMFI). This study aims for identifying fishermen needs on SMFI financing products and proposing the most suitable financing design which can be applied through SMFI. The study uses qualitative approach by adopting phenomenology technique and holding a focus group discussion (FGD) to acquire the intended design. The study results showed that in general, fishermen of Palabuhan Ratu need financing product from SMFI like consumptive financing for living or family needs and productive financing that can be used to support the sustainability of their business such as purchasing equipment, boats, fishing tools and so on. The proposed design which formulated by this study incorporates double-approaches financing design; firstly, optimizing SMFI's role as *Baitul mall* (house of fund) through two Islamic contracts model i.e. *Qard or Qardhul Hasan and Temporary Waqf*; secondly, both optimizing SMFI as *Baitut Tamwil* (house of financing) through three financing products that is Parallel Istishna (PI), Syirkah Mudharaba Mutlaqa (SMM) and *Ijarah Muntahia Bit Tamlik (IMBT)*.

Keywords: Financing-product design for fishermen; Sharia micro-financial institutions.



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1. Introduction

West Java is one of the provinces in Indonesia which has quite a large population and promising potential natural resources, including the marine and fisheries sector. West Java is a province where fisheries have been a developed sector. Moreover, the region is also famous for its rich natural resources. This potential is evident in the number of marine fisheries production sold at TPI (Fish Auction Place) in 2015 amounting to 52,361.50 tons (Anonymous). There are two coastal areas in West Java which contribute to the thriving of the industry i.e. Pangandaran and Palabuhan Ratu, Sukabumi. According to Anonymous, Pangandaran and Palabuhan Ratu areas are coastal areas which are closely located to South Java Sea and the Indonesian Exclusive Economic Zone (ZEEI). Generally, people who reside in the region are traditional fishermen counted to 183,000 persons and was ranked as the 3rd largest after East Java and Central Java (Fadilah, 2014). Fishermen's contribution to local economy has been severely inversed and un-proportional to their economic lives whose earn is still far below prosperous standard (Fadilah, 2014). According to Muflikhati *et al.* (2010) coastal communities including fishermen are still among the poorest of the poor. During certain seasons fishermen cannot roam the sea due to strong ocean currents, big waves, and strong winds, such conditions popularly are known as famine seasons. Poverty has caused most fishermen in Indonesia, including Pangandaran and Palabuhan Ratu fishermen applying for loans to street moneylenders because of their simple procedure and easy access. However, this loan is an compounded interest-based loan. The percentage of interest given by moneylenders reaches 20-40 percent. Thus, the loans obtained are heavily burdensome for fishermen because they have to return high-interest loans. According to Anonymous 7.87 million fishermen recorded living in poor condition in 2013 which caused by several factors including lack of capital and loans to street moneylenders (Fadilah, 2014; Purnomo, 2015; Wulandari *et al.*, 2016). Based on the above issues, fishermen need alternatives to obtain additional capital financing served reliably and affordably. The alternative referred to is some additional capital obtained in which do not serve by street moneylenders. The existence SMFI is a promising alternative for fishermen to get additional capital (Firdaus and Witomo, 2014). Islamic Micro-finance Institutions such as *Baitul Mal Wat Tamwil* (BMT) are a suitable solution to obtain additional capital for fishermen without burdening or harming involved parties (Syamsuir, 2015). The existence of these institutions is expected to provide convenience and tangible contributions to support community business activities including fishermen so they can increase their economic output, welfare and living standards (Alhifni and Huda, 2015; Baskara, 2013). But it turns

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out that existing microfinance institutions still have limited financial products. Thus, the appropriate financing product-design needs must be able to practically and specifically help the convenience and welfare of fishermen. Based on the background above, the researchers proposed two research questions, first what financing products needed by fishermen. Second, how to design financing products for fishermen that can be applied through Islamic microfinance institutions (SMFI).

2. Literature Review

2.1. Fishermen in Indonesia

Generally, there are two types of fishermen, 1) traditional fisherman, and 2) modern fishermen. The traditional one are those with low income and limited economic ability. In that manner, they practice traditional fishing techniques and support by limited financial capital (Alpharesy *et al.*, 2012). Modern fishermen are fishermen who catch fish using modern method and equipment. By modern method means they go to sea on big boats, appropriate and sufficient safety system including modern equipment such as a trawl which is typically a big and long nets. Also, they are equipped with live vest and others safety apparatus. There are less modern fishermen who live under poverty line compared to the traditional one including this fishermen group living at Palabuhan Ratu, , West Java . (Fahmi, 2011).

2.2. Fishermen's Economic and Welfare Condition

Poverty suffered by fishermen is determined based on 'the poverty line approach' in which this line is used to identify the determinants of the poverty line (PL) officially used by the Bureau of Statistics Central (BPS). The poverty line (PL) is calculated based on the average consumption and non-consumption expenditure per capita. The value of the national poverty line (GK) in August 2016 was IDR 548,317, capita/month. The figure shows that 34.14 percent of Indonesia's total population are considered as poor fishermen, and 15 percent of the total poor fishermen are below the poverty line. According to Wiyono (2008), there are several forms of poverty, including:

1. Relative poverty. It is a bad condition caused by the impact of government's policies that are not in favor to the interest of small and medium-sized community-group (at all levels of society) which eventually causes income inequality or social inequality.
2. Absolute poverty. It is the condition of someone who has income below the poverty line or insufficient to meet the needs of food, clothing, health, housing, and education (primary). This form of poverty is also caused by expenditures that are not proportional relative to the income earned. So, someone living in this condition is said to be poor.
3. Structural poverty. It is poverty caused by structural conditions or unfavorable living organization. The unfavorable organization mentioned here is a condition where a person/community is not involved in decision making and does not have proper access, including access to health care, education and so on.
4. Cultural poverty. It is poverty which refers to the problem related to attitude rooted in cultural factors. Cultural poverty is frequently caused by the customary and cultural way of living which particular to certain area which make constraint to a better level of life.
5. Natural poverty. It is the kind of poverty suffered by a person due to natural and physical limitations since he/she was born i.e. physical disability, mental disability, ages, and limited natural resources.

2.3. Sharia Micro Finance Institutions

Sharia Micro Finance Institutions (SMFI), also known as Islamic Micro Finance Institution (IMFI), is an independent people's-economic institution that operates in small and medium-sized communities. This institution exists as a solution to provide additional capital in the form of funding for its members/communities through an instrument categorized as loan specialized for un-bankable community. Their goal is to improve the welfare and living standards of low-income people including fishermen (Andriana, 2016; Tarmizi, 2017). There are several definitions of financing according to the existing literature, including:

1. According to Banking Law Number 21 of 2008 Article 1 paragraph (25), defines "Financing is the provision of funds or bills that are equivalent to them in the form of:"
 - a. Joint transactions in the form of *mudharaba* and *musyarakah*.
 - b. Rent transaction in the form of *ijara* or rent-and-purchase through *ijarah muntahiya tamlik* scheme.
 - c. Buy-and-sell transactions in the form of loan, *murabahah*, *salam* and *istishna'*.
 - d. Lending transactions in the form of *qardh* (loan).
 - e. Rent in the form of multilateral transactions.
2. According to the Banking Law no. 10 of 1998, "Financing is the provision of money or equivalent claims, based on agreements or agreements between banks and other parties which are financed to pay back the money or invoices after a certain period of time as return or profit sharing".
3. Based on this understanding, Islamic Microfinance Institutions services can be utilized by the community/members through the *Baitul Mal Wat Tamwil* (house of finance and social funding). *Baitul Mal Wat Tamwil* (BMT) is a sharia-based financial institution that combines the concept of *maal* (assets) and *tamwil* (development) in one institution. Thus, the main function of BMT is as a mediator or property distributor such as *zakat* (compulsory religious alm), *infaq-sodaqoh* (voluntary religious alms) and *waqf* as well as the institutions that are engaged in productive asset investments and management such as those carried out by banking institutions. *Baitul Mal Wat Tamwil* (BMT) has been popular in several parts of

Indonesia and is considered as a financing services sources for the lower and middle-class community including fishermen (Syamsuir, 2015).

2.4. Design of Micro Financing Products for Fishermen (Fisheries Sector) Through Sharia Micro Finance Institution (IMFI)

Product development has been main concern of companies to ensure the existence of the companies through long term period. One of the goals in product development is how to meet the needs of unsatisfied consumers including provide wider access to loyal consumers (Buchori, 2012). According to Kotler (2000) there are several stages in product development:

2.4.1. Finding New Ideas

Creating new ideas can be obtained through research, consumer observation, managerial policy and so on.

2.4.2. Selecting Ideas

The proposed new ideas are then being filtered, discussed and selected by analysing their weaknesses and strengths.

2.4.3. Developing and Presenting

The ideas that have been filtered are then presented in clear and systematic concepts so that they are easier to understand.

2.4.4. Developing Marketing Strategies

Product that is still in a conceptual form then being standardized by building its marketing strategy to determine the market segmentation of the product.

2.4.5. Analyzing Business and Market Niche

After the company develops a business strategy, management then evaluate the achievement of the strategies that have been made previously.

2.4.6. Developing Product

The next stage is product development through R & D process.

2.4.7. Testing the Market

This stage is performed by scrutinizing how consumers respond to the product including the products acquire brand and being packaged before entering the market.

2.4.8. Commercialization Stage

This is the launching phase, at this stage the company must determine when and how the product is marketed.

In this study, the product-design is developed by focusing on three main stages namely making ideas, filtering ideas, developing and presenting concepts from each proposed product, in this case financing products for fishermen.

3. Research Methods

This study adopts a qualitative method by utilizing a phenomenological approach. To observe the economic condition of the fishermen at Palabuhan Ratu and their needs in regard to financing services from Islamic Microfinance Institutions. The techniques for data collection uses observation and focus group discussions method. The mentioned focus group discussions are formed in order to determine the design of financing product which is specifically customized to the conditions of economic groups typical to the fishermen in Palabuhan Ratu. The respondents in this study were 5 small fishermen. These people are traditional fishermen, while those who take part in focus group discussions consist of researchers, 5 small fishermen, 5 traditional fishermen, 1 person from the marine and fisheries services agency (government), 1 person from Islamic Microfinance Institutions and 2 persons from Islamic economics experts.

4. Research Result

4.1. Fisherman Palabuhan Ratu

Palabuhan Ratu is one of the districts which is under the administrative authority of Sukabumi Regency, West Java. Palabuhan Ratu covers an area of 4,145.70 km². Palabuhan Ratu is of 0.5 km from the capital of Sukabumi Regency, 156 km from the capital of West Java Province and 175 km from the country capital (Anonymous). The number of fishermen in Palabuhan Ratu reaches 9,054 fishermen which mainly the resident of rural villages namely Cikahuripan, Paragon, Cisolok and Bantar Gadung. The vast number of fishermen is reasonable considering the abundant of marine natural resources, thus the majority of the population in Palabuhan Ratu dependent on marine cultivation. The economic value fisheries and seafood industry at Palabuhan Ratu depicted in the following table:

Table-4.1. Palabuhan Ratu Fisheries Catches and Production 2011-2015

No.	Years	Productions (Kg)	IDR
1.	2011	6,539,133	120,339,550,319
2.	2012	8,846,526	183,439,608,741
3.	2013	7,292,073	213,439,504,947
4.	2014	10,357,023	288,233,337,400
5.	2015	9,122,320	225,823,087,000

Source: The Fisheries Statistics Report 2015

Based on the above table, it is clear that production fishery catch in Palabuhan Ratu in 2011 has scored 6,539,133 kg and increased steadily up to 2014 by total production of 10,357,023 kg. However, in 2015 the amount production was slightly dropping to 9,122,320 kg. This was caused by unfavorable weather or climate. According to the Fisheries Office of the decline in fish production in Palabuhan Ratu has been taking place through the year of 2017. By the end of 2017 to the beginning of 2018 the quantity of fish demanded due to the efficiency enhancement. At that white pomfret fish was highly demanded and the price was ranging from IDR 300,000 - IDR 400,000 per kilogram.

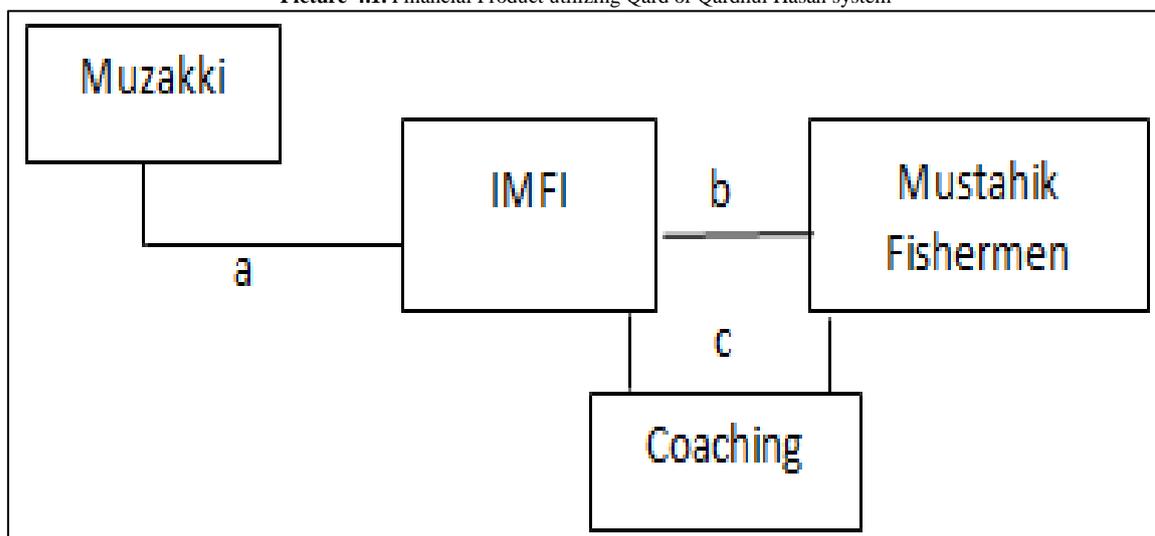
Catching fish in the wild ocean is not reliable financially for small and middle fishermen. The higher cost they have to spend affecting their capabilities in obtaining suitable and sophisticated modern fishing equipment. Fishery is costly business therefore both small fishermen and people who dedicated their labor in the industry. To make thing worse, most of workers in fishery industry solely relies on the industry and do not have alternative financial resource from other business. In this depriving condition, supposedly, the fishermen try to count on another financial sources i.e. relatives, neighbors and even street/individual money more (middlemen). Taking loan from street middlemen has been a habit across generation in Palabuhan Ratu, West Java and become favorable choices to solve financial or capital deficiency. Averagely, fisherman in Palabuhan Ratu never access financial assistant from official financing institution except the one which lent from their boss or boats owner. On the other hand, financial institutions such as fishermen rural-cooperative institution (KUD) in Palabuhan Ratu have been inactive. So, capital assistant was not acquired through official loan or funding institutions but through neighbors or relatives.

4.2. Designing Funding For Fishermen Through Sharia Microfinance Institutions

Funding products SMFI is a financial services typically launched by both commercial and social institution. Based on the results from observation and FGD there are two design (model) for funding products that can developed by SMFI to support fisherman :

1. Product-design modeling adopting capital approach through *Qard* or *Qardhul Hasan* System. This model is being described meticulously in the following diagram:

Picture-4.1. Financial Product utilizing Qard or Qardhul Hasan system



Notes:

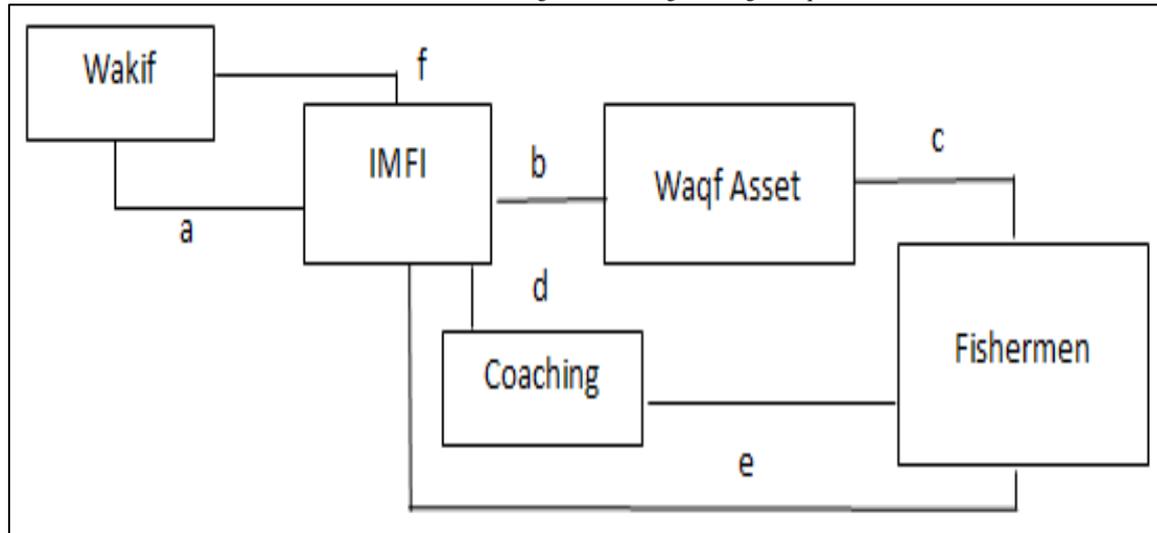
a. muzakki pays zakat, infaq or sadaqah to SMFI which then being channeled to fisherman (mustahik). In this respect SMFI acts as an amillin.

b. IMFI channeled funds to fishermen who are in mustahik status. To ensure the fisherman’s commitment and trustworthiness in managing the channelled-funds, IMFI can adopts dual contract scheme that is *Qard* or *Qardhul Hasan*. *Qard* fund is suitable schme for IMFI because it is nonprofit and appropriate learning experience for *mustahik* to be consistently persistent in paying back punctually. In the case of fisherman could not be able to pay then IMFI could change it to *Qardhul Hasan* scheme (social loan) hence returning the fund is no longer obligatory. The fund could be used for purchasing equipment, boats , catching tool or support business related to fisheries.

2. Giving full support on *mustahik*, IMFI organizes training and assistance to fishermen. If IMFIs are not in full capability holding the activities, they can work together with related government offices, education or professional institution.

Product Design for Fisherman through IMFI in the form productive *waqf* contract. The detail of the design is explained through the following scheme:

Picture-4.2. Financing Product-Design Through Waqf



Notes:

- a. Wakif pays Cash-Waqf funds to IMFI after IMFI obtained permission as *waqaf nazir* from BWI (Badan Wakaf Indonesia or Indonesia Waqf Board).
- b. Based on the regulation legalized in 2017, IMFI can then legally purchase *waqf*-asset which have received in the first place. In this case, the *waqf*-asset that purchased is in the form of fishing boat.
- c. The asset than used by fishermen for the sustainability of their living.
- d. IMFI as *wazir* guides and truly guides regularly either in co-operation with other institution or independently.
- e. After the *waqf* (endowment) lasted, the fishermen requested to report and pay back the fund which used for purchasing boat to IMFI (*nazir* of *waqf*).
- f. IMFI reported to *wakif* regarding the use of endowments and IMFI hedge the endowments value, and then continue buying other endowment assets.

4.3. Design of *Tamwil* Products for Fishermen Through IMFI

Many innovative products that can be applied by the IMFI to support poor fisherman. Nevertheless, after the observations and FGDs have been done there are only three products which are offered by IMFI. Those three products are the following:

4.3.1. Parallel *Istishna*

Fisherman obtain micro financing through parallel *istishna* contract. This Contract is suitable in a situation in which fishermen/members can not meet a manufacturer's (buyer) order. The contract should be separated from the preceeded (*istishna*) contract. *istishna* contract usually used for house financing. However, in fisheries sector, parallel *istishna* contract is used to support fisheries business and others marine affairs through financing big-boats purchase. The implementation of parallel *istishna* contract is legally accepted based on the statement of MUI-DSN Fatwa, Number 22 concerning of sales and *istishna*- sales i.e. "If the LKS (Sharia Financial Institution) does transaction using *istishna* scheme in order to meet its obligations to a customer, the LKS may do another *istishna* contract with other parties on the same object, provided the first *istishna* is not dependent (Mu'allaq) on the second *istishna* contract.

Besides, the implementation of the contract does not burdensome to the fishermen since because payment can be paid in advance or down payment (DP), whereas the leftovers payment is be paid off after the goods/order has been completed or finished. Parallel *Istishna* can applied as a solution for fisheries problem which repetitively related to limitations in facilities and infrastructure of catching fish which includes boats and the others equipment needed to support the business (Wiyono, 2008).

4.3.2. *Syirkah Mudharaba Mutlaqa*

Besides parallel *istishna*, *mudharaba* contract, a derivative of *musyaraka* contract, is a partnership between two parties or more (*mudharib* and *shahibul mal*) to manage a business based on joint-agreement between the parties regarding the profit share, potential risks and so on. In this contract, SMFI play a role as *Shahibul mall* (capital owner/investors) whereas fisherman's role is as *mudharib* (capital manager). SMFI/BMT provides hard asset such as boats and other fishing equipment based on agreed clauses.

Mechanism of *syirkah mudharaba* does not limit the scope of fishing area as well as type fish caught. Hence, the contract defines as *syirkah mudharaba muthlaqa* where BMT gives fisherman full authority in fisheries (free/non binding). Besides, the implementation of this contract is legally accepted based on the statement of MUI-DSN Fatwa of 2000, Article 2 point d, which states that "Every party provides authority to other parties to manage assets and the respected parties has been given an authority to involve in the *musyarakah* (contract) by respecting the interests' of the other partners without purposive neglect and misconduct".

5. Ijarah Muntahiya Bittamlik

Ijarah Muntahiya Bittamlik (Rent With Purchase Option) is a derivative contract from *ijarah* (rent), where at the end rent period, the ownership of the goods rented transferred to tenant/renter. The mechanism of this contract authorise that SMFI/ BMT is the owner of the rented goods/equipment and the fishermen as tenants, pay rent to SMFI/BMT based on the agreed contract. The rented objects include boats, fishing equipment that needed by fisherman.

At the end of the lease period, the fishermen will be given an option to buy the object or terminate the contract. This is not in contradiction with others micro-financing products which used *ijarah* scheme, since some literatures have been indicating the possibilities of *ijarah muntahiya bittamlik*, for instance, the codification book of Sharia banking products, SEBI's letter and its attachment no. 10/31 / DPBS October 7, 2008 concerning Islamic Bank Products and Sharia Business Unit and PBI (Bank Indonesia Regulation) No. 10/17 / PBI / 2008 dated September 25, 2008, stated that "*Ijarah Muntahiya Bittamlik* is a rent transaction between object owner and tenants in order to get benefit of the object rented with a transfer option". So , based on that understanding, fisherman have right to buy IMBT's (*Ijarah Muntahiya Bittamlik*) object accordingly.

6. Conclusion

The studies' result showed that in general, the fishermen of Palabuhan Ratu need financing product from SMFI. Consumptive financing is used for living and other daily need. Whereas, for supporting their fishing and the sustainability of their business as fisherman, the financing product is needed to purchase equipment, boats, catching tool and so on. The proposed design resulted in this study is a financing design which incorporates two approaches. First optimizing the role of SMFI in the form of *Baitul Mall* (BMT) through *Qard* or *Qard Hasan contract* and temporary *Waqf*. Second, optimizing the function of SMFI as *Baitut Tamwil* by introducing three financing products namely *Parallel Istishna*, *Syirkah Mudharaba Mutlaqa* and *Ijarah Muntahia Bit Tamlik*.

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