Faculty of Economics and Business
Universitas Pamulang

INTERNASIONAL CONFERENCE & CALL FOR PAPER
ECONOMICS, BUSINESS, INNOVATION AND CREATIVITY (EBIC), 30th April 2025
Vol: 2 No.: 1 No. E- ISSN: 3025-4086

THE ROLE OF ISLAMIC BANKING IN ENHANCING FOOD SECURITY IN INDONESIA

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ABSTRACT

This study examines the role of Islamic banking in financing the agricultural sector in Indonesia from 2020 to 2024. Utilizing a quantitative descriptive approach and secondary data from the OJK Islamic Banking Statistics, the study identifies a notable upward trend in agricultural financing by Islamic Commercial Banks (BUS) and Islamic Window Banks (UUS) during the period. This trend suggests that Islamic banking has the potential to contribute to national food security, enhance farmer productivity, and improve income levels. However, despite this growth, the agricultural sector continues to face persistent challenges, including climate risks, price fluctuations, and limited technological adoption. Addressing these challenges requires the development of innovative and accessible Islamic financial instruments, such as salam, murabaha, and mudaraba, to support the sector's long-term sustainability.

Keywords: Islamic Banking, Agricultural Financing, Food Security, Farmer Productivity.

ABSTRAK

Penelitian ini bertujuan untuk menganalisis kontribusi perbankan syariah dalam mendukung sektor pertanian di Indonesia pada periode 2020-2024. Dengan menggunakan pendekatan kuantitatif deskriptif dan data sekunder dari Statistik Perbankan Syariah OJK, penelitian ini menemukan adanya peningkatan pembiayaan sektor pertanian oleh Bank Umum Syariah (BUS) dan Unit Usaha Syariah (UUS) selama periode penelitian. Peningkatan ini mencerminkan peran penting perbankan syariah dalam mendukung ketahanan pangan nasional serta meningkatkan produktivitas dan pendapatan petani. Meskipun demikian, sektor pertanian masih menghadapi tantangan berupa risiko iklim, fluktuasi harga, dan rendahnya penggunaan teknologi. Oleh karena itu, diperlukan inovasi dalam produk pembiayaan syariah yang fleksibel dan terjangkau guna mendukung keberlanjutan sektor pertanian di Indonesia.

Kata Kunci: Perbankan Syariah, Pembiayaan Pertanian, Ketahanan Pangan, Produktivitas Petani.

1. INTRODUCTION

The agriculture and food sector plays a strategic role in the Indonesia, contributing significantly to food security, employment absorption, and national economic growth. The Prabowo-Gibran administration is committed to achieving food security through the vision of *Asta Cita*. However, Indonesia faces considerable challenges in achieving this goal, including a high reliance on imports of certain food commodities, food price volatility

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influenced by global factors, and limited access to financing for small-scale farmers (Fauzin, 2021) . Islamic banking operates on a risk-sharing principle, enabling financing for the agricultural sector through contracts such as mudarabah, musyarakah, salam, and others. However, financing in the agricultural sector carries substantial risks due to seasonal uncertainties, fluctuating food prices, and various external factors (Christy & Nisa, 2024)

As a country with a majority Muslim population, Indonesia recognizes the necessity of developing financing in the agricultural sector to support sustainable agricultural productivity. The growth of Islamic financial institutions in Indonesia demonstrates a positive trend, driven by increasing awareness of ethical principles in financial transactions and a desire to avoid practices deemed inconsistent with Islamic teachings. Furthermore, Islamic financial institutions contribute to enhancing financial inclusion by providing access to previously unbanked or underserved populations, thereby fostering broader economic participation (Nasution & Kamilah, 2025), including those who work as farmers.

Islamic banking in Indonesia plays a crucial role in supporting the food sector, a key component of the national economy. By adhering to sharia principles, Islamic banking emphasizes not only economic benefits but also social and sustainable aspects. Through mudharabah (profit-sharing) products, Islamic banks can provide substantial capital injections to the agricultural sector and halal food industry, thereby contributing to increased food availability in Indonesia (Nida, Elrani, & Kofifah, 2024) The Indonesian government has prioritized food security as a key agenda in national development for the 2024-2029 period. This commitment is evident in priority programs aimed at enhancing the availability, accessibility, and quality of food consumption, which are funded through the 2022 State Budget (APBN) (Nasution & Kamilah, 2025).

Banking financing, categorized by economic sector, is allocated to agriculture, fisheries, mining, trade, manufacturing, construction, transportation, accommodation and food services, and financial intermediation sectorsectors (OJK, 2024) . The agricultural sector plays a crucial role in Indonesia by (1) ensuring national food security and (2) providing livelihoods for approximately 60% of the population, who significantly contribute to the country's GDP (Tarigan, Hutauruk, Siahaan, & Samosir, 2024). However, the development of the agricultural sector in Indonesia continues to face several challenges, including limited technological adoption, the impacts of climate change that disrupt harvest seasons and cause crop failures, and insufficient capital available to farmers. To address these issues, financial institutions, particularly Islamic banks, have introduced more flexible and affordable financing programs, such as microcredit and financing schemes specifically designed for farmers (Azzahra, Solihin, & Wijaya, 2024). This study aims to analyze the trends in Islamic banking financing for the agricultural and food sectors in Indonesia during the period of 2020-2024, as well as to identify the contribution of Islamic banking financing to the agricultural sector in comparison to total Islamic financing overall.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Food security is a critical concept encompassing the availability, access, and utilization of food within a country. In Indonesia, food security is defined as a condition in which food needs are adequately met from the individual to the national level. This definition includes the availability of sufficient, high-quality, safe, nutritious, and evenly

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distributed food that is affordable and aligned with religious and cultural norms of the community (Dedy Sutrisno, 2022).

Food security is a multifaceted concept encompassing three main dimensions:

1. Food Availability: The consistent availability of food in sufficient quantities and of good quality from both domestic production and imports.
2. Food Access: The ability of individuals or households to acquire the food they need, whether through production, purchase, or assistance.
3. Food Utilization: The effective use of food by individuals to meet their nutritional needs, ensuring proper dietary intake (Wikipedia, 2023).

This concept also includes a temporal aspect, requiring continuous food availability to support a healthy and productive life (Rumawas et al., 2021).

To measure food security, several key indicators are utilized: (1) Normative Consumption Ratio measures food availability relative to normative per capita consumption, such as rice and corn; (2) Percentage of Population Below the Poverty Line indicates the proportion of the population lacking sufficient purchasing power to meet basic needs; (3) Expenditure on Food assesses the share of household expenditure allocated to food purchases; (4) Food Availability refers to the physical availability of food within a region; (5) Access to Food evaluates households' economic capacity to obtain food; (6) Nutritional Status reflects the quality of nutrition derived from food consumption; (7) Food Safety assesses whether consumed food is free from contamination and meets health standards; (8) Diversity of Food Sources measures the variety of foods available and consumed within the community; (9) Food Distribution Infrastructure evaluates the effectiveness of distribution systems in ensuring equitable food access (Dedy Sutrisno, 2022). These indicators assist the government and stakeholders in formulating effective policies to strengthen national food security and identify areas requiring greater attention to achieve sustainable food security in Indonesia.

Islamic banking plays a pivotal role in enhancing the agricultural sector by providing innovative financing solutions rooted in Shariah principles that facilitate sustainable agricultural development. In regions like Indonesia, access to financing poses a significant challenge for smallholder farmers, where Islamic banks offer viable alternatives that align with Islamic law, thus ensuring the ethical treatment of farmers and contributing to economic growth (Pertiwi et al., 2021; Utama et al., 2019) (Sholihatussifa & Utami, 2024). Through various financing schemes, such as profit-sharing contracts like al-muzara'a and al-musaqa, Islamic banks establish partnerships with farmers, thereby overcoming conventional barriers while fostering agrarian productivity. Notably, the unique risk-sharing models employed by Islamic banks have been shown to enhance agricultural output and farmer welfare, as evidenced by significant increases in productivity linked to Islamic agricultural financing (Kantoroeva & Toktomamatova, 2021). Efforts to introduce advanced products, such as Salam financing, enable pre-sale transactions, mitigating risks associated with agricultural investments in uncertain environments (Shaikh, 2024). Active engagement from all stakeholders, including establishing relationships with agricultural sectors to manage risks effectively, is essential for amplifying the impact of Islamic banks in promoting agricultural stability and productivity. As such, they are not just financial entities but critical players in fostering sustainable agricultural practices that benefit both local economies and communities at large.

3. RESEARCH METHOD

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This study employs a descriptive quantitative approach using secondary data obtained from the Islamic Banking Statistics published by the Financial Services Authority. The dataset includes reports on Islamic banking financing by Islamic Commercial Banks (BUS) and *Islamic Window Banks (UUS)* across various sectors during the 2020-2024 period.

Descriptive statistical techniques are used to analyze financing trends in the agricultural sector and to assess its contribution compared to other sectors. The analysis involves calculating percentages, annual growth trends, and sectoral comparisons. The results of this analysis will provide insights into the distribution patterns of Islamic financing and evaluate its effectiveness in supporting the agricultural and food sectors.

4. DATA ANALYSIS AND DISCUSSION

TRENDS IN SYARIAH BANKING FINANCING IN THE AGRICULTURAL SECTOR

The agricultural sector requires substantial attention and support from the government. Indonesia must enhance its agricultural empowerment strategies to improve the quality and quantity of agricultural products, ensuring national food security. Key initiatives include the provision of high-quality seeds, seedlings, and advanced cultivation techniques, as well as the adoption of efficient harvesting and post-harvest technologies. A strengthened agricultural sector is expected to make a more significant contribution to capital formation, GDP growth, and national income (OJK, 2024)

The agricultural sector holds a strategic position in the Indonesian economy, serving as a vital provider of food and employment opportunities. Despite this importance, small-scale farmers often encounter significant challenges in accessing financing to support their farming activities. Islamic financial institutions play a pivotal role in supporting food security in Indonesia. By adhering to sharia-based principles that emphasize justice, sustainability, and shared prosperity, these institutions are expected to offer alternative solutions to meet the financing needs of the agricultural sector. Through distinctive financing schemes, such as murabahah and musyarakah, Islamic financial institutions not only facilitate access to capital but also contribute to the empowerment of farmers (Nasution & Kamilah, 2025) . Sharia-compliant financing, which eschews interest and implements profit-sharing mechanisms, can alleviate the financial burden on farmers (Rahim, 2023)

The growth of Islamic banking financing in the agricultural sector is influenced by several key factors: (1) Government support in promoting Islamic financing within the real sector, including agriculture and food; (2) Increased awareness among agricultural and food business actors regarding the potential benefits of Islamic financing; (3) Innovation in Islamic banking products and services that align more closely with the specific needs of the agricultural and food sectors; and (4) The contribution of Islamic banking financing to the sector's development.

Table 1 Financing - Islamic Banks in the Agricultural Sector

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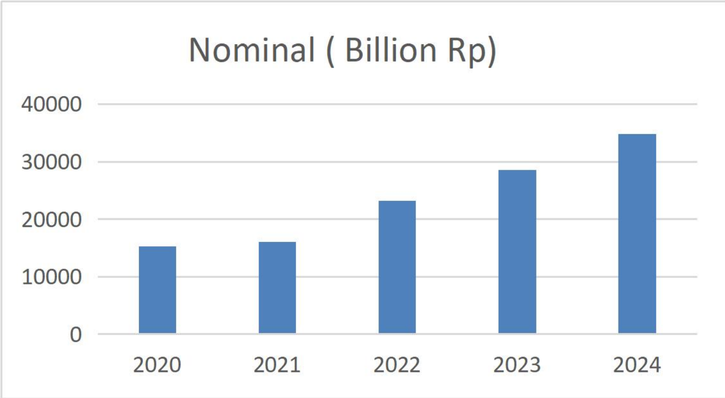

Sumber: (OJK, 2024)

Based on the data analysis conducted using the 2024 Islamic Banking Statistics (OJK, 2024), the findings are summarized in Table 1. The data illustrate the total financing provided by Islamic Commercial Banks (BUS) and *Islamic Window Banks (UUS)* to the agricultural sector, encompassing equity based, debt based, and fee based financing. Financing in the agricultural sector by Islamic Commercial Banks increased significantly, rising from IDR 15,275 billion in 2020 to IDR 34,775 billion in 2024, approaching IDR 40 billion. This trend is further illustrated in the 2020-2024 financing graph, which shows a consistent increase in agricultural sector financing.

This increase in financing demonstrates the substantial potential for developing the agricultural sector through a Sharia-based approach:

a. Agricultural Productivity: Financial support enables the agricultural sector to enhance efficiency and increase production output.
b. Farmer Economic Stability: Increased financing offers opportunities for farmers to develop their businesses, leading to sustainable income growth.
c. National Food Security: Investment in the agricultural sector contributes to strengthening food security, particularly by supporting local production.

The contribution of Islamic banking financing to the agricultural and food sectors has shown a consistent upward trend over the years. This is evidenced by the increasing share of financing allocated to these sectors within the overall Islamic financing portfolio. Empirical evidence demonstrates that Islamic financing positively impacts productivity, farmer income, and food price stability (Maulana et al., 2022).

The graph illustrates the successful contribution of Islamic commercial banks to the agricultural sector over the past five years. This trend demonstrates not only the sector's potential for economic growth but also highlights the critical role of Islamic banking in promoting economic development grounded in principles of justice and sustainability.

COMPARISON WITH TOTAL SYARIAH FINANCING

In addition to providing financing to the agricultural sector, Islamic Commercial Banks (BUS) and *Islamic Window Banks (UUS)* also allocate financing to various other sectors, including trade, industry, manufacturing, mining, construction, and transportation, among others. This section presents a comparative analysis of the percentage of financing allocated to the agricultural sector relative to other sectors (Hamid et al., 2023).

Sharia-compliant financing in the agricultural sector possesses distinctive characteristics that set it apart from other economic sectors. These include the application of muamalah contracts aligned with Islamic principles, such as mudharabah, musyarakah, and murabahah. The agricultural sector is subject to unique risks due to its seasonal nature

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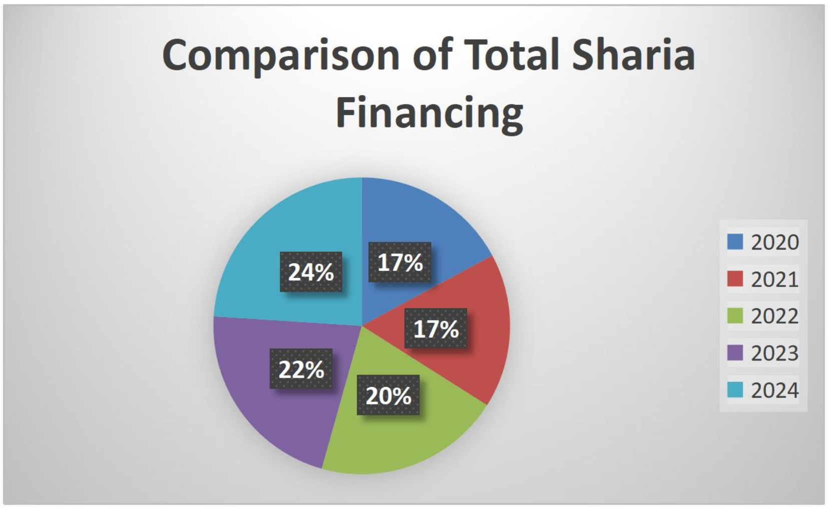
and dependency on harvest outcomes. Consequently, Sharia-based financing models that emphasize profit-and-loss sharing are considered more appropriate and equitable for agricultural entrepreneurs, as they offer a fairer risk distribution between financiers and farmers (Rusanti et al., 2023).

This comparison is essential to identify both the opportunities and challenges associated with the development of Sharia-compliant financing in the agricultural sector. It also serves as a basis for formulating strategies to ensure that financing is more equitably distributed and more effective in supporting the growth of agriculture, which is a vital and strategic sector within the national economy (Maulana et al., 2022). The results of this comparative analysis are presented in Table 2.

Table 2. Comparison of Total Sharia Financing



Based on data from Islamic Commercial Banks (BUS) and Islamic Business Units (UUS), visualized through a pie chart, there is a consistent upward trend in the proportion of Islamic financing allocated to the agricultural sector from 2020 to 2024. In 2020 and 2021, the agricultural sector accounted for only 17% of total Islamic financing. This share increased to 20% in 2022, 22% in 2023, and reached a notable 24% in 2024. This growth indicates the increasing focus of Islamic banking institutions on the agricultural sector, recognizing its strategic importance in ensuring national food security.

Although the agricultural sector's share has yet to surpass half of the total Islamic financing, the upward trend reflects a strengthening commitment from Islamic banks to support its development. Compared to other sectors—such as trade, industry, manufacturing, and transportation—the agricultural sector experienced a financing growth of 7% over the five-year period. This indicates a growing prioritization of agriculture within the broader distribution of Islamic financing, aligning with governmental and institutional efforts to enhance food security and elevate farmers' livelihoods.

Overall, while the agricultural sector does not yet dominate Islamic financing, its steady growth trajectory signals a promising opportunity for Islamic banking to play a greater role in promoting equitable and sustainable economic development in Indonesia.

CONCLUSION & SUGGESTION

Conclusion:

This study demonstrates that Islamic banking has made a substantial contribution to supporting the agricultural sector in Indonesia during the period of 2020-2024. The increase in Islamic financing for the agricultural sector is evidenced by the growth in financing distributed by Islamic Commercial Banks (BUS) and *Islamic Window Banks (UUS)*, rising from IDR 15.275 billion in 2020 to IDR 34.775 billion in 2024. This positive growth trend signifies a tangible contribution to enhancing agricultural productivity, increasing farmer income, and strengthening national food security.

The contribution of sharia financing to the agricultural sector has shown a notable increase in percentage compared to other sectors, rising from 17% in 2020-2021 to 24% in 2024. This growth has been driven by government support and the increasing awareness of business actors regarding the benefits of sharia financing. However, the agricultural sector continues to face significant challenges, including climate risks, price fluctuations, and limited technological adoption. Therefore, innovative, flexible, and affordable sharia financing products are essential to ensure the sector’s sustainability and resilience.

Suggestion:

Future research could investigate the effectiveness of sharia financing in supporting national food security, conduct comparative analyses between sharia and conventional financing in the agricultural sector, develop tailored sharia financing products for small-scale farmers, and examine the impact of climate change and sharia financial literacy on the adoption of sharia financing by farmers. These recommendations aim to strengthen food security through the strategic implementation of sharia financing in Indonesia's agricultural sector.

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