**Local Economic Practices In Developing Islamic Financial Products In Indonesia**

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***Abstract***

*Culture and geography of a country are the cause of low Islamic financial inclusion and the lack of public knowledge in the Southeast Asian region about the term Arabic term on Islamic financial products. Therefore this study aims to integrate local wisdom and Islamic financial inclusion and realize sharia-based financial products based on local wisdom.**This research is a qualitative descriptive study that is a literature review, the object of the discussion is sourced from research, articles, and reference books related to this topic.The research results obtained are integrating culture with Islamic financial institutions through several efforts, first preaching the Islamic economy with a psychosufistic approach that manifests in the value of Tauhid, humanity, humility, local wisdom and self-transformation to people with low Islamic financial literacy. Second is to strive for the creation of financial products by identifying traditional economic practices throughout Indonesia based on research that are analyzed by the ‘urf rule.**This research has implications for information on the potential market share of Islamic finance in Indonesia, and also on solutions to developing Islamic financial inclusion* ***T****he issue of strengthening the market share of Islamic finance in rural villages is still weak, this research study is the first in developing comprehensive local-based financial products in Indonesia.*

***Keywords:*** *‘urf, Local Wisdom, and Culture*

**INTRODUCTION**

The development of Islamic finance in Indonesia has increased in aspects of financial assets, product variations, and a more comprehensive regulatory framework during 2013-2016 (OJK, 2017). However, this increase was not accompanied by a market share which is still far below conventional financial institutions which are at 8.58% (Perencanaan & Nasional, 2019). The same thing was stated by Sebastian Herman (2015) that the sharia banking market share is low while Indonesia is one of the largest Muslim population countries in the world with 87% Muslim population. Of course, the hope to be achieved is Islamic financial assets as large as the total population because a Muslim should choose Islamic financial services over conventional financial services (Kariastanto, 2013).

The reality that occurred in Indonesia spurred researchers to uncover aspects that caused the lack of Islamic financial market share. Kariastanto's research (2013) on Islamic banking discusses several aspects, namely non-technical factors, supply-side issues such as service costs, benefits provided, and even extreme things that the public does not recognize Islamic banks. The supply-side put forward by Kariastanto (2013) is not a causal aspect and it is supported by the research of Sebastian Herman (2015), to the conical factor that is the aspect of Muslim awareness being the main cause in the study. One of the causes of the decline in public awareness is also from the statement "Islamic banks are considered the same as conventional banks" (Addiarrahman, 2013), even some scholars regard the validity of Islamic banking through criticism from several fatwas such as the fatwa of Muhammad Sayyid Ali Tantawi about bank interest and also tawwaruq concept (Adeyemo & Oloso, 2015).

To support the Islamic banking market share, the discourse of changing Arabic terms into familiar languages emerged as suggested by Jusuf Kalla (Rosidah, 2016). The reality that occurs in Southeast Asian countries experiencing the same difficulties, the lack of knowledge about the Arabic term. The regional countries are predominantly using Malay, while in the Middle East Arabic is the daily language. This statement is supported by several studies that continue to the present.

Gerrard & Cunningham's research (1997) shows that a minority of Muslims in Singapore do not know the Islamic Financial Term, namely *murabaha, ijarah,* and *musharaka*. However, customers choose Islamic banking due to the factor of religuity as in Al-Qur’an the prohibition of *riba*. Malaysians also experience similar problems, Halim, Hamid, Azmin, & Nordin (2000) say the lack of knowledge related to technical issues gave rise to the idea to create a sharia banking education strategy for millennial youth. Non-Bank Financial Institutions also indicate this as research conducted by Ismail, Othman, & Hamid (2009) that customers do not know the term *tabarru'* which is the main feature in Islamic insurance. Also, Afif Muhamat, Nizam Jaafar, & Binti Ali Azizan (2011) stated that customers agreed on the term which is a characteristic of Islamic finance but with this, the customer had difficulties related to fast access to information and understanding. Even in Firdaus, Abdullah, Rahim, & Rahman (2007) research, an incomprehensible understanding of sharia banking services at the level of bank managers in Malaysia such as *ghurmi* (risk) and *gharar* (uncertainty) was found.

The case that occurred in Indonesia was shown in Ghani's study (2012) with the people of Yogyakarta as a sample. The conclusion obtained is that the public wants to use the term Islamic financial skim with Indonesian terms rather than Arabic terms. Therefore, Ghoni et al., (2016) gave advice to Islamic banks to no longer narrate their products and choose Indonesian in an effort to socialize and marketing products. Therefore only the pesantren community can quickly understand the Arabic term because the term is familiar with their learning material namely *muamalah* (Ghoni et al., 2016). Another result from Rosidah's research (2016) found that there is no social effect of customers on Arabic terms in sharia banking products, customers are more motivated by factors outside the language such as service and also the benefits of the products offered. However, another opinion was found that the customer did not understand Arabic terms.

Questioning the Arabic term as a weakness of Islamic finance, Addiarrahman (2013) criticized the pattern of development of Islamic banking which prioritizes formal-structural aspects which consider sharia banking contracts to be the *urf* of Arab society and ignore cultural values that exist in Indonesia. In fact, generating local wisdom by exploring its potential in the local area to become a driving tool in solving the problems of regional development is one of the best solutions (Hermansyah, 2013). Economic practices in the value of local wisdom are very numerous in Indonesia because the power of local wisdom is in the context of learning by experience which is passed down from generation to generation so that the establishment of these values is the basis of the strength of the practice that still exists today (Yulianti, 2016). The possibility exists that the existence of these practices creates its market share. But the problem that then arises is the lack of understanding of local culture that makes Islamic financial institutions do not respond to socio-cultural harmony between companies and local wisdom (Mujahidin, 2016).

According to Worldbank in Er & Mutlu (2017) the level of financial spending due to religious reasons, which is 7% in the world, or 9.7% in the group of D-8 countries (Bangladesh, Indonesia, Iran, Malaysia, Egypt, Nigeria, Pakistan, and Turkey). In addition, religion is not the cause of low financial inclusion, but it is a cultural and geographical constraint in developed countries, however, individuals with low levels of financial literacy because their religious preferences specifically exhibit behavior that tends to favor financial services due to prices/product features (Er & Mutlu, 2017). Therefore, efforts to integrate cultural and religious values within the framework of financial inclusion are very important (Yulianti, 2016). If this is realized, then the development of product innovation will be realized by itself as a new sharia banking imaging program that includes aspects of positioning, differentiation, and branding (Ulum, 2014).

**LITERATURE REVIEW**

**THEORY *‘ASHABIYAT* (GROUP SOLIDARITY THEORY)**

The etymological meaning of the word *‘ashabiyyah* comes from the word‘ *ashaba* which means binding (Yasu’i, n.d.). According to Huda, (2008); Ilham, (2016); Khoiruddin, (2016); Widayani, (2017). *‘Ashabiyah* is a social cultural bond that can be used to measure the strength of social groups or *‘ashabiyah* can also be interpreted as social solidarity based on emphasizing awareness, cohesion and group unity. Ibn Khaldun in Huda, (2008); Ilham, (2016); Khoiruddin, (2016); Widayani, (2017) interpret ‘ashabiyah positively by referring to the concept of brotherhood. This concept is based on the social solidarity of Islamic societies for mutual cooperation, putting aside personal interests (self-interest), and fulfilling obligations to others. Theory of *'Ashabiyat* and the concept of *ta'awun al-ihsan* are based on Islamic teachings in which there are sharia values, especially in muamalah. Morals become an emphasis on behavior in general, especially in economic activities (Yudiana, 2018), This opinion occurs in economic practices in the archipelago that are valued in mutual cooperation, collaboration, and *ta'awun* (Hakim, 2014; Hermansyah, 2013; Mujahidin, 2016; Yudiana, 2018; Yulianti, 2016)*.*

***‘URF***

Islamic law is not only judged by its appearance or external aspects, but its aspects as wisdom, meaning, reason, secret and causes are also considered in assessing a particular issue or case, which has been derived from a collection of aspects from many parameters *(dhowabit),* *usul,* methodology *(qawa'id),* particular parameter *(dhowabit khassah),* and general methodology *(qawa'id 'ammah).* For example, analog deduction *(qiyas), istihsan,* consideration of public interests *(istislah),* general destruction *('umum al-balwa)* and traditional practice *('urf)* are formulated from understanding aspects of the evidence as well as cases or problems (Aziz & Noh, 2014).

*‘Urf* or Customary Law is one of the most important sources of support in Islamic law. This can be seen through the many rules of law *(ahkam)* in Islamic law, which are based on *‘urf* where most of these will change according to changing circumstances, places and times. As for the basis of urf or habit, it is a product of the nature of people and their culture, it grows in strength and popularity through imitation which transfers and implants it in people's lives. In language, the word *‘urf* is a derivation of the word *‘arafa-ya’rifu-‘urfan*, which means to know (Yasu’i, n.d.). In terminology, urf and adat have the same meaning, although there are some Islamic jurists who distinguish them. Al-khallaf (1956) define *‘urf* something that is known to man and is carried out normally, in the form of words or deeds. The concepts and principles of *'urf* in Islamic law are critically analyzed such as the application of *'urf* in Islamic law, the difference between *'urf* and the consensus of jurists. The application of *‘urf* is often found in modern financial practices such as savings products in Islamic and conventional banks (Abdul Aziz Bello & Hassan, 2013).

The principle of fiqh *al-ma'ruf baina al-tujjar ka al-ma'ruf bainahum*, (customs recognized among traders as agreed between them) are applied like someone buys something from the market at a specified price without explicit statement about whether payment is made somewhere or on a deferred basis, and the employer's usual practice is that the seller receives the price after a period of time, which can be a week, or a month or he receives payment on a monthly installment basis, how to pay the price. must be understood by this custom without the requirement to mention it explicitly; because it has become traditional practice among traders as if they have agreed to this (Habiburrahman, 2015).

In addition, cases differ in the UK in research Zakariyah, (2012)explains how the application of ‘urf qawli in conventional mortgages is legal because it has become common practice, thus mortgages in contemporary times can be temporarily permitted until alternative measures are available. The rule of *al-maʿruf ʿurfan ka al-mashrut syartan* can be used to state that the phrase is already known between the two parties, it does not contain prohibited transactions especially in Islamic mortgage contracts. That means that such a contract permit is the rule. However, the claim that the true meaning of interest in western customs is the profit margins added to business transactions as in the rules of *al-haqiqah tutrak bi dalalah al-ʿadah* (the true meaning must be abandoned by culture). This means that if the true meaning of cultural interests is considered a transaction that is not prohibited, it can still be accommodated based on Islamic law within the scope of the muamalah (Zakariyah, 2012).

Another example of implementing *al-‘adat al-muhakkamah* principle in financing activities is one of the core businesses of Islamic banking apart from investment and deposit collection. All Islamic banks in the world charge a rate of profit on an exchange-based financing facility, called, the London Interbank Offered Rate (LIBOR) or Kuala Lumpur Interbank Offered rate (KLIBOR). Using the rates above does not mean that Islamic banks also duplicate the concept of interest-bearing products from conventional banks, but it is a customary practice that is recognized by Islamic financial institutions as their benchmark in calculating rates (Aziz & Noh, 2014).

In addition, the application of the urf to the yad amanah contract is adopted by Jordan Islamic Bank, which operates as a Trusteeship Account (trustee and guarantor to protect the assets stored). Trusteeship conducted by Jordan Islamic Bank is a place to deposit cash in funds as demand deposits *(qardh hasan),* where banks are authorized to use deposits at their own risk and responsibility. Thus, the depositor hands over the deposits to the bank as a Trust and the bank does not have the authority to use them without first obtaining special permission from the fund owner. The practice is based on the al-muamalah rules of *tajri ‘ala‘ adah ahlu al-balad wa urf* (current transactions based on the habits of a particular country and the environment of the place). However, another view is to treat current accounts as qard hassan (loans without interest) showing that the practices and sustainability of Islamic and conventional banks are the same (Azeez, Yasin, & Hassan, 2015).

Likewise, several features apply to savings accounts. For example, the bank has the right to set a minimum deposit balance needed to open an account, types of customer acceptable operational procedures and others. Minors are sometimes allowed to open savings accounts with banks but accounts are opened in the name of their parents or guardians, this is based on the practice of 'urf arab where Quraysh send caravans to Syria and Yemen and on this trip, those who have money will give it to traders to do business to share profits and Islam approves this practice because it becomes *'urf* (habit) that "the behavior of a group of people in their words or deeds (Azeez et al., 2015)**.**

**RESEARCH METHODOLOGY**

This research is a descriptive qualitative study to describe, and explain thoroughly about the problem under study, which is an in-depth analysis using fiqh principles about traditional practices in Indonesia. The results of the analysis are reviewed in such a way that they become a solution in Islamic financial products. The method used in the data collection process is the documentary method, which is by examining documents related to the object of research, including: texts, photos, stories, pictures of facts and so on (Creswell, 1997). The data analysis technique used in this study is to use the Miles & Huberman (1992) stages, namely: data reduction, data presentation, and conclusion drawing. Data reduction is carried out after reading, studying, and reviewing all sources by summarizing the core material. Furthermore, the abstract was carried out and finally the data was interpreted to obtain the research results.

**FINDING AND RESULT**

The marketing model of Islamic financial institutions in Indonesia, especially Islamic banking to the public, tends to be top and down style by looking for prospective customers who have large funds in urban and rural areas. Even the future prospects of Islamic banking, namely managing government funds with efforts to establish cooperation between several government and private agencies, such cooperation is in the form of salary receipts, and payment of educational assistance contributions (SPP) in educational institutions. Socialization activities such as Islamic finance expo are also placed in the middle and upper classes such as in malls, educational institutions and social activities in the center of the city such as casual walk movements. This creates developments in the Islamic financial market share which tend to be static following conventional financial developments, where Islamic financial institutions have not been able to capture the market share of conventional institutions. Of course, when viewed further, the middle class and above are oriented to service quality, product prices, and profits so that competition between institutions tends to replicate their competitors' products with each other and that also occurs in Islamic financial institutions.

This marketing pattern is reflected in several sharia bank visions, including; 1) Bank Syariah Mandiri "Leading and Modern Sharia Bank", 2) Bank Muamalat "Being the best sharia bank and included in the top 10 banks in Indonesia with a recognized existence at the regional level", 3) Bank BRI "Being a leading modern retail bank with variety of financial services according to the needs of customers with the easiest reach for a more meaningful life ". Although the values of the above vision tend to be generally meaningful in terms of micro and macro services, but the form and reality that occurs is the empowerment of small and medium-sized communities is still less touched by Islamic finance. Whereas the concept of al-falah in Islamic economics is more intended for the lower middle class (QS. Al-Quraisy: 4). For that the balance of micro and macro marketing patterns needs to be realized.

**Figure 1.**

**Classification of Indonesian Sharia Financial Market Share Based on Sharia Financial Literacy Level**

Religious Society, and Sharia Economy Activists

Public Society /*Unbanked*

A profit-oriented society

**Low Literacy**

**Medium Literacy**

**High Literacy**

Source: The author was modified based on the mashlahah pyramid

As Picture. 1 representing the pyramid of Islamic financial market share as a basic form or foundation of social class in society, the picture replicates the objectives of the maslahah pyramid where the lowest social class is the main market share that must be met first by the Islamic financial institutions *(Mashlahah Dharuriyat)* (Yusuf, 2014)*.* Islamic financial market share results are still in the range of 8.58%, and more than 97.5% are controlled by conventional institutions, Islamic financial institutions should create a positioning product among ordinary people/unbanked or prospective customers with low Islamic financial literacy, especially at the micro level who live in the village so that integrated with achieving the target of 20% share of the Islamic financial market in the next five years (Perencanaan & Nasional, 2019). Improving product positioning through local wisdom will be easier for unbanked people who live in rural areas (Yudiana, 2018), and also helps to eliminate the stigma of "sharia banks are the same as conventional banks", because in essence these statements already represent the public mind that Islamic financial products are not impressed in their hearts.

Analyzing the process of distrust (distrust) of ordinary people towards Islamic financial institutions one of which is marketing patterns that are still in the realm of the values of preaching *Shiddiq, amanah, fathanah, tabligh and istiqamah* only (Romli, Arwan, & Irham, 2018). The five elements of da'wah have not been able to increase the public interest in choosing sharia financial services because the indicators of *fathanah* (skills) of sharia financial managers have not touched on the psychosufistic[[1]](#footnote-1) concept. Community psychology will reject itself when marketers see the image of a prospective customer is a profit or bonus when reaching the target, so there is a conflict of community intuition whether Islamic financial institutions put forward the propaganda of Sharia economics or marketing (religious commodification). Indeed, people's sense in understanding this phenomenon has been filtered by the presence of local genius. Local genius or cultural values have implications for the protection of the heart/refusal of cooperation with Islamic financial institutions, because what the community wants is a sense of *al-insaniyah* (Humanity) towards the offer given by Islamic financial institutions (Mujahidin, 2016). That humanity is in the local genius with a variety of variants of traditional practices in the archipelago, such as the practice of paroan cooperation, prapatan, and echelon that emphasizes the values of mutual assistance, mutual cooperation, and attention (Mujahidin, 2016).

Islamic economic propaganda should apply as done by Walisongo to the pattern of management and development of community culture, where they are able to read the psychology and phenomena of the community when the people embraced Hinduism and Javanese religion (Tajuddin, 2014a). When you hear Walisongo, it is identical with the product of slametan culture or tahlilan (Mas’udi, 2015), it takes a psychosufistic concept to create a tradition. Psychosufistic can also be generalized to Islamic economics as its principles are divided into five. First, the value of monotheism. The fundamental value of monotheistic values will be the basis for the formation of human divine awareness, that only in God humans worship, adore, and lean so that they will tie themselves firmly to Allah. As in the Qur'an QS. At-Talaq: 2-3 explained that fearing will have an impact on the mental strength of a person so that he is not afraid of poverty and poverty. This foundation will change religious integrity[[2]](#footnote-2) humans towards the value of spirituality, or a more concrete example is by being Muslim and understanding the prohibition of usury and choosing sharia financial services on the basis of sharia (religiutas), causing peace of mind (spirituality) which results in customer loyalty.

Second is human value. The value of Sufism views social interaction as a basic platform for a community of ordinary people, while Islamic financial institutions appear or appear as helpers. Awareness of human values consists of the value of mutual respect and respect with others, mutual assistance and cooperation in the good, prioritizing the common interests, acting honestly when dealing, responsibility, and giving protection to the weak. These values are mentioned in QS al-An'am verses 50-52 (Tajuddin, 2014b). Third is humility (low profile), a preacher or marketer should have an attitude of humility so that the awareness of mad'u (people preached / prospective customers) will lead to souls that are gentle, affectionate, togetherness, and have a sense empathy so that it can capture the preaching message of the preacher and the main goal is stability, not the desire to get profit. Fourth, local wisdom. Local wisdom in the historicity of the development of Islam in the archipelago is full of attitudes that show wisdom in responding to the socio-cultural conditions of the society in which Islam is growing and developing. This discussion will be discussed separately in the process of creating products based on local wisdom. Fifth, self-change (self-transformation), namely that a believer has one final goal to be achieved, which is close to Allah. This value is the culmination of the above values ​​so that people know that the worship received one of which *muamalah* will return to Allah.

When Islamic economic propaganda is carried out, then local wisdom-based products are also needed as a reinforcement of the da'wah itself. As a statement in the research of Afif Muhamat et al., (2011); Firdaus et al., (2007); Gerrard & Cunningham, (1997); Hamid & Nordin, (2009); Ghani, (2012); Ghoni et al., (2016). that one of the constraints on Islamic financial products lies in the Arabic terms. The discourse of the replacement of Arabic terms is certainly not necessary, but it is necessary to add special products in the microfinance segment. If we explore further when realizing local wisdom-based products, then alternative solutions emerge, namely: 1) Arabic terms are matched with local language terms; 2) adopt economic practices in the local area and make it a financial product. If the first alternative is carried out, the screening process for the legal status of the product is not necessary, considering that Islamic financial products are now shaded by the umbrella of the National Sharia Council of the Indonesian Ulama Council.

If the second alternative is carried out, then some problems will arise, if economic practices are not found in the category of the named contract[[3]](#footnote-3) which is appropriate in the study of classical scientific treasures it is necessary to do an in-depth study of it, and need to be synergized between the local Ulama Council with Islamic financial institutions. If the economic practice is categorized as haram, the solution is to name the product in local terms and to correct the economic practice in accordance with Sharia rules. The most important thing is to develop sharia financial products must be based on shariah complience, because it impacts on public trust in sharia financial institutions so that it can interfere with the process of obtaining market share (Apriyanti, 2018)*.* For that reason, innovating products based on local wisdom that is in accordance with the sharia signs needs to be considered is to further explore the practices that develop in the community and then to be analyzed with the applicable fiqh rules. However, the second alternative will be processed through further research activities in each economic practice as shown below:

**Figures. 2.**

**The Process of Forming Local Wisdom-Based Products**

Legal Maxim

Al-Urf



**Traditional**

**Practice**

**Pa**



Al-Uqud in Muamalah



**Synergize with Technology**

**Local Wisdom Based Products**



**Research**

Source: Author

As seen in Fig. 2 that the ‘urf rules are a means of analysis of the culture of the community, while the economic practices referred to in this paper are traditional practices that have prevailed until now. Please note that in this case the relationship between culture (traditional practices) with muamalah or more specifically financial transactions must meet several conditions in the ‘urf rules, namely the first condition with the rules derived from *al-‘adah muhakkamah* (Ahmad, Osmani, Shahed, & Karim, 2010; Zakariyah, 2012; Bello & Hassan, 2013; Fawzi, 2018) is *al-ta’yin bi al-‘urf ka ta’yin fi al-nash.* The point is that the culture prevailing in the community has a binding force so that its application as a law is the same as what is determined by the text which is essentially a virtue. The culture and texts of the texts go together to achieve the benefit of the Ummah. This can be implemented between *‘urf* being a script in a transaction. For example using objects in the ijarah agreement (Addiarrahman, 2013). The application of the previous rules is also the same as explained in the rules of *al-tsabit fi al-urf ka al-tsabit fi al-nash* (something specified in ‘urf is the same as that of the text) (Zahrah, 1958). and the rules of *al-ma'ruf ‘urfan ka al-masyruth syarthan* (something good becomes` urf, as required it becomes a condition) (Al-khallaf, 1956). The two precedents are based on the principle of isti'malu al-nas hujjah yajibu al-aluamalu bi ha (what has become a community habit, has a certainty and must be practiced), al-Zuhaili in Addiarrahman, (2013) explained the habits of the people that were not in conflict with the Shari'a possessed the necessity and were obligatory, so that the four rules were interrelated. The final rule that reinforces this requirement is al-ma'ruf baina al-tujjar ka al-ma'ruf bainahum (what has become a habit among traders, it is a habit for them) (Addiarrahman, 2013). As the rules stated traditional practices in Indonesia are identified as the culture in their respective places based on direct research on the practices contained in the thesis, thesis, and journal. These practices are listed as follows:

**Table. 1**

**Traditional Practice in Indonesia**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Community Practices / Traditions | Area | *Uqud* in *Muamalah* | *Maslahah* | |
| *Dharuri* | *Hajat* |
| *Celong[[4]](#footnote-4)* (Hakim, 2014; Yulianti, 2016) | Manggarai (Southeast East Nusantara) | *Ijarah* |  | √ |
| *Pemajakan[[5]](#footnote-5)* (Sudiarti, 2016) | North Labuhan Batu Regency (North Sumatera) | *Ba’i al-Wafa* | √ |  |
| *Pagang Gadai[[6]](#footnote-6)* (Sudiarti, 2016) | Batahan, Mandailing Natal Regency (North Sumatera) | *Ba’i al-Wafa* | √ |  |
| *Pajak Kebun[[7]](#footnote-7)* (Sudiarti, 2016) | Mandailing Natal Regency (North Sumatera) | *Ba’i al-Wafa* | √ |  |
| *Jual Gadai [[8]](#footnote-8)* (Sudiarti, 2016) | Serdang Bedagai Regency (North Sumatera) | *Ba’i al-Wafa* | √ |  |
| *Gala[[9]](#footnote-9)* (Fajri, Muksal, Gunawan, & Kesuma, 2017; Ibrahim, 2012a; Iqbal & Sukirno, 2017) | Kuala Batee district dan Manggeng district, Aceh | *Rahn/Ba’i al-Wafa* | √ |  |
| *Nating[[10]](#footnote-10)* (Yustini, Mulyana, Yamin, & Minha, 2011) | Pagar Alam dan Lahat, South Sumatera | *Rahn/Ba’i al-Wafa* | √ |  |
| *Gala Umong* (Safrizal, 2016) | Pidie Regency, Aceh | *Rahn/Ba’i al-Wafa* | √ |  |
| *Mappasanra/pasanra/massanra[[11]](#footnote-11)* (Hazanah, 2017; Ikbal, 2016; Parakkasi & Amri, 2019) | South Sulawesi | *Rahn/Bai’I al-Wafa* | √ |  |
| *Ta’ga’ biasa[[12]](#footnote-12)* (Muchsin, 2016) | Mehalaan District, Mamasa Regency | *Rahn* | √ |  |
| *Ta’ga’ dipakdua[[13]](#footnote-13)* (Muchsin, 2016) | Mehalaan District, Mamasa Regency | *Ba’i al-Wafa* | √ |  |
| *Pohulo’o[[14]](#footnote-14)* (Darwis, 2018) | Gorontalo | *Ba’i al-Wafa* | √ |  |
| *Adol Sende[[15]](#footnote-15)* (Hidayah & Rahadiyan, 2018; Latifah, 2017) | Jawa | *Ba’i al-Wafa* | √ |  |
| *A’balu taung[[16]](#footnote-16)* (Jannah, 2017) | Parigi, Gowa Regency, South Sulawesi | The contract is not named | √ |  |
| *Mawah[[17]](#footnote-17)* (Ibrahim, 2012) | Aceh | *Mukhabarah dan Muazara’ah* |  | √ |
| *Maro[[18]](#footnote-18)/Paron* (Yulianti, 2016) | Penggunungan Tengger, Bromo (East Java) | *Muzara’ah/Muzara’ah* |  | √ |
| *Mertelu[[19]](#footnote-19)* (Kumalasari, Sigalingging, & Suprayogi, 2012; Supriyatna, 2015) | Central Java /East Java | *Mukhabarah/Muzar’ah* |  | √ |
| *Mampaduoi[[20]](#footnote-20)* (Irawan, 2018) | Minangkabau, West Sumatera | *Mukhabarah/Muzar’ah* |  | √ |
| *Matesan Uma[[21]](#footnote-21)* (Akbar, Kara, & Abdullah, 2017) | Enrekang South Sulawesi | *Mukhabarah* |  | √ |
| *Tesang[[22]](#footnote-22)* (Darmawita & Muin, 2017) | South Sulawesi | *Muzara’ah/Mukhabarah* |  | √ |
| *Ma’pajak[[23]](#footnote-23)* (S & Suhandani, 2016) | Luwu South Sulawesi | *Muzara’ah* |  | √ |
| *Mangpaindan doi[[24]](#footnote-24)* (Suwaib, Abdullah, & Kara, 2018) | Lunjen Enrekang | *Al-Qardh* | √ |  |
| *Gulingan[[25]](#footnote-25)* (Ningrum, 2015) | Balai Jaya District Rokan Hilir Regency | *Al-Qardh* |  | √ |
| *Appattimoro’[[26]](#footnote-26)* (Sirajuddin, 2018) | Tompobulu District Bantaeng Regency | The contract is not named | √ |  |

Literature search results from various regions as listed in Table 1. that traditional practices in Indonesia are dominated by the practice of *rahn/ba'i al-wafa* and *al-muzara'ah/al-mukhabarah* and the two *Qardh* contracts. Seeing from the characteristics of traditional practices Indonesian people do, capital owned as a source of economy by the community relies on agricultural land and plantations. When viewed in terms of the named contract there is one contract that is still in the realm of ikhtilaf namely *ba'i al-wafa*, in addition there are two nameless contracts, and the rest there is no problem in them.

The second requirement is continuity (*al-istimrar)* practices or traditions carried out by the community, the continuity process will select culture in society as the principle of *istiqamat al-hukm* (legal stability) (Harisudin, 2016). See the practices in the Table. A compilation of studies covering local wisdom studies from the period 2010 to the present, the practice has been declining practically even today, this indicates that the second requirement is al-istimrar allows to be filtered into the third condition. The third requirement is that there is an element of masahah, urf is an independent rule but requires rational analysis with consideration on the basis of masahah and purihsan. Masahah will arise in the problem of looking from the side of space and time, because at the same time certain masses may not necessarily be the same masses of time and space. Therefore the context of the 'urf in economic practice in society will be varied according to the processes behind it (Harisudin, 2016), the applicable rules ainama wajida al-mashlahah fa tsamma hukm Allah (Where there is mashlahah distu there is a law of God). Apart from the three requirements mentioned, there are things that need to be underlined that in the practice examined in this paper it needs to be further analyzed by anthropoluingistic studies. This was done because regional languages might have the same phonology (sound) with different meanings or could be the opposite. Of course this is already listed in the forefront of Islamic law, namely the study of ‘urf qawli. As did Sudiarti, (2016) which equates meaning (selling-pawn) in terms of *pemajakan, pagang gadai,* and *pajak kebun,* and also terms *massanra/pasanra/mappasanra* which are both in bugis language but the practice in each region is different. Ikbal's research (2016) shows that the practice does not make it harder for rahin to experience difficulties in ransom payment In contrast to the Parakkasi & Amri, study (2019),, if rahin is unable to pay the ransom payment, the transaction starts from the beginning.

As in the Table. 1. Mashlahah which is contained in traditional practices is analyzed in existing literature studies, this paper states that practices that are in the form of muzara'ah / mukhabarah and ijarah exist in mashlahah hajiyat. This happens because the literature studied shows no impact if there is no inevitability of the proposed khamsah (religion, soul, intellect, descent, and property) in the practice, so that what is done is purely non-urgent needs. Therefore, if it is simulated in the form of a local wisdom-based product scheme there will be many variations that can be done, especially in contracts relating to agriculture. Generally, schemes in muzara'ah and mukhabarah contracts, Islamic financial institutions become landowners while cultivators as land managers (Meutia, Adam, & Vegirawati, 2017; Ngasifudin, 2016; Ridlwan, 2016; Shafiai, 2011), if it is illustrated and innovated into a murakkabah contract, it will be more compatible with the mutanaqisah musyarakah contract by changing the ijarah contract to the muzara'ah / mukhabarah contract. This scheme will increase the variety of collection products by trying to offer cooperation schemes with terms that are commonly practiced by the community and also distribution products with the muzara'ah contract scheme. The following schemes occur:

**Figure 3.**

**Scheme of Local Wisdom-Based Products using the Mutanaqisah Musyarakah Agreement and Muazara’ah / Mukhabarah**

1. *Mutanaqisah Musyarakah* Agreement

Islamic Financial Institutions

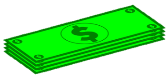
Customer / Partner

6. The gradual acquisition of assets from the results of traditional practices



3. MMQ Asset Purchases

2. Portals of Hishshah Capital customers and Islamic Financial Institutions



5. Manage agriculture

4. Tesang, Mattesan Uma, Mampaduoi, Mapajak, Paron, and Mertelu practices between Farmers and MMQ Partners with agreed revenue sharing

Cultivators / Farmers

Sources: Author

*Ba'i al-Wafa* is better known among hanafiyah while in the Shafi'i school the term is *ba'i al-uhdah*. The practice with the *Ba'i al-Wafa* agreement is stated at the level of the *mashlahah dharuri* in this paper because from the results of the literature studies show that people who pledge their fields or plantations, willingly accept the conditions for the use of collateral because they are in dire need of funds (one of al-usul of khamsah i.e. al-mal). Therefore, the Hanafi school of law allows this practice as illat is used that maslahah is a benchmark of permissibility of the practice (Al-Masri, 2006; Fahriansah, 2017; Ibrahim, 2012a; Kudus & Naghfir, 2017; Pratiwi & Noprizal, 2017; Sudiarti, 2016). Studies on the practice of *ba'i al-wafa* when confronted with studies of Islam and reality in Indonesia have been responded to by the Nahdatul Scholars in the study of *Bahtsul Masail* 4 times (Pujiono, 2010), and in *ijtihad inqita'i* prohibited the practice. The emphasis of this practice is on the conditions of utilization of pawn goods as is the case with traditional practice in Indonesia. Although there is a rule of *al-hukm yatagayyaru bi al-azminah wa al-amkinah*, the Council of Indonesian Scholars has not looked into this matter. However, Pratiwi & Noprizal's research (2017) tried to innovate the contract of *Ba'I al-Wafa* and UGT Sidogiri Wonokerto Branch to implement the contract and proved to be quite effective in increasing financing products (Kudus & Naghfir, 2017).

Reaching a common ground in the practice of ba'I al-Wafa can be done by changing the principle of the contract to a more psychosufitic tabarru agreement. The pattern developed by Pratiwi & Noprizal, (2017) in formulating a hybrid contract between b*a'i al-wafa wal muzara'ah/mukhabarah* has a weakness in the use of third party funding sources, of course customers and banks will wait until the harvest time arrives. The author provides a solution by developing corporate social responsibility (CSR) funds in Islamic financial institutions, capital in providing loans originating from CSR for the consumptive needs of the community. Consumptive needs referred to in this paper are spending money on urgent matters in the community, so that the price of guarantees higher than loans will provide a solution to congestion risk management. Furthermore, to avoid usury and Sharia guidelines on the use of pawning goods, land should only be managed by rahin. That way, the covenant of mukhabarah / muzara’ah is done with a profit sharing ratio of 75:25 or greater than that for rahin. This is to provide an opportunity for rahin to pay bail. Whereas profit sharing for banks is not permitted to be used in operational matters but is included in CSR funds, so that Islamic financial institutions do not engage in ribawi practices.

**Figure 4.**

**Schema of *Nating, Mapajak, Massanra, and Taga* Practices of Islamic Financial Institutions**



5. the customer pays the loan money

4. Revenue Share for institutions returned

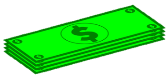
2. Loans with *Qardhul Hasan*

1. *Ba'I Wafa* Customer Agreement guarantees his field

Islamic Financial Institutions

Customer / Partner

Corporate Social Responsibility Funds



3. Customer Manage Rice Fields with 75:25 profit sharing or more for rahin

Sources: Author

After explaining the discussion of the study of the development of Islamic financial products based on local wisdom, it needs to be known as in Figure. 2 that this financial product should synergize with technology to strengthen the branchless banking network in the form of mobile banking as a supporting facility for customers (Ulum, 2014; Yudiana, 2018; Apriyanti, 2018), because for now sharia banking is still faced with the limitations of information technology while sharia microfinance institutions have not been able to match the achievement of sharia banking (Harahap, 2017).

**Figure 4.**

**Sharia Financial Synergy with Local Wisdom-Based Products**



Local Wisdom Based Products



1. Expert Staff
2. Policy Maker

HUMAN RESOURCES

Determining Product Prices are more affordable than conventional bank products according to the needs of the people

PRICE

Lay people are low literacy on Islamic finance, such as SMEs

MARKET SHARE

1. Sharia Cooperative
2. Sharia Bank UUS
3. Sharia Banks

MARKET



1. Strengthening Product Positioning
2. Increase financial literacy
3. Preaching Sharia Economy

BENEFITS AND OBJECTIVES



Source: *Perencanaan & Nasional, (2019)* modified

Synergy of Islamic finance with local wisdom-based financial products requires the role of various parties starting from experts such as IT experts, and policy makers as the main roles (Ulama Council, Bank Indonesia, Financial Services Authority, and National Sharia Finance Committee). The first thing is how policy makers are able to umbrella products based on local wisdom in the framework of the law or fatwa, when that is realized then the Islamic financial institutions are able to implement it. Second is how policy makers discuss prices, Ezry Fahmy (2008) said that Islamic banking in Malaysia is not sharia because the price of its products is expensive so they do not contribute to the small and medium economy. Although on the side of determining prices is the right of Islamic financial institutions, but policy makers are able to urge them to determine a more affordable price for ordinary people. Therefore, if the sharia-based financial products based on local wisdom can be realized the potential and strategy can be analyzed as follows:

**Table. 2**

**SWOT Analysis of Local Wisdom Financial Products Based on Wisdom**

|  |  |  |
| --- | --- | --- |
| **Internal**  **External** | **Strengths**   1. The existence of ulama’s, and ustadz who can help preach financial products based on local wisdom 2. Ulama councils are structured in every region 3. Indonesian people have local genius and love the values of the region 4. Increased research related to economic practice in the community 5. There is a cooperative relationship between Islamic banking and Islamic cooperatives | **Weaknesses**   1. There are no laws and edicts that support them 2. Islamic banking employees do not allow to market regional languages 3. Employees do not speak the local language 4. Technology-based product development has not been sufficient in microfinance |
| **Opportunities**   1. Majority of Muslim population 2. Traditional practices still exist today and have their own market share 3. The term product with regional languages makes it easy for people to get information 4. Increased public awareness by looking at the growing halal industry growth 5. Youth in the area often promote their regions through the web and social media. | **Strategy SO**   1. Organizing product socialization by cooperating with scholars, practitioners, academics and religious teachers, in rural areas 2. Establish cooperation between educational institutions, the Ulema Council, and Practitioners in adding local wisdom research activities 3. Strengthening branchless banking between Islamic banks and Islamic cooperatives to promote local wisdom products 4. Recruitment of employees in the local area in accordance with local wisdom | **Strategi WO**   1. Propose the formation of laws and fatwas through a focus discussion program that engages the community, ulama, and practitioners 2. Prioritizing recruitment with surrounding communities 3. Collaborating with educational institutions dealing with technology to create platforms or digital applications for local wisdom products |
| **Threats**   1. The price of conventional financial institution products is more affordable than Islamic financial institutions 2. Habits of the public are still dealing with loan sharks | **Strategy ST**   1. Making a focus discussion between educational institutions, the Ulema Council, and practitioners to discuss marketing products of local wisdom 2. Massively socializing local wisdom products by frequently providing assistance to the community | **Stategy WT**   1. Collaborate with Bank Indonesia and the Financial Services Authority to draft a regulation on pricing that is affordable for rural communities |

**CONCLUSION**

Integration of local wisdom with Islamic financial inclusion can be done with two efforts, namely by changing Shariah economic preaching patterns to be more psychosufistic in the form of walisongo which embodies the value of monotheism which aims to create customer loyalty, humanity to create positioning of Islamic financial institutions in the hearts of the people, humility to knocked the hearts of the people about the propaganda of Islamic economics, local wisdom in economic practice in realizing the empowerment of the ummah and self-transformation towards God Almighty. Second, examine the economic practices of the community and make it a product based on local wisdom to support the psychosufistic preaching of Islamic financial institutions.

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1. Psychosufistik stands for Sufistic Psychology, is a psychological study of Sufistic understanding. Sufistic psychology (psychosufistik) is defined as a science of human behavior whose concepts are built on the basis of the paradigm of Sufism based on the Qur'an and al Hadith. The science of Sufistic psychology always emphasizes the development of inner potential toward psychological awareness to always be close to Allah (Tajuddin, 2014a) [↑](#footnote-ref-1)
2. Religion is divided into two, namely intrinsic and extrinsic. intrinsic is religious which is motivated by internal trust. Related to behavior that is directly related to religion (fiqh muamalat and prayer at the mosque). Extrinsic religiosity is related to religious behavior that is carried out for the desired social goals (Aprianto, 2018; Isfandiar, 2009). [↑](#footnote-ref-2)
3. A named contract is a contract that has been determined for its purpose and name by the law maker and special conditions that apply to it and do not apply to other contracts (Aprianto, 2018; Isfandiar, 2009). [↑](#footnote-ref-3)
4. *Celong* is a system of borrowing goods / land or a kind of vehicle rental (horse / buffalo for rice processing purposes). Payment of celong can be in the form of participating in the paddy field of the livestock owner or vehicle or helping with the work or by providing agricultural products after harvest. Variants of payment or contrast quite a lot. The concept of celong always means that, at the end of the celong period, the goods will be returned to their original state (Yulianti, 2016). [↑](#footnote-ref-4)
5. The practice of *pemajakan* is to assume that someone who needs money / funds for a child's or family's school fees needs, they invite the garden to get these funds, with the agreement that if the funds obtained can already be returned, then the garden that is used as the object of the transaction is returned to the owner of the garden. During the time the money cannot be returned by the owner of the garden as long as the buyer can also benefit from the garden (Sudiarti, 2016). [↑](#footnote-ref-5)
6. Ba'i al-Wafa's practice, which they called *pagang gadai or tax* apprenticeship, took place in Madina district, precisely in Batahan sub-district. This practice equals the practice of *pemajaka.*(Sudiarti, 2016). [↑](#footnote-ref-6)
7. *pajak kebun* which is carried out by the Mandailing Natal community usually pawns coconut plantations. (Sudiarti, 2016). [↑](#footnote-ref-7)
8. *Jual gadai* is used by the people in Serdang Bedagai district but the practice is similar to *pemajakan* (Sudiarti, 2016). [↑](#footnote-ref-8)
9. *Gala* is a loan-lending agreement between *gala* and *gala* recipient to meet their financial needs in an urgent need in everyday life. In the mechanism of *gala* agreement if the parties have agreed to gala agreement, the galaxist declares the use of *gala* object as a guarantee to *gala* party, while *gala* party gives the monies promised in cash to *gala* the gala party(Iqbal & Sukirno, 2017). [↑](#footnote-ref-9)
10. *Nating* is divided into two, first *Nateng Kuasa*: meaning that the farmer who owns the land is either cultivating or mortgaging the paddy/garden, whether to relatives, surrounding residents, middlemen or to an agent (called *penating)* who has capital, by agreement or agreement the farmer may work on the field / the garden, and when the harvest has been divided the percentage is determined and within a specified time period it is usually 1 year or more. Ordinary *Nating* (not authorized): the farmer who owns the land has said he mortgaged his rice field/farm /garden even to the *penating* farmer but the farmer is not given the power to work on his land, because the penating has the right to order other people or farm workers he wants to work on, so its nature is just like ordinary debt and payments and the amount of loan repayment is mutually agreed according to the agreement made(Yustini et al., 2011). [↑](#footnote-ref-10)
11. *Pasanra/Mappasanra* (pawning) in general pawning (rahin) goes to the pawning recipient (murtahin) to borrow money to meet the needs of the garden as collateral. the ownership / utilization rights of the estate are in the hands of the pawner (murtahin) until the repayment of the debt. Payment of debt knows no time limit and the contract ends when the pawner (rahin) pays the debt according to the amount of money borrowed (Ikbal, 2016). [↑](#footnote-ref-11)
12. Ordinary *ta'ga'* is a pawn contract where the pawner borrows money from the pawn recipient with a pawn agreement made by the pawn recipient, and the results are fully enjoyed by the pawn recipient. Usually the agreement is agreed upon for two years, but if within two years the pawner has not been able to return the loan, the pawn recipient continues cultivation of the rice field until the pawner can repay the loan(Muchsin, 2016). [↑](#footnote-ref-12)
13. *Ta’ga’* *dipakdua/*profit-sharing pawn, that is, if the owner of the paddy field is working on the field, the harvest will be divided into two with the pledge recipient. Of the two pawning methods above, the agreement is usually agreed upon in two years, but if within two years the pawner has not been able to return the loan, the pawner or the pawn recipient continues cultivation of the fields until the pawner can repay the loan (Muchsin, 2016). [↑](#footnote-ref-13)
14. *Pohulo’o* practice in Gorontalo involves two parties, namely the pawnbroker and the pawner. Mortgaged goods are generally high-value and profitable goods, mainly in the form of rice fields. Determination of rice fields is due to the pawn holders do not want if the goods used as collateral are not profitable for them (Darwis, 2018). [↑](#footnote-ref-14)
15. *Adol* sende is a pawn sale of land, one of the transactions that is still widely carried out by the Javanese people (Hidayah & Rahadiyan, 2018) [↑](#footnote-ref-15)
16. *A’balutaung* is the sale and purchase of the benefits of working on land, where the land is owned by several parties. Usually the ownership of the land is caused by inheritance [↑](#footnote-ref-16)
17. *Mawah* is the paddy field, while the seeds for the contents of the paddy are from farmers, usually when harvested the results will be divided into three parts with details of one part for the owners of the fields and two parts for tiller farmers. Whereas if the rice field owner bears the rice seeds planted, the profit sharing set is 50% for the owner and 50% for the farmer*.* [↑](#footnote-ref-17)
18. profit sharing system that occurs between the land owner's family and the tenant/user, although usually having a kinship. Farmers who cultivate other people's land get at least 50% of the harvest (maro / paron), and often more, even up to 75% (telon). Tenants and landowners alike participate in the procurement of fertilizer production sharing practices like this is referred to as profit sharing with the principle of *Al-Muzara’ah* *(Harvest-Yield Profit Sharing)*(Yulianti, 2016)*.* [↑](#footnote-ref-18)
19. The *mertelu* system of all production costs is the responsibility of the tiller, the paddy owner is only obliged to pay half the fertilizer costs needed, while the cost of wage for harvesting the cultivator gets two-thirds of the portion and the paddy owner gets one third of the rice planted in the field (Kumalasari et al., 2012). [↑](#footnote-ref-19)
20. The production sharing agreement in which all cultivation, maintenance, fertilizer, seed, and harvest costs are all borne by the cultivators, while the land owner only provides land and receives the harvest according to the agreed profit sharing ratio at the beginning of the agreement. The profit-sharing system is determined by the type of land, if the land comes from a decline (Pusaka Tinggi), then the family *(Badunsanak)* will prioritize the results. If the cultivator is from a family, then the distribution of profit sharing is 1: 3, if other than family, the distribution is 1: 2 (Irawan, 2018). [↑](#footnote-ref-20)
21. *Mattesan uma* model of agricultural cooperation carried out by two parties in which land management is carried out by the tiller farmers, and the other party acts as the owner of the land by making an agreement to share agricultural produce at harvest. In managing land, the managing farmer has the right to plant seedlings, maintain plants, provide fertilizer for plants, irrigate and harvest them when it is time. In terms of capital, land and seeds are all charged to the land owner, for the problem of loss borne by the land owner. use a ratio of 50:50 (1: 1) and when it suffers losses the landowner provides compensation in the form of condolence money (*Asse Penawa*) to sharecroppers. [↑](#footnote-ref-21)
22. *Tesang* system has three forms, first is land from the owner while seed and management come from the cultivator. The second form of land from the owner is managed by the cultivator where the seeds are equally borne. The third form of land and seeds from land owners and managers only work on rice fields (Darmawita & Muin, 2017). [↑](#footnote-ref-22)
23. *Ma’pajak* is done by the land owner entrusting his land to be managed by prospective cultivators until the time limit of two, three or more harvest time according to the agreement while the seeds come from cultivators (S & Suhandani, 2016). [↑](#footnote-ref-23)
24. *Mangpaindan doi* transactions are qardh contracts in Islamic fiqh. In the practice of mangpain and doi and qardh transactions, they do not have the same tempo and nominal at the time of repayment of accounts payable. This practice is influenced by factors creditors who have material reliability and the debtor is a trusted relative. [↑](#footnote-ref-24)
25. The practice of traditional *gulingan* is an activity of collecting funds borrowing money or building materials with unspecified fees that continues to roll from one party to another according to the time of house construction carried out by those who participated in the traditional rolling. [↑](#footnote-ref-25)
26. The *Appattimoro* System 'is a loan-lending and borrowing money transaction to *Pattimoro'* and will be paid for with coffee whose price is below the market price or half the original price. After that, the coffee will be given during the harvest season, but if the harvest season arrives, farmers experience crop failure then the coffee can be given at the next harvest and the amount of coffee is doubled from before (Sirajuddin, 2018). [↑](#footnote-ref-26)