Conference Paper

Explaining Farmer’s Contract in Legundi, Ngawi Region: Agency Theory and Sharia Perspective

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Abstract
Contracts are a condition for the emergence of cooperation in economic activity. In the agricultural sector, farmers’ cooperation contracts will affect the distribution of income, which in turn will also affect their level of welfare. Cultivation of rice fields in Legundi Village, Karangjati Subdistrict, Ngawi Regency is carried out in the form of a cooperation contract involving the owners of the fields, the cultivators of the fields and farm laborers. This study aims to explore the existence of these contracts using the perspective of institutional economics and Islamic economics. The institutional perspective aims to identify the principal-agent position and analyze contractual problems arising from the employment relationship with agency theory indicators. While the perspective of Islamic economics aims to analyze how the form of the contract conforms with Islamic legal indicators. In this study, data collection procedures were carried out through interviews with respondents involved in all aspects of the rice cultivation cooperation contract. Data analysis begins by identifying the contract then analyzing the contractual issues. The contract identification results show that from an institutional perspective, the principal agent of the contract actors is the owner of a pure rice field or a rice field owner who doubles as a cultivator of a paddy as a principal. Based on sharia perspective this study found two forms of cooperation, namely ijarah which consists of ijarah ‘ala al-a’yān and ijarah’ ala al-a’mal and mukhabarah. The results of the analysis of the contract problem show that from an institutional perspective there is a moral hazard found in the production sharing contract, conflicting objectives in the lease contract, and adverse selection between the farmer group and Bulog. From the perspective of sharia there is an unclear risk of crop failure, lack of awareness of paying zakat mal, and the emergence of the risk of mutual suspicion in the mukhabarah.

Keywords: Agency Theory, Farmer’s Contract, Sharia Perspective

1. Introduction

The agricultural sector is constantly changing, including institutional changes. Institutional changes in the agricultural sector must have produced a different distribution pattern than the previous. One of the changes is the change in working relationships that experienced a deep formalization so that the space for farmers to avoid the risk
of becoming increasingly narrowed. In this kind of institutional model, landownership positions become stronger than peasants (Yustika & Baks, 2015).

One of the institutional changes that Yustika mentioned was the change in working relationships, not least in the complex agricultural world. In the success of agriculture of a village, there are relationships between the parties involved in the cultivation of rice fields, among owners, farmers / farm workers and farmers groups to Bulog and other related institutions. The working relationship will determine the proportion of economic ratios to be shared with rural economic actors (Yustika & Baks, 2015). One type of the institutional economy is contract theory. The contract generally illustrates the agreement of one principal to take action that has economic value on the other side, of course with the consequence of reciprocal action or payment. Therefore, in this study selected institutional relationship work as a focus of research that matches the approach of contract theory or the theory of principal-agent.

Simply put, every economic activity requires a contract. There is a contract between the hotel owner and the hotel manager, there is a contract between the agency manager and his subordinate staff, there is also a contract between the owner of the rice field and the rice field farmer. Contracts serve to regulate and limit the behavior of individuals in the future, it is expected that the behavior of each individual involved in the contract does not harm each other. Simply put, an optimal contract is needed to get people to work together as well as possible. Hart and Holmström (2016) formulate a contract theory which essentially answers two main points: (1) why contracts vary in design and (2) good design to achieve the optimal goals of each company (in this case cultivation of rice fields).

Mallor, et al (2004: 174) convey essentially the law of a contract is the implementation of a promise or set of appointments. In other words, when a set of appointments has been in contract status, a person who has been harmed by a breach of contract may ask the government (court) to force the offending party to enter into / adhere to the contract. Some basic elements of the creation of a contract can be shown in Figure 1 as follows:

The chart expressed by Mallor et al. (2004: 174) describes the process of the occurrence of a contract and if one or more elements are not met, the contract will not be created. The contract is essentially an agreement obtained through a bid process, made and then voluntarily agreed by someone who has the capacity to make a contract. The purpose of a contract must be legal and, in almost all cases, an agreement must be supported by some consideration (an agreement to agree on legal value).
In reality, information is always not perfect (asymmetric information). That is, like the Varian (1993: 306) statement, this is a situation where one side can not know (observe) the action of the other party. And this imperfect information is the source of the emergence of the principal-agent principal particularly in relation to moral hazard and adverse selection. Moral Hazard can be defined as follows: the agent makes a decision (action) that affects his satisfaction and not the principal; while the principal sees /observes “the outcome”, an imperfect signal of a decision; the action of a spontaneously determined agent is not a Pareto-optimal (Manzilati: 2011: 32).

Contract violation which is a serious problem in economic activity (transaction) is the absence of equality among economic actors. The inequality can be a bargaining position as well as asymmetric information. The implication is that there are some / some parties who gain profit on the expense (loss) of others. Of course economic activity is not an ideal activity because there are one / several parties who become victims. Therefore, it is necessary to find mechanisms and design of rules of the game (a institutional) that aims to build equality between economic actors, both in terms of bargaining power and completeness of information. At this point the existence of contract theory is very big role in designing the rules of the game (Yustika, 2012: 78).

One of the basic philosophies of Islamic teachings in economic and business activities (agriculture), namely the prohibition to cheat and tyranny. All transactions conducted by a Muslim must be based on the principle of willingly willing (interadin minkum),
and no one should be oppressive or tyrannized. Supposedly if the majority Muslim community of Indonesia applies the spiritual values contained in the principles of sharia in the agricultural sector (specifically) and other economic sectors (in general), it is not impossible that a welfare will be achieved, because Allah SWT has repeatedly, time speaks in the Qur’an to stay away from His prohibitions and carry out His commands.

The problem of muamalah is a matter that is very little studied seriously, because so far there is the assumption that muamalah problem is a mundane problem that is not at all bound by divine values (Haroen in Furqan, 2016: 2). Whereas the application of sharia principles in muamalah which contains agreements in agriculture is a form of effort to protect from the emergence of forms of dzalim such as the existence of asymmetric information and moral hazard.

Some of the previous studies that have discussed farmers’ cooperation contracts include research conducted by Asfi Manziliati in 2010 under the title Implications of Farming Business Contracts with Companies towards Farming Business Sustainability (Study of Corn Commodities). The analysis in this case yields the conclusion that farming contracts with companies have implications economically, ecologically and institutionally. Other research conducted by M. Furqan 2016 with the title Influence of Al-Muzara’ah and Al-Mukhabarah Principles on Production Sharing Agreements Agriculture (Study in Semadam District Southeast Aceh Regency). The analysis in this case yields the conclusion that the majority carry out contracts not carried out in a manner written as well as there are still many inhibiting factors in application of muzara’ah and mukhabarah agreements, and methods dispute resolution has occurred through stages correct. Some of these studies form the basis of researchers’ arguments about the importance of conducting studies of farmers’ cooperation contracts.

2. Method

According to Denzin, N.K. and Lincoln, Y.S (2009: 2 in Leksono) Qualitative research is the focus of attention with a variety of methods, including interpretive and naturalistic approaches to the subject of the study. With a variety of methods that can be used to understand something phenomenon in accordance with its focus, qualitative research does not specifically have its own method. Through interpretive and naturalistic approach then obtained from the subject of economic actors examined is not limited to data, but more accurately referred to as information (Leksono, 2013: 65). On that basis the researchers decided to use qualitative methods of economics, where the meaning of the phenomenon that later became useful information to be analyzed according to
his approach. Based on the context of the study of phenomena from the observation or grand tour, the researchers used a descriptive economic model as a suitable type of research in this study.

To describe, or description in Indonesian vocabulary means to describe or describe. According Vardiansyah (2008: 9), descriptive research is the effort of data processing into something that can be expressed clearly and precisely with the aim to be understood by people who do not directly experience it themselves. So that is meant by descriptive qualitative research is an approach to something behavior, phenomenon, event, problem or certain circumstance which become object of investigation; whose findings are descriptions of meaningful sentences that explain certain understandings.

The following qualitative research designs in this study are shown in Figure 2:

![Figure 2: Qualitative Research Design](image)

Research subject is internally that is owner of paddy field, rice field farmer, and farm laborer. While externally that is farmer group and Bulog. The study was conducted on the even semester of the academic year 2017/2018 for ± 3 months. The following 3 shows the relationship between subjects:

Contract problems in Legundi Village taken from institutional perspective and sharia perspective can be analyzed based on the indicators in table 1 as follows:

<table>
<thead>
<tr>
<th>Institutional</th>
<th>Shariah</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitions and Characteristics of Asymmetric Information Theories of the Agency Theory</td>
<td>Rukun and Terms of Agreement (Contract)</td>
</tr>
<tr>
<td>a) Moral Hazard</td>
<td>a) Rent (Ijarah)</td>
</tr>
<tr>
<td>b) Conflicting Objectives</td>
<td>b) Profit Sharing (Mukhabarah)</td>
</tr>
<tr>
<td>c) Adverse Selection</td>
<td>Jumhur Ulama dan UU No. 2 Tahun 1960</td>
</tr>
<tr>
<td>Source: Data Processed</td>
<td></td>
</tr>
</tbody>
</table>

The process of drawing conclusions on the data obtained during the research by looking for models, themes, relationships, similarities and things that often arise. In
decision-making, it is based on data reduction and data presentation which is the answer to the issues raised in the research. Stages of qualitative data analysis can be seen in Figure 4 below:

From the many ways to check the validity of the findings, indirectly researcher do triangulation. Triangulation is a technique of examining the validity of data that utilizes something other than that data for checking purposes or as a comparison against it (Moelong 1996: 178). Triangulation techniques, where researchers use different data collection to get data from the same source. Researcher used in-depth interviews and documentation for the same source of data as well. Triangulation of data sources is to get data from different sources with the same technique. So the use of triangulation is expected to get valid and verifiable data although using different sources, techniques and times. The triangulation picture is described in Figure 5 below:
3. Result and Discussion

3.1. Institutional Perspective and Shariah Perspective on Contract of Rice Field Cultivation at Legundi Village

Legundi village is located in Karangjati district, Ngawi Regency, East Java Province. The village is about 21 kilometers from the capital of Ngawi and 1 kilometer from Karangjati. Legundi village borders to the north is Rejomulyo village, south of Sawo village, east of Krebet village and west of Karangjati district. In the Village Profiles (Prodeskel) 2016, it is mentioned that the Legundi Village has an area of paddy field reaching 149 ha. The livelihood of the majority of farmers with the number of 2,503 inhabitants. The total number of residents of Legundi village reached 3,857 people, with the largest religious adherents of Islam as many as 3,842 inhabitants.

From an institutional perspective, internally there are rice field owners as principal, rice farmers as principal / agent, and farm laborers as agents. Externally there are groups of farmers and markets (middlemen) as agents. The following summary is shown in Figure 6:

![Figure 6: Contract Scheme (Akad) Rice Fielding Internally](image)

When the owner of the rice field in Legundi Village wants to make his rice field becomes more productive, the owner of the rice field has 2 (two) options, that is to be
the owner of pure rice field or rice field farmer. If the owner of a pure rice field then
the form of the contract of work is usually to rent the rice fields or for the results to
those who want to work, but if you want to become a cultivator of rice fields are usually
also simultaneously as a cultivator of his own rice fields. In this position, both options
make the owner of the rice field take the position as a principal because it controls
or serves his own rice fields, unless the owner of the rice field to participate in other
people’s rice fields then the position of the owner of the rice field to be an agent. On
the other hand there are rice farmers who take a position as principal or agent. If the
rice farmers need labor in this case farm laborers, then the position of the rice farmers
can be a principal, but if the rice field worker to the owner of the rice field then his
position shifted to the agent. Not to mention the farm laborers who helped to work
the rice fields are quite wide ranging from planting to harvest. In this position, the farm
laborers make themselves as an agent for carrying out services for others in this case
the owner / owner of the rice field. In addition to internal working relationships, farmers
in Legundi Village also conduct economic transactions with external parties, in which
case the researcher focuses on farmer groups and Business and Logistics Agency
(Bulog). Farmers usually get subsidized fertilizer from farmer groups. In addition, there
is also Bulog who responds positively to the purchase of crops from farmers in Legundi
Village.

The working system of the majority of farmers in Legundi Village is to create coopera-
tion contracts between the two parties, namely the owners of paddy fields (principal)
and rice field farmers (agent). However, if viewed from a Shari’ah point of view there
is a similar meaning but with different language ie Arabic. For the form of rent (ijarah),
principal (owner) is called mu’jir, while for agent (tiller) is called musta’jir and agent (farm
labor) is called by ajir. For the result of the form of mukhabrah, the meaning is still the
owner and the cultivator of the rice field only, while the farm laborers are also called by
the ajir. The majority of crops selected by farmers in Legundi Village are rice in the 1st
planting season until the second planting season and tobacco during the third planting
season. So far, based on the observations of researchers, the majority of farmers in
Legundi Village contracts based on trust that has been running for years.

Ijarah (rent) in Legundi Village is a party who needs and / or wants to be a manpower
to help work the rice fields (ijarah services / farm labor) or want to rent and / or rent
wetland (ijarah property / lease of rice fields). This is in accordance with the definition
of Fatwa DSN MUI No: 112 / DSN-MUI / IX / 2017, namely the rent contract on the merits
of goods or ijarah ‘ala al-a’yan and ijarah’ ala al-asykhash / ijarah’ala al-a ‘mal, is rent
contract on the services of people. Meanwhile, mukhabarah (profit sharing) in Legundi
village, as Suhendi predicted (2014) where the provisions of the system or how to work with the provisions of capital from the tillers. Legundi villagers call the profit-sharing system by mertelu (in java especially east and central java).

In Legundi Village, on ijarah contract services, usually the owner of the rice fields calling the farm workers who have been trusted to help work the fields. Wage payment (ujrah) using wage 1: 8 if using grain or Rp 50,000.00 per day / labor if using money. The explanation for the division of the grain wage by 1: 8 is as follows, the total of the crop has been divided 8 then the result is divided by the number of farm workers who participate in the group. For example in a group there are 6 farm laborers. Within 2 days of harvest, the overall yield of paddy is 15 quintals or 1500 kg. The wage of farm laborers is given from a count of eighth of 1500 kg which means to be 187.5 kg. From the 187.5 kg figure is counted again the head (6 people) or the number of workers so that one head get 31.25 kg. From this result it is usually by farm workers resold to earn money to Karangjati Market or other markets.

As for ijara property (rent wetland) the count is annual. Generally Legundi villagers when renting paddy fields is 1 year or 3 planting season. For example from November this year until November next year. Rental rates are usually determined in general. For example 15 acres (0.15 ha) is 3.5 million / year.

The second type is mukhabarah (profit sharing) where farmers provide tools and materials while the owner provides the land to work together which then the result is divided according to the agreement that is 1/3. The count of profit sharing in Legundi village is the gross fetch is taken beforehand of farm laborer’s wage, then the rest is divided 3. The comparison is 1 for the owner and 2 for the cultivator. For example, gross revenue of Rp 1,000,000. Then taken harvest wage Rp 100,000 for farm laborers, so the remaining Rp 900,000. The remaining money is then divided by 3 so as to get the results of Rp 600,000 for tenants and Rp 300,000 for the owner.

Furthermore, the same as statement of Primada and Zaki (2015), cooperation contracts cultivation of rice fields in the Legundi Village, Karangjati District, Ngawi Regency has been done by hereditary by the community, especially farmers. This is done because farmers can not afford if they have to work their own fields, because they have to pursue the time and to alleviate the power with the ratio of broad sizes of rice fields. Inversely when there are people who work on their own rice fields, it means that the concerned has a rice field with a size that can be done alone.

From the results of interviews, it was found almost all the contracts done, decided not in writing oral alias. In accordance with research Furqan (2016) this habit has been going on for generations and the residents claimed to have never experienced adverse
events related to the contract. The confidence of each other which is still the custom of the villagers including the “gotong royong” or mutual cooperation is a strong reason why among the people do not enter into a written agreement. In addition, written agreements only exist when the agreement is over 2 years. The reason is that under 2 years is still considered small. Whereas in Legundi Village, the majority of the lease time is not up to 2 years, but once a year the alias is extended or not depends on the agreement of both parties. Therefore very few contracts in writing (over 2 years). For service ijarah it is customary not to use the contract in writing, but only wage agreements that see the benchmark in general in the farm Village Legundi. As for mukhabarah (profit sharing) is done not written also because the parties involved do not want complicated in the implementation. The reason the agreement has been done long ago and if using a written contract it will look stiff. In conclusion in terms of contract form, Legundi villagers still rely on customary law that has been going on for a long time and hereditary according to the prevailing culture.

4. Conclusion

Based on data analysis steps such as contract identification and analysis of contract problems in Legundi Village, Karangjati Subdistrict, Ngawi District, the researcher concludes the result of contract identification of institutional perspective ie farmer consisting of internal party and external party. Internal parties are parties directly involved in cooperation contracts on rice field cultivation in Legundi Village, for example, farmers consisting of the owners of rice fields, rice fields, and farm laborers. Judging from the approach of agency theory, the position of the owner of pure rice field or rice field owner who doubles as a rice farmer as principal, rice farmers as principal / agent and farm laborer as agent. In contrast to external parties there is no relationship in agency theory. Internal parties and external parties complement each other in cooperation the cultivation of rice fields in Legundi Village.

While the contract identification from the shariah perspective is found. The contract form that occurs in the management of rice fields in Legundi Village consists of rent (ijara) which consists of rent of rice field (ijarah ‘ala al-a’yan) and rent of farm laborers (ijarah’ ala al-a ‘mall) and profit sharing (mukhabarah) where the capital comes from the farmers while the agricultural land comes from the owner of the rice field. For lease contract (ijarah) is analyzed using Fatwa DSN MUI No. 112 / DSN-MUI / IX / 2017 on ijara. As for the profit sharing agreement (mukhabarah) is analyzed using the opinion of the scholars and Law no. 2 of 1960 on revenue sharing.
The results of the analysis of contract issues on institutional perspectives found moral hazard in the production sharing contract, conflicting objectives on lease contracts, and adverse selection with farmer groups and Bulog. While the results of the analysis of contractual problems on the perspective of sharia indicate the existence of unclear elements of risk of harvest failure lack of awareness to pay zakat agriculture riskio mutual suspicious on the contract of mukhabarah.

References


