

DISTRIBUTION OF FINANCING TO FARMERS IN ORDER TO INCREASE GREEN FINANCING IN SHARIA BANKING

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Abstract: Distribution of financing to farmers is one of the strategic steps in supporting the improvement of the agricultural sector, especially in the context of sustainable economic development. In order to support the achievement of green financing goals, sharia banking has an important role in providing access to environmentally friendly financing, as well as encouraging the adoption of more sustainable agricultural practices. Financing provided by sharia banking can cover various aspects, such as purchasing environmentally friendly agricultural equipment, implementing efficient agricultural technology, and responsible management of natural resources. However, the main challenge faced is how to optimize the distribution of financing that is right on target and in accordance with sharia principles, while supporting broader green financing goals. This research aims to analyze the role of sharia banking in distributing financing to farmers, as well as evaluating its contribution to increasing green financing in the agricultural sector. It is hoped that the research results can provide policy recommendations that can support the optimization of green financing through sharia banking institutions in Indonesia.

Keywords: Financing, Green Financing, Sharia Banking.

Introduction

Farmers have an important role in the agricultural sector in Indonesia and are the largest contributors to national food production. So it is natural that the agricultural sector is the Government's main focus in maintaining food security and supporting national economic growth. In the third quarter of 2023, the agricultural sector recorded growth of 1.46% and contributed 13.57% to Gross Domestic Product (GDP). This success cannot be separated from the role of farmers who work hard to support national food security.

However, there are several obstacles faced by farmers so that there are still many farmers who need attention from the government. Some of the obstacles faced by farmers include the large amount of land they own but not having the knowledge of how to manage the land well, lack of capital to procure agricultural needs. One of the main problems faced by small-scale farmers is limited access to capital. Many small farmers have difficulty obtaining loans from financial institutions due to lack of collateral or inadequate credit history. This condition makes it difficult for them to invest in modern equipment, superior seeds, or agricultural technology that can increase productivity and quality of crops. As a result, they are often trapped in a cycle of poverty, where they are unable to increase their production output and income.

Seeing this obstacle, not only the government is participating in solving the problem, but the banking sector is also contributing to improving the welfare of farmers so that economic growth continues to increase.

Food security is a sector that plays an important role in the sustainability of life in a region or even a country, because food security is a source of basic materials for society. In order to

develop this sector, the government's role in realizing food security has two aspects, namely 1) Direct operations, the Government continues to strive to spur the development of food security through food security programs that must be integrated, measurable and sustainable. . 2) Direct control aspect, the food service always controls the food conditions of South Minahasa, and also anticipates food insecurity by importing rice from outside the region (Rumawas et al., 2021).

Sustainable agriculture has synergy with sustainable economics, namely the concept of sustainable agriculture has three pillars: economic, social and ecological. The term sustainable agriculture refers to agriculture that respects natural resources and does not use pollutants so as not to disturb the balance of the environment; This is a type of agriculture that is the opposite of intensive agriculture (Sibuea, 2015).

Sharia banking has an important role in realizing sustainable agriculture by channeling financing to farmers. This financing is called green financing. In general, green finance can be defined as the procurement and use of funds for activities aimed at protecting the environment and providing fair returns for investors or lenders (Nasution, 2018). Green finance is green investment funding for both the public and private sectors. Green finance projects produce economic benefits that promote a sustainable environment. Green finance includes all investments in environmental goods and services and investments in activities that reduce environmental and climate damage. Apart from that, in public policy, green finance involves financing public policies that encourage the implementation of environmental protection projects or initiatives or environmental damage mitigation projects (Studi et al., 2025).

The sustainable agriculture sector also benefits greatly from green finance. The use of environmentally friendly technology in agriculture, such as water-saving irrigation, organic fertilization, and agricultural techniques without damaging the environment, can be funded with the help of green finance. Sustainable agriculture prioritizes natural resource efficiency, biodiversity and better food security.

By using sustainable agricultural principles, farmers can increase their agricultural yields without damaging the soil and surrounding ecosystem. It also helps reduce the negative impacts of climate change, such as drought and other natural disasters that can damage agricultural yields.

Literature Review

Sustainable Finance is the application of credit management for providing financing and investment in all factors of the financial services industry by incorporating economic, social and environmental risk factors in a sustainable manner. This policy has become part of the investment portfolio of the related financial services industry. Companies are positioned as public trusts because they control large amounts of resources, and the use of these resources will have a fundamental impact on society (Suharto, 2023).

Green Financing is one of the products of green banking which requires banks to conduct their business in accordance with environmental regulations and support nature protection programs. Then Green Financing in Indonesia is defined as a financing scheme or providing loans to environmentally friendly business actors. Where in realizing a sustainable development program, a green financing policy is implemented for alternative financing or providing business loans in Indonesia (Bayu & Novita, 2023). Green Financing is an effort to implement the Sustainable Development Goals (SDGs), namely the application or implementation of 17 SDGs tasks. One of them is the duty to provide decent work and economic growth (Rahmayati et al., 2022).

The term Green Financing has become quite popular in recent times. Green financing is a broad term that can refer to financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage sustainable economic

development.” Based on a study conducted by a team from Pricewaterhouse Coopers Consultants (PWC) (2013) regarding the implementation of Green Financing in China, it is known that for the banking sector, Green Financing is defined as financial products and services that use consideration of environmental factors in making credit decisions, stimulating the birth of an environment. responsible investment and encouraging the creation of environmentally friendly technology for industrial and business projects. Green Financing in Indonesia is defined as comprehensive support from the financial services industry for sustainable growth resulting from harmony between economic, social and environmental interests.

The issue of sustainable finance is one of the 6 priority issues in the field finances discussed in Indonesia's G20 Presidency. Related sustainable finance issues with efforts to develop sources of financing that can support global efforts in overcoming climate change (sustainable finance), including overcoming risks of the transition to a low-carbon economy. The G20 is a multilateral cooperation forum which aims to realize strong, sustainable, balanced, global growth and inclusive (Cahyani, 2024).

The agricultural sector plays a central role in the global economy, but also has significant environmental impacts. The need to apply the concept of a “green” economy is very important in agricultural production (Abrosimova, M., Makushev, A.E., Litvinova, O.V., Nesterova, N.V., Gordeeva & Semenova, A.A., & Tolstova, 2020). Implementing a green economy in agriculture is important because it can increase farmers' productivity and income, and protect critical natural resources such as land and water. Panjawa stated that a green economy through integrated agriculture can increase food security. Green economy in agriculture often encourages the development of small and medium businesses in rural areas, creates local jobs, and increases people's access to quality food. Green economy in the agricultural sector increases food security (Rahardjo et al., 2023).

Green financing is financing used to support projects or activities that aim to preserve the environment and encourage sustainability, such as renewable energy, waste management and environmentally friendly agriculture. In the context of sustainable agriculture, green financing can be used to fund environmentally friendly agricultural practices, such as (Yusuf & Susminingsih, 2024):

1. Organic Agriculture: Supports agricultural practices that do not use harmful chemicals, which can damage soil, water and biodiversity.
2. Agroforestry: Planting trees and other plants alongside food crops to increase biodiversity and reduce negative impacts on the soil.
3. Water Efficiency: Financing that supports more efficient irrigation technologies to save water, which is especially important in areas with limited water resources.
4. Greenhouse Gas Emissions Reduction: Financing for agricultural practices that can reduce carbon emissions, such as the use of renewable energy or cleaner technologies.

Agriculture and green financing have a very close relationship, especially in the context of sustainability and environmentally friendly management of natural resources. Green financing refers to funding aimed at supporting projects that focus on environmental sustainability. In the agricultural sector, this can include various initiatives aimed at reducing negative impacts on the environment, such as the use of environmentally friendly technologies, the adoption of sustainable agricultural practices and the efficient management of natural resources.

Some examples of the application of green financing in agriculture include (Basyariah, 2022):

1. Sustainable Agriculture: Financing for agricultural projects that reduce the use of harmful chemicals and promote organic techniques, agroforestry, or agricultural systems that maintain biodiversity.

2. Utilization of Renewable Energy: Investments to adopt renewable energy technology in agricultural processes, such as the use of solar panels for irrigation or bioenergy technology to replace fossil fuels.
3. Natural Resource Management: Financing for programs that reduce inefficient use of water and land or projects that aim to restore critical land and land degradation.
4. Technological Innovation: Investing in research and development of agricultural technologies that can increase productivity without harming the environment, such as the use of sensors for more efficient irrigation or data-based agricultural systems

With increasing awareness about climate change and the importance of sustainability, green financing has become an important way to support the transformation of the agricultural sector towards a more environmentally friendly and efficient way.

Method

This research uses a qualitative study which aims to explore and explore data in a natural social context (Sugiyono, 2014). Data mining was carried out on secondary sources related to green financing in the sharia banking sector. Secondary data source based on the sustainability report of Sharia Banks in Indonesia. Meanwhile, data collection techniques were carried out by studying documents and observing online sources. Document studies were carried out by collecting written sources related to the research topic. Meanwhile, observations were made on a number of websites and banking sustainability reports to find out and obtain information and descriptions related to green financing. Meanwhile, regarding the selection of document sources, this research used a purposive sampling technique.

Result and Discussion

Distribution of green financing in the agricultural sector in sharia banking can be done through various financing channels and products that comply with sharia principles and support environmental sustainability. Below are several ways of distributing green financing that can be implemented by sharia banking in the agricultural sector (Arislan & Mashuri Toha, 2024):

1. Micro and Macro Financing for Farmers

Islamic banking can provide green financing with two approaches: micro (for small and medium farmers) and macro (for larger agricultural projects).

- Microfinance: Through products such as Mudharabah (profit sharing cooperation) or Musyarakah (partnership) to finance farmers in implementing sustainable agricultural practices, such as the use of environmentally friendly technology, organic farming, or soil and water conservation.
- Macro Financing: Islamic banking can also finance large-scale agricultural projects that focus more on energy efficiency, the application of green technology, or the creation of environmentally friendly agricultural processing facilities, using products such as Murabaha or Ijarah.

2. Financing for Green Infrastructure in Agriculture

Financing can be focused on developing green infrastructure in the agricultural sector. This includes building water-saving irrigation systems, managing agricultural waste, and building efficient and environmentally friendly agricultural product storage facilities. The products used can be Ijarah (lease) for the purchase or rental of equipment, or Murabaha for the purchase of infrastructure that supports environmentally friendly practices.

3. Financing for Land Conservation and Restoration

Islamic banking can provide special financing for projects that focus on land conservation and restoration of damaged agricultural ecosystems. For example, through Mudarabah or

Musyarakah, Islamic banks can work together with farmers in rehabilitating degraded land and returning it to productive use using sustainable agricultural methods, such as agroforestry or good land management techniques.

4. Green Agricultural Technology Innovation

Islamic banking can also distribute green financing to finance technological innovations that support green agriculture, such as the use of drones for precision agricultural mapping, technology-based automatic irrigation systems, or the use of renewable energy for agricultural operations. Financing for this technology can be done through products such as Murabaha (purchase of equipment with installment payments) or Mudarabah (cooperation in research and technology development).

5. Providing Green Credit for Organic Agriculture

One form of distribution of green financing in the agricultural sector is funding organic farming that does not use dangerous chemicals and supports soil sustainability. Sharia banking can provide green credit with Qardhul Hasan products (interest-free loans) given to organic farmers who need capital to carry out more environmentally friendly agricultural practices.

6. Financing for Sustainable Management of Natural Resources

Funding can be directed to projects that focus on natural resource management, such as water conservation, forest management, or biodiversity protection. This can be done by using sharia products such as Musyarakah (business partnerships) for collaborative projects between banks and farmers or other stakeholders that focus on natural sustainability.

7. Green Bonds or Green Sukuk

One of the more structured and organized ways to distribute green financing is through the issuance of Green Sukuk. This is a sharia-based financing instrument issued by sharia banks or other sharia financial institutions to fund projects that have a positive impact on the environment. This green sukuk can be used to fund various green agricultural projects, such as the development of environmentally friendly infrastructure, the use of efficient technology, and the restoration of agricultural ecosystems.

8. Training and Mentoring for Farmers

Sharia banking can also distribute green financing by providing funds for training and mentoring programs for farmers in implementing sustainable agricultural practices. This program can include education about environmentally friendly farming methods, the use of green technology, and good financial management. This financing can be provided through Qardhul Hasan or Mudharabah products for the purpose of increasing farmer capacity.

9. Collaboration with Government and International Institutions

Sharia banking can also collaborate with governments or international institutions that have funding programs for sustainable agriculture. In this case, the distribution of green financing can be done in the form of grants, low-interest loans, or public-private partnership projects facilitated by sharia banks.

With these steps, Islamic banking can play an important role in supporting a more environmentally friendly agricultural sector, while maintaining the principles of justice and balance in the economy.

Conclusion

To increase green financing in the agricultural sector, Islamic banking can focus its financing on agricultural projects that are environmentally friendly and sustainable, such as organic farming, agroforestry, and the use of environmentally friendly technology. Financing that aims to increase food security in a way that takes into account natural conservation will support sustainability principles that are in line with sharia values. Islamic banks can develop financing products such

as mudharabah (profit sharing cooperation), musharakah (partnership), or ijarah (rental), which can be adapted to the needs of the sustainable agricultural sector. For example, financing to purchase efficient and environmentally friendly agricultural equipment or to invest in agricultural infrastructure that reduces negative impacts on the ecosystem. One way to support green financing is by providing financing to farmers who want to adopt environmentally friendly agricultural techniques. Islamic banking can provide training and access to green agricultural technology, as well as provide flexible financing facilities to support the transition to sustainable agriculture.

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