

SETTLEMENT OF DEFAULTS ON VILLAGE-OWNED ENTERPRISES ACCORDING TO ISLAMIC ECONOMIC LAW: Study in Tangan-Tangan District, South Aceh

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This research discusses the law of default that occurs in the management of Village-Owned Enterprises (BUMG) in Gampong Suak Labu, Tangan-Tangan sub-district, South Aceh Regency. Defaults occur due to farmers' non-compliance in returning agreed loans. Although the agreement between BUMG and farmers is oral, the agreement is still valid according to the law, based on Article 1320 of the Civil Code which regulates the validity of the agreement. Farmers' non-compliance in repaying the loan has the effect of obstructing the flow of funds that should be used to assist other farmers, as well as disrupting BUMG's main objective of improving farmers' welfare. Based on Articles 1233 and 1243 of the Civil Code, farmers who fail to fulfil their obligations are considered to have defaulted and must compensate for the losses incurred. This study concludes that farmers' non-compliance in repaying loans is a form of default, which provides a legal basis for BUMG to demand fulfilment of obligations or compensation, as well as to improve the management system so that the programme can run effectively and sustainably.

Keywords: Aceh, BUMG, Debt, Islamic Economic Law and Defaults

INTRODUCTION

The qardh contract in the fiqh muamalah discourse is a debt and credit transaction in the form of money that has a certain value, which is carried out within a certain time and must be paid by the debtor with an equivalent value¹. In this *qardh* contract, the fiqh scholars have classified it as a *tabarru'* contract as a transaction implemented to help a certain party by the creditor financially

¹ Budiman, Farid. "Characteristics of Al-Qardh financing contract as Tabarru' contract." *Yuridika* 28.3 (2013): 413-418.

which will bind the debtor to repay it according to the agreed tempo during the contract.²

Defaults in the repayment of farmers' debts to BUMG can have adverse consequences for both parties. The application of the *qardh* concept can help minimise defaults by promoting the principles of shariah, justice and togetherness. The role of responsibility of both parties is very important in resolving this default problem.³

Default according to the Civil Code (KUHPPerdata) is a situation where one of the parties to an agreement does not fulfil its obligations in accordance with what has been agreed in the agreement. Default can occur if one of the parties fails to carry out the promised performance, either in part or in full, or if the performance is late, or if the performance provided is not in accordance with what was agreed upon.⁴

The legal basis regarding default can be found in Articles 1238 to 1243 of the Civil Code, which explain the provisions related to the implementation of the agreement and the legal consequences that arise if one of the parties defaults.

Article 1238 of the Civil Code (KUHPPer) confirms that "default is a debtor declared negligent by warrant, by similar deed, or based on the strength of the obligation itself, namely if this obligation causes the debtor to be considered negligent with the passage of the specified time".⁵ In this case where a debtor who commits a deliberate act of not performing a performance in accordance with the agreement, and there is one party who suffers a loss, thus causing a default.

An act can be said to be in default there are four kinds of factors, the first is not doing a performance at all, the second is doing a performance but not as promised, the third is doing a performance but late in its

² Muhammad Maulana, M.Ag, *Contemporary Economic Transaction Models in Islam*, (Aceh Islamic Shariat Office, 2020)

³ Sinaga, Niru Anita, and Nurlely Darwis. "Default and its Consequences in the implementation of the agreement." *Jurnal Mitra Manajemen* 7.2 (2020).

⁴ Iwandi Iwandi, Rustam Efendi, and Chairul Fahmi, "THE CONCEPT OF FRANCHISING IN THE INDONESIAN'S CIVIL LAW AND ISLAM," *Al-Mudharabah: Jurnal Ekonomi Dan Keuangan Syariah* 4, no. 2 (September 29, 2023): 14-39, <https://doi.org/10.22373/al-mudharabah.v5i2.3409>.

⁵ Article 1238 of the Civil Code.

implementation, and the fourth is doing something that in the agreement should not be done.⁶

With the default, it has its own legal consequences. According to Subekti, the legal consequences include paying the losses suffered by the creditor, cancellation of an agreement, transfer of risk and paying court costs if it reaches the court. Article 1239 of the Civil Code states that "an obligation that contains to give or not give something, if one party does not fulfil the contents of the obligation, it is obliged to pay the costs of losses including costs, losses and interest".⁷

BUMG Gampong Suak Labu distributes money or business capital to farmers who are ploughing rice fields in the form of loans worth Rp 600,000.- (Six hundred thousand rupiah) with the condition that for every one rice field cultivated, farmers must return the capital loan with an additional Rp 60,000.- (Sixty thousand rupiah). However, in the process of distributing the capital to farmers, there were differences in views within the gampong between farmers that influenced other farmers not to return the capital that had been provided by BUMG.⁸

The non-repayment of the money from the village-owned enterprise (BUMG) hampered the disbursement of funds to farmers in need. With 60% of farmers not repaying their loans, funds that should be used to help other farmers are constrained. This is because funds that should have been repurposed to provide assistance to other farmers are now held back by non-payment.⁹

RESEARCH METHODS

This research uses qualitative research with descriptive analysis method to describe Default and its consequences on the repayment of farmers' debts at BUMG Gampong Suak Labu, Tangan-Tangan District according to

⁶ A. Qirom Syamsudin Meliala, *Principles of Agreement Law and its Development*, (Liberty: Yogyakarta, 2010)

⁷ Armando Rosario Gabriel Pandeinuwu, A Legal Review of Defaults Against Production Sharing Agreements Between Landowners and Cultivators, *Journal of the Faculty of Law, Sam Ratulangi University*, Lex Privatum Vol.13, No.3, 2024.

⁸ Interview with Darmadi, Farmer of Gampong Suak Labu, Tangan- Tangan Sub-district on 14 April 2024.

⁹ Interview with Darma Putra, Secretary of Keuchik Gampong Suak labu, on 1 May 2024 via *Whatapps*.

the concept of *Qardh*. The approach used in this research is empirical juridical, a legal research approach regarding the settlement of defaults in accordance with the provisions of normative law in action with the actual circumstances of each specific legal event that occurs in society.¹⁰

The author collects primary data through interviews with respondents and informants from the recipients of the distribution of aid funds in the form of loans from BUMG Suak Labu, Tangan-Tangan District and the informant is the management of BUMG Suak Labu, Tangan-Tangan District, Regency. In obtaining secondary data, the author examines published literature related to the concept of *Qardh* and related defaults and their consequences on the repayment of farmers' debts at BUMG Gampong Suak Labu, Tangan-Tangan District.

RESULTS AND DISCUSSION

A. Causes of default

Badan Usaha Milik Gampong (BUMG) established in Gampong Suak Labu, Tangan-Tangan Sub-district, Southwest Aceh District is a village business unit engaged in various fields, such as trade, services, or agro-industry. This business unit is managed independently with the aim of generating profits. Profits from these business units are shared with BUMG members and used for business development.¹¹

BUMG Gampong Suak Labu distributes money or business capital to farmers who are ploughing rice fields in the form of loans worth Rp 600,000.- (Six hundred thousand rupiah) with the condition that for every one rice field cultivated, farmers must return the capital loan with an additional Rp 60,000.- (Sixty thousand rupiah). However, in the process of distributing the capital to farmers, there were differences in views within the gampong between farmers that influenced other farmers not to return the capital that had been provided by BUMG.

The chronology of legal actions in BUMG management starts with farmers holding a general meeting to discuss the application and reach an initial agreement. Farmers who need a loan for the cost of cultivating rice fields

¹⁰ 2003037702 Muhammad Siddiq Armia, *Penentuan Metode Pendekatan Penelitian Hukum* (Banda Aceh: Lembaga Kajian Konstitusi Indonesia (LKKI), 2022), <https://repository.ar-raniry.ac.id/id/eprint/22862/>.

¹¹ Chairul Fahmi, *Hukum dan Fenomena Sosial* (Banda Aceh: Aceh Justice Resource Centre, 2015), [//ruangbaca-fsh.ar-raniry.ac.id/index.php%3Fp%3Dshow_detail%26id%3D3123%26keywords%3D](https://ruangbaca-fsh.ar-raniry.ac.id/index.php%3Fp%3Dshow_detail%26id%3D3123%26keywords%3D).

can apply to the BUMG. This request is in the form of an oral report on the loan needed and the plan for its use. Afterwards, the BUMG members and the farmer negotiate to determine the terms of the loan. These terms include the amount of the loan, the repayment period, as well as any collateral or other responsibilities that the farmer has to fulfil. In accordance with the agreement, the farmer is required to repay the loan to the BUMG within a predetermined period of time. This repayment can be made in instalments or in one-off payments, depending on the agreement made beforehand.¹²

After the harvest, the farmers are reluctant to pay as they start to consider that the money received from the BUMG is actually public money. Initially, the farmers may feel personally bound to the loan and are committed to repaying it according to the agreement made. However, as time passes and the harvest is successful, the perception of the borrowing farmers changes. They begin to view the money as belonging to the community, not just to an individual or institution. This view changed the farmers' attitude towards the obligation to repay the loan.

The non-repayment of the money from the village-owned enterprise (BUMG) hampered the disbursement of funds to farmers in need. With 60% of farmers not repaying their loans, funds that should be used to help other farmers are constrained. This is because funds that should have been repurposed to provide assistance to other farmers are now held back by non-payment.¹³

In addition, deliberate non-payment of loans also makes BUMG funds ineffective. The effectiveness of BUMG funds is disrupted as the flow of funds that should be sustainable is stopped or reduced. As a result, the objective of the BUMG programme to assist farmers in improving crop yields and farmers' welfare is compromised.

This situation creates a *negative spiral* as farmers who need assistance to increase agricultural production are hampered by the inability of BUMG funds to provide adequate assistance. In addition, failure to repay BUMG loans may

¹² Jarmanisa et al., "ANALYSIS OF RISK COVERAGE AGREEMENT BETWEEN PT. J&T AND AN INSURANCE COMPANY FOR DELIVERY OF CONSUMER GOODS IN THE CONTEXT OF KAFALAH CONTRACT," *JURISTA: Jurnal Hukum Dan Keadilan* 5, no. 2 (October 1, 2021): 126-46, <https://doi.org/10.22373/jurista.v5i2.11>.

¹³ Chairul Fahmi, "The Impact of Regulation on Islamic Financial Institutions Toward the Monopolistic Practices in the Banking Industrial in Aceh, Indonesia," *Jurnal Ilmiah Peuradeun* 11, no. 2 (May 30, 2023): 667-86, <https://doi.org/10.26811/peuradeun.v11i2.923>.

also reduce the confidence of BUMG management. Loans provided by BUMG Suak Labu with a nominal value between IDR 600,000 (Six Hundred Thousand Rupiah) to IDR 1,500,000 (One Million Five Hundred Thousand Rupiah) are an effort to support farmers in increasing their agricultural production. Although the amount is relatively small compared to the harvest that farmers can get, the reluctance of farmers to repay the loan is a key factor in this problem. In this case, even though the agreement was oral, the farmer was in default for not fulfilling the obligation to repay the loan in accordance with the agreement that had been made.

In the context of the statement that the additional payment of Rp 60,000.- (Sixty Thousand Rupiah) given to BUMG Gampong Suak labu is not interest on the loan proceeds, but is an agreement made by the community of farmers as the borrower for the management of BUMG, this can be related to the concept of *qardh*. In this case, although there is an additional payment of Rp 60,000.- (Sixty Thousand Rupiah). This was explained as a token of gratitude to the party that helped manage the loan funds. This shows that the additional payment is not interest on the loan, but rather an initiative from the community to give appreciation to those involved in the management of the funds. The additional payment is then divided into two parts, half for cash and half for management wages.¹⁴

In the case of BUMG Gampong Suak Labu, farmers who do not return the loan in accordance with the agreement that has been made can be considered to have defaulted. Although the agreement between the farmers and BUMG is oral, it is still valid because it fulfils the terms of the agreement specified in the law. Farmers who borrowed funds for rice field processing costs had agreed to repay the loan within a certain period of time, along with an additional Rp 60,000 as a form of appreciation to the BUMG manager. However, most farmers do not fulfil this obligation on the grounds that the funds received are considered community money, not a loan that must be returned.¹⁵

¹⁴ Muhammad Achyar, Chairul Fahmi, and Riadhush Sholihin, "ISLAMIC LAW REVIEW OF MONOPOLY PRACTICES IN MODERN ECONOMICS," *Al-Mudharabah: Jurnal Ekonomi Dan Keuangan Syariah* 5, no. 2 (2024): 288-308.

¹⁵ Muhammad Azrial Aksar and Muhammad Iqbal, "REWARD SYSTEM FOR ACHIEVING MARKETING TARGETS ACCORDING TO ISLAMIC ECONOMIC LAW: A STUDY ON PT FIF BANDA ACEH INDONESIA," *JURISTA: Jurnal Hukum Dan Keadilan* 8, no. 2 (November 19, 2024): 454-77, <https://doi.org/10.22373/jurista.v8i2.171>.

As a result, BUMG funds that should have been channelled to assist other farmers were hampered, and the BUMG's primary objective of improving farmers' welfare through capital support was compromised. This loan repayment failure leads to decreased trust in the BUMG's management and disrupts the sustainability of the assistance programme that is supposed to improve agricultural yields. As such, farmers' non-compliance in repaying the loan is a clear example of default, as they failed to fulfil the obligations agreed upon in the agreement, even though the agreement was oral.

In this case, the farmer's non-compliance with the obligation to return the agreed loan can be analysed using the provisions in the Civil Code (KUHPerdata) related to default Article 1233 KUHPerdata.

This article explains that every person who binds himself in an agreement must fulfil what has been promised. If one of the parties does not fulfil his obligations, then he is considered to have defaulted.¹⁶

1. Article 1243 of the Civil Code

This article regulates the consequences of default, where the defaulting party must compensate for losses arising from its failure to fulfil its obligations.¹⁷

2. Article 1320 of the Civil Code

This article regulates the legal requirements of an agreement, which consist of :¹⁸

- a) There is an agreement between the parties that bind themselves.
- b) Legal capacity of the contracting parties.
- c) A clear and specific object.
- d) A lawful cause.

Even if the agreement between BUMG and farmers is oral, as long as it fulfils these conditions, it is valid and legally binding.

3. Article 1365 of the Civil Code

This article states that any act that violates the law and causes loss to another party, must compensate for the loss. In this context, a farmer's failure

¹⁶ Lailanur, Nisfu. *A Review of Fiqh Muamalah on the Settlement of Defaults in the Sharia-PNPM Financial Management Unit with Community Groups*. Diss. UIN Ar-Raniry, 2022.

¹⁷ Adati, Medika Andarika. "Default in Agreement that Can Be Criminalised According to Article 378 of the Criminal Code." *Lex Privatum* 6.4 (2018).

¹⁸ Aspan, Henry. "GOVERNMENT STRATEGIES IN SUPPRESSING DEFAULTS IN SHIP PROCUREMENT." *Public Service And Governance Journal* 4.1 (2023): 83-92.

to repay a loan causes a loss to the BUMG and affects the smooth running of funds that should be used to help other farmers.

Thus, based on these articles, a farmer's failure to repay the loan in accordance with the agreement can be considered a default, and the BUMG has the right to demand fulfilment of the obligation or compensation for the loss incurred.

1. Review of the Concept of *Qardh* on the Settlement of Default in the Repayment of Farmers' Debts at BUMG Suak Labu Village.

Qardh in Islam is a contract used to help those in need through loans without additional profit. The practice of *qardh* is based on the principles of generosity and social assistance.¹⁹ This loan is an alternative for people who need a loan but want to avoid usury practices. Islam emphasises fairness in *muamalah*, and *qardh* is considered a means of meeting the temporary financial needs of the people in a way that is in accordance with *sharia*.²⁰

In *fiqh*, this contract is categorised as a helping contract (*ta'awwuni*) and is not commercial. The money paid to the *muqtarid* is called *qarad*, because it is a deduction from the *muqrid*'s wealth.²¹ In terminology, *qardh* is "something that someone gives from *mitsil* (similar) property to fulfil his needs".²² While the definition of *Qardh* according to the Malikiyah scholars is "a transfer of property to another person that is not accompanied by an *iwadh* (reward) or addition in return".²³

So it can be concluded that *Al-qardh* is the giving of some assets to others that can be collected back at a later date without expecting profit or addition. Thus, *Al-qardh* can be interpreted as the act of lending property to someone

¹⁹ Budiman, Farid. "Characteristics of Al-Qardh financing contract as Tabarru' contract." *Yuridika* 28.3 (2013): 413-418.

²⁰ Saputra, Julfan, Sri Sudiarti, and Asmaul Husna. "The Concept of Al-'Ariyah, Al-Qardh and Al- Hibah." *Al-Sharf: Journal of Islamic Economics*, Vol 2, No.1, 2021.

²¹ Hidayati, Nurul, and Agus Saron. "Implementation of Qardh Akad as Tabbaru Akad." *Notarius* 12.2 (2019): 931-947.

²² Purwadi, Muhammad Imam. "Al-Qardh and Al-Qardhul Hasan as a Form of Implementation of Social Responsibility of Islamic Banking." *Ius Quia Iustum Law Journal* 21.1 (2014): 24-42.

²³ Talib, Talib. *A Legal Review of the Practice of Resolving Defaults in Unsecured Loans of BUMDes Pucanggading, Bandar Sub-district, Batang Regency*. Diss. State Islamic University KH Abdurrahman Wahid Pekalongan, 2023.

without reward, where the property must be returned in the same amount and can be requested at any time according to the agreement of both parties.²⁴

Default in debt repayment occurs when the debtor (*muqtarid*) fails to fulfil its obligation to return the borrowed property as agreed. In the context of BUMG (Badan Usaha Milik Gampong) Suak Labu Village, default can arise due to various factors, such as farmers' inability to repay debts due to crop failure, changes in market prices, or other external constraints. In this situation, the application of the *qardh* principle can be the basis for resolving conflicts in a way that is in accordance with sharia values.

a) Justice and Humanity Approach

In Islam, *qardh* or interest-free loans are a form of transaction based on the principle of mutual assistance, with the aim of providing convenience to parties in need, without burdening or harming one of the parties.²⁵ *Qardh* is a loan given with the intention to help, not to gain material benefits.²⁶ This principle is based on Islamic teachings that prioritise social solidarity and justice, where the main objective is to facilitate a person's needs without any additional burden in the form of interest or profit for the lender.²⁷ Therefore, in the practice of *qardh*, the lender is not allowed to ask for any reward or interest, but can only expect the return of the principal loan in accordance with the agreement.²⁸

In the context of the case of BUMG Gampong Suak Labu, if farmers experience default due to reasons beyond their control, such as natural disasters or unpredictable crop failures, the *qardh*-based approach provides a fairer and more convenient solution. For example, if a farmer is struggling to

²⁴ Ash-Shiddiqy, Muhammad. "Analysis of *Qardh* financing contracts and loan repayment efforts in Islamic microfinance institutions." *Proceeding of Conference on Islamic Management, Accounting, and Economics*. 2018.

²⁵ Fatonah, Siti. "Analysis of the Implementation of *Rahn*, *Qardh* and *Ijarah* in Sharia Gold Pawn Transactions Pt. Bank Syariah Mandiri Serang Branch Office." *Banque Syar'i: Scientific Journal of Islamic Banking* 3.2 (2017): 245-270.

²⁶ Kahar, Kahar, Achmad Abubakar, and Rusydi Khalid. "Al-*Qardh* (Lending and Borrowing) in the Perspective of the Qur'an." *Journal of Adz-Dzahab: Journal of Islamic Economics and Business* 7.2 (2022): 199-209.

²⁷ Yaqin, Ainol. "Perceptions of Kiai and Nahdhatul Ulama Leaders Towards Al-*Qardh* Al-Hasan, *Rahn* and Gift Acts and Products at the East Java Baitul Mal Wa Tamwil Shari'ah Financing Savings and Loan Cooperative (Kspps Bmt Nu) in Gapura Sumenep." *PROFIT: Journal of Islamic Economics and Banking Studies* 4.1 (2020).

²⁸ Rais, Rais. *The Capital System in the Qardh Agreement Towards Improving Farmers' Welfare in Benteng Paremba Village (Islamic Economic Law Perspective)*. Diss. IAIN Parepare, 2020.

repay the loan at the agreed time, this approach allows for a review of the repayment obligation, taking into account the situation and conditions experienced by the farmer. One of the possible solutions is to give the farmer more time to repay the loan. This leniency aims to give the farmer the opportunity to get better results in the future, without having to be burdened with too heavy obligations during difficult times.

b) Avoidance of Usury and Fines

One of the main principles of *qardh* is that no additional repayment is allowed, whether in the form of interest or other forms of financial gain. This is in line with Islamic teachings that prohibit usury, which is any form of taking benefit or profit from borrowed money.²⁹ This prohibition is based on the words of Allah in the Qur'an, which strictly prohibits the practice of usury because it is considered detrimental to the needy and contrary to the principles of justice and help. In the context of *qardh*, the lender is not allowed to ask for or receive additional compensation for the principal loan provided, so that the relationship between the lender and the recipient of the loan is based entirely on the intention of helping and mutual trust.³⁰

Therefore, in *qardh*-based fund management such as that undertaken by BUMG, it is not permissible to charge interest or late fees, even in the event of default. The imposition of interest or penalties not only contradicts the principle of *qardh*, but may also impose an additional burdensome burden on the party facing economic hardship. Instead, Islam encourages resolving problems through fair and empathetic means, especially in situations where loan recipients experience obstacles beyond their control, such as crop failure, natural disasters, or unstable economic conditions.³¹

Instead of imposing interest or late fees, default resolution can focus on mediation and the provision of mutually beneficial solutions. Mediation is an approach that involves dialogue between the lender and recipient of the loan to reach a mutual agreement. In this process, BUMG can act as a facilitator to help find the best solution without harming either party. For example, BUMG

²⁹ Hannanong, Ismail, and Aris Aris. "Al-Qardh al-Hasan: Soft and Benevolent Loan in Islamic Banks." *DIKTUM: Journal of Sharia and Law* 16.2 (2018): 171-182.

³⁰ Candera, Mister, and Anggreany Hustia. "The Effect of Qardh, Ijarah and Istishna Financing on the Profitability of Islamic People's Financing Banks (Bprs) in Indonesia." *Journal of Management and Finance* 8.1 (2019): 58-67.

³¹ Nugroho, Herjanriasto Bekt. "Prudential Principles in Qardh Agreements in Islamic Banking in Indonesia." *Al-Amwal: Journal of Islamic Economic Law* 5.2 (2020): 40-52.

can give farmers more time to repay their loans, taking into account their financial situation which may not be stable.³²

In addition, debt restructuring can also be applied as a form of solution. Through restructuring, BUMG and farmers can readjust the debt repayment scheme, such as extending the repayment period, reducing the number of monthly instalments, or establishing a more flexible payment mechanism. The aim is to ease the burden on farmers without compromising the sustainability of BUMG funds. This approach not only maintains business sustainability, but also strengthens the relationship between BUMG and farmers as mutually supportive partners.³³

This principle shows that *qardh* is not only about financial transactions, but also about building social and human values, where lending aims to help others in fulfilling their needs without exploiting the difficult situation faced.³⁴ By promoting mediation and providing win-win solutions, BUMG can create a fair and inclusive system, which is in line with Islamic values and the principle of economic sustainability. It also helps to maintain community trust in the management of BUMG funds, as well as encourages a collective spirit to achieve shared prosperity.

c) Ta'awun (Mutual Aid) Principle

In situations where farmers are truly unable to repay their debts on time, the principle of *qardh* encourages institutions such as BUMG to provide relief.³⁵ For example, BUMG can offer a gradual repayment programme tailored to the farmer's financial condition or even convert the debt into a grant in certain very urgent cases.³⁶

d) Legal Certainty and Trust

³² Afkar, Taudlikhul. "Influence analysis of mudharabah financing and qardh financing to the profitability of Islamic Banking in Indonesia." *AJIE (Asian Journal of Innovation and Entrepreneurship)* 2.03 (2017): 340-351.

³³ Sumarwan, Tiara Deasy Nurfitriani, and Neng Dewi Himayasari. "Analysis of Masalah Mursalah in the Distribution of Qardh Financing at the Ciganitri Micro Waqf Bank." *Journal of Sharia Economic Research* (2022): 121-128.

³⁴ Saputra, Julfan, Sri Sudiarti, and Asmaul Husna. "The Concept of Al-'Ariyah, Al-Qardh and Al-Hibah." *Al-Sharf: Journal of Islamic Economics* 2.1 (2021): 19-34.

³⁵ Ghozali, Mohammad. "Qardh Akad in Islamic Banking in Indonesia from the Perspective of Dr Jasser Auda's Maqashid Sayriah." *Journal of Masharif Al-Syariah: Journal of Islamic Economics and Banking* 7.4 (2021): 1449-1459.

³⁶ Shiddiqy, Muhammad Ash. "Analysis of qardh financing contracts in Islamic microfinance institutions in the special region of Yogyakarta." *Istiqro Journal* 5.1 (2019): 14-23.

The *qardh* contract also emphasises the importance of transparency and upfront agreement. In the context of BUMG, the implementation of the *qardh* contract should be completed with clear written documentation, including the loan amount, repayment time, and the rights and obligations of both parties. This is important to minimise potential conflicts in the future.³⁷

Default resolution can also be analysed from the perspective of civil law, particularly as set out in Articles 1238 to 1252 of the Civil Code (KUHPer).

Default in civil law is the failure of one party to fulfil the obligations agreed upon in an agreement. Forms of default include:

1. Not fulfilling any obligations at all.
2. Carrying out obligations but not according to the agreement.
3. Carrying out obligations but late.
4. Doing something prohibited by the agreement.³⁸

According to the KUHPer, a party aggrieved by a default may demand fulfilment of the agreement, compensation, cancellation of the agreement, or a combination of these. In the context of BUMG Suak Labu Village, the settlement of defaults in the repayment of farmers' debts can be analysed through a combination of Islamic sharia (*qardh*) and civil law approaches.³⁹

In a *qardh* contract, if the farmer is unable to repay the debt on time due to factors beyond his control, such as crop failure or economic conditions, the lender (BUMG) is encouraged to allow time for repayment.⁴⁰ This principle is in line with Articles 1244 and 1245 of KUHPer which state that a party who is unable to fulfil its obligations due to *force majeure* is not obliged to provide compensation. In this case, the application of *qardh* can be the basis for settlement without causing additional losses to the farmers.

One of the main differences between *qardh* and commercial loans in civil law is the prohibition of usury in *qardh*. In civil law, additional interest

³⁷ Garwautama, Paramadita Khalifa, Sulaeman Sulaeman, and Iqbal Noor. "The Effect of Murabahah Financing, Musyarakah Financing, Qardh Financing on Profitability." *Balance: Journal of Accounting and Business* 6.2 (2021): 145-156.

³⁸ Dalimunthe, Dermina. "Legal Consequences of Default in the Perspective of the Civil Code (Bw)." *AL-MAQASID Journal: Journal of Islamic and Civil Sciences* 3.1 (2017): 12-29.

³⁹ Slamet, Sri Redjeki. "Claims for Damages in Unlawful Acts: A Comparison with Default." *Lex Jurnalica* 10.2 (2013): 18068.

⁴⁰ Abas, Moh Maulana, and Ahmad Fauzi. "Implementation of the Qardh Agreement in the Management of Hajj or Umrah Advance Funds: A Review from the Perspective of Fatwa DSN (Case Study at PT. Bank Tabungan Negara (Persero) Tbk, Tegal Syariah Branch Office)." *Indonesian Proceedings and Annual Conference of Islamic Law and Sharia Economic (IPACILSE)*. 2021.

or late fees are usually stipulated in the agreement as compensation for default.⁴¹ However, in qardh, BUMG is not allowed to charge additional interest or penalty to farmers who are late in repaying the loan. This is in accordance with the principle of justice in Islam and can be applied while still referring to Article 1339 of KUHPer on the principle of good faith in the agreement.⁴²

Qardh emphasises the principle of ta'awun (helping each other), which can be translated into the practice of mediation to resolve defaults. In civil law, mediation is also encouraged to resolve disputes amicably before litigation. As such, BUMG can facilitate dialogue between the parties concerned to seek fair and mutually beneficial solutions, such as debt restructuring or rearrangement of payment schedules.⁴³

In civil law, the agreement document is the main basis in determining the rights and obligations of the parties. This is in line with the principle of qardh, which emphasises the importance of an initial contract or agreement as a form of transparency and fairness. In the context of BUMG, clear recording of the amount of debt, repayment time, and other terms can minimise potential conflicts or default claims.⁴⁴

If the default occurs due to the negligence of the farmer, civil law entitles the BUMG to demand fulfilment of the obligation or compensation as per Article 1243 of KUHPer. However, the application of the concept of *qardh* emphasises a settlement that is not excessively burdensome, such as providing an additional deadline or adjusting the payment method.⁴⁵ This approach reflects the harmony between sharia justice and civil law in the social and economic context.⁴⁶

⁴¹ Fatmasari, Dini Widyaningsih Dewi. "Qardh Al-Hasan Financing in Improving Customer Small Business Productivity." *Journal of Finance and Accounting Research* 3.1 (2017).

⁴² Marsudi, Kenlies Era Rosalina, and Sinta Filiawati. "Analysis of MSME Empowerment through Qardh Al-hasan." *Journal of Student Research in Social Sciences, Economics, and Islamic Business (SOSEBI)* 2.2 (2022): 235-247.

⁴³ Alamsyah, Johan. "The urgency of the concepts of al-'ariyah, al-qardh, and al-hibah in Indonesia." *Yurisprudencia: Journal of Economic Law* 4.2 (2019): 166-181.

⁴⁴ Pertiwi, Siska Hana, and Iza Hanifuddin. "Analysis of Qardh in Rahn Financing in Islamic Financial Institutions (Business Loan Case Study)." *Niqosiya: Journal of Economics and Business Research* 1.2 (2021): 173-196.

⁴⁵ Pohan, Mahalia Nola, and Sri Hidayani. "Legal Aspects of Defaults in Lease Agreements According to the Civil Code." *Journal of Legal Perspectives* 1.1 (2020): 45-58.

⁴⁶ Chairul Fahmi, "Analysis Of Legal Aspects On Capital Investment Fraud In Indonesia," *Proceeding of International Conference on Sharia Economic Law (ICoShEL)* 1, no. 1 (September 9, 2024): 79-95.

2. BUMG Management's Strategy in Guaranteeing the Repayment of Farmers' Debts Based on the Debt and Credit Agreement

A management strategy is a long-term plan designed to achieve specific goals in an organisation or company. This strategy includes various approaches, policies, and actions used by management to optimise resources, improve efficiency, and face existing challenges.⁴⁷In the context of management, strategy serves as a roadmap that helps the organisation steer its activities in a direction that is in line with its vision and mission.⁴⁸

The problem of default by farmers on repayment of loans to BUMG Suak Labu occurred due to several factors, such as a change in farmers' perception of the loan funds, which were considered community property, and the lack of an effective collateral mechanism.⁴⁹ Initially, BUMG provided loans to farmers to finance the cultivation of rice fields, with the condition of repayment plus a reward of Rp 60,000 as a token of appreciation. However, after the harvest, most farmers, 60 per cent, were reluctant to repay their debts. This causes the BUMG fund to not be able to revolve, hinders assistance to other farmers, and reduces the effectiveness of the programme. To overcome this problem, three strategies can be applied.

Firstly, improving farmers' legal understanding and awareness. Farmers need to be educated on the legal consequences of default, as their perception of the loan funds as common property shows a lack of understanding of the nature of debt.⁵⁰Socialisation on the importance of complying with agreements, both oral and written, needs to be conducted. In addition, agreements that have been oral should be converted into writing to provide clearer legal force, with the involvement of community leaders such as keuchik to strengthen legitimacy.⁵¹

⁴⁷ Alamsyah, Johan. "The urgency of the concepts of al-'ariyah, al-qardh, and al-hibah in Indonesia." *Yurisprudencia: Journal of Economic Law* 4.2 (2019): 166-181.

⁴⁸ Aini, Fitria Nur, and Nurul Huda. "Risk Management in Minimising Defaults in Sharia Cooperatives (Case Study at KSPPS Nurul Hidayah Klaseman Village)." *Syarikat: Journal of Sharia Economics* 5.1 (2022): 1-16.

⁴⁹ Nurul Maghfirah et al., "UNDERSTANDING INTELLECTUAL PROPERTY RIGHTS IN THE INDONESIAN TRADING BUSINESS," *Al-Mudharabah: Jurnal Ekonomi Dan Keuangan Syariah* 4, no. 2 (2023), <https://doi.org/10.22373/al-mudharabah.v4i2.3384>.

⁵⁰ Paendong, Kristiane. "Juridical Study of Default in Bonds and Agreements Reviewed from Civil Law." *Lex Privatum* 10.3 (2022).

⁵¹ Koto, Ismail, and Faisal Faisal. "Application of Fiduciary Guarantee Execution on Movable Objects Against Defaulting Debtors." *Journal of Education, Humanities and Social Sciences (JEHSS)* 4.2 (2021): 774-781.

Second, improve the guarantee and incentive mechanism. The ineffectiveness of BUMG funds is due to the absence of an adequate collateral system. Therefore, farmers can be asked to provide collateral in the form of crops or small assets as a form of responsibility. Compliance-based incentives, such as loan discounts or priority in subsequent capital disbursements, can also be applied to encourage timely repayment. In addition, gradual repayment through a progressive instalment system according to the harvest cycle will make it easier for farmers to repay their debts.⁵²

Third, strengthening internal management and fund transparency. Farmers' negative perceptions of BUMG fund management can be overcome by improving financial transparency. Regularly published financial reports will build farmers' trust in the management. Oversight by a third party, such as a village audit institution, can also ensure funds are well managed. In addition, the formation of farmer groups that are collectively responsible for loan repayment will foster a sense of collective responsibility. With the implementation of these strategies, BUMG can restore the flow of funds, ensure the sustainability of assistance to farmers, and achieve the goal of improving the welfare of the gampong community.

CONCLUSIONS

The case of BUMG Gampong Suak Labu illustrates the default that occurred due to the non-compliance of some farmers in returning the agreed loan. Although the agreement between the farmers and BUMG is oral, it is still valid according to the law as it fulfils the terms of the agreement stipulated in Article 1320 of the Civil Code, which states that an agreement is considered valid if there is an agreement between the parties involved, legal capacity, a clear object, and a halal purpose. In this agreement, farmers agreed to return the loan provided by the BUMG with an additional IDR 60,000 as a form of appreciation for the management of the funds, but most farmers did not fulfil this obligation. This non-compliance occurred due to a change in perception among farmers who began to perceive the funds as common property, not as a loan that must be returned.

As a result of this default, funds that should have gone to help other farmers were hampered, and the BUMG's main objective of improving farmers' welfare was disrupted. The delay in disbursement of funds results in

⁵² Bandem, I. Wayan, Wayan Wisadnya, and Timoteus Mordan. "Legal consequences of default in a Debt Agreement." *Raad Kertha Scientific Journal* 3.1 (2020): 48-68.

the hampering of assistance programmes to farmers who need capital to improve agricultural yields. In addition, this loan repayment failure also has the effect of decreasing trust in the management of BUMG funds, which may threaten the sustainability of the programme in the future. Based on Articles 1233 and 1243 of the Civil Code, the defaulting party, in this case the farmer, is obliged to compensate for losses arising from its failure to fulfil agreed obligations. Therefore, the actions of the farmers in not repaying the loan in accordance with the agreement can be considered a default, which provides a basis for BUMG to demand fulfilment of obligations or compensation for losses incurred, as well as to make efforts to improve the administration and management of funds so that the programme can run effectively and sustainably.

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