

CONTRACTS OF LAND REVIVAL IN *FIQH MUAMALAT* AND ISLAMIC FINANCING FOR AGRO INITIATIVE IN ISLAMIC BANKING INSTITUTIONS

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ABSTRACT

The Islamic law (*fiqh*) concerns all aspects of religious, social and economic life of human being. Besides religious observances (*ibadat*), this legal law seeks to regulate the institutions of family, marriage, inheritance, property relations, economic contracts and obligations as well as land tenure system. The problems of land tenure system and land development have been discussed copiously in the early *fiqh* literary sources in Islam. Thus, this paper tries to analyze various contracts of cultivation from the perspective of Islamic Commercial law as well as Islamic financing available in Islamic banking institutions in Malaysia for land development project. The methodology of research in this paper is through document analysis, interviews with relevant Islamic bank officers and observation from pamphlets and websites of selected Islamic banks. The finding shows that there are plenty of opportunities available for Muslim in this country in order to embark in the land cultivation and land development projects based on *Shariah* compliant Islamic financing arrangements.

Keywords: Al-Musaqat, al-Muzara'ah, Bay' al-Salam.

Introduction

The land tenure system and land development method in Islam are considered as one of the many ways to increase food supply and food production for the benefit of Muslim society at large. Yet, the accurate implementation of this method and contract will ensure positive effects to the social aspect in the peasant-landlord relationship as well as in the economic side by increasing *halal* source of earning to the Muslim community through the land development and agriculture attempts.

Islam has mandated methods for the working of land in order to ensure that land is fully used rather than remains idle or uncultivated. As such, there are number of questions need to be solved such as what is the precise method or contract that should be used by Muslim in order to develop their land and what are the opportunities given to them by the Islamic banking institutions in order for them to pursue their agro projects?

All these questions will be analyzed and answered in this paper based on views given by Muslim jurists and *fiqh* scholars from the perspective of Islamic Commercial law as well as data and information given by officers of selected Islamic Banking institutions in Malaysia.

Contracts of Land Revival in *Fiqh Muamalat*

In the Islamic commercial law, there are three types of contracts with regards of land cultivation and development as follows.

Al-Musaqat

Al-Musaqat (partnership in management) literally means irrigating or watering, from the root word of “*Saqa*” (Ibn Manzur, 2003). The resident of Madinah has named *al-Musaqat* as *al-Mu’amalah* (Ibn Qudamah, 1972). Scholars from Hanbali School have listed the contract of *al-Musaqat* as a kind of partnership.

From the *fiqh* terminology, *al-Musaqat* refers to a type of submitting land contract towards cultivator or worker (person who manages the cultivation) with return in produce. In other words, *al-Musaqat* means a contract with remuneration based upon the crops production. It is a contract of submission of land by crop owner to the cultivator or guardian who involves in the jobs such as reviving, irrigating and other relevant jobs according to the specific conditions and will be allocated return based on crops produce (Abu al-Naja al-Hajjawi, 1999).

Furthermore, *Majallah al-Ahkam al-Adliyyah* defines *al-Musaqat* as a kind of partnership on the terms that trees are to be found by one, and cultivation by the other, and that the fruit produced is to be shared between them (*The Mejelle*, 2001). Majority of *ulama’* (Maliki, Shafi’i and Hanbali) view that the contract of *al-Musaqat* is legal based on certain circumstances (al-Shafi’i, 1961). Their views are based on the practice of *al-Musaqat* by Prophet Muhammad (*s.a.w.*) himself.

Prophet Muhammad (*s.a.w.*) said:

“*The Prophet (s.a.w.) made a deal with the people of Khaybar that they would have half the fruits and vegetation of the land they cultivated*”. (Bukhari and Muslim)

In this regard, perhaps the crop owner has no skills for managing his own farm or he has no time in handling it by his own and at the same time, person who has skills and time has no farm for cultivation. At this point, both parties are needed each other for the crop cultivation, the owner needs cultivator and vice versa. Thus, this shows that the contract of *al-Musaqat* is truly desired and needed (Ibn Qudamah, 1972).

According to Ibn Qayyim (d.1350), the story of Khaybar is a proof for the validity of the contract of *al-Musaqat* and *al-Muzara'ah* with the specific distribution of the fruit produce. This activity is continued until today without any annulment (*nasakh*) by the Prophet Muhammad (*s.a.w.*). This activity was carried on by the Caliphate *al-Rashidin* and was not included as a part of contract of *al-Ijarah* but instead, in the contract of partnership, similar to the contract of *al-Mudarabah*.

Ibn Juzayy (d.1357) from Maliki school of *fiqh* pointed out that this contract is legitimate except in the case of ambiguous leasing and selling of non-existence goods. Yet, according to Abu Yusuf (d.798), the contract of *al-Musaqat* is permissible (*Jaiz*) as the contract of *al-Mudarabah*. To him, whoever says that this contract is void, he actually devastating the land and whoever permits this kind of contract, he actually permits the land to be expanded and grew.

Furthermore, Imam Shafi'i (d.820) of the opinion that the contract of *al-Musaqat* is valid, similar to the contract of *al-Muzara'ah* when they happen in subordination to the former as, for instance, where the fruit trees grow in fertile and clean ground, which is watered for the nourishment of the trees, and the owner directs the cultivator to sow a crop on the ground on condition that he shall get share like one half of the produce.

The essence for *al-Musaqat* contract according to the majority of *ulama'* (Shafi'i, Hanbali and Maliki) can be classified into five, as the following (Mustafa al-Khin, 1992).

- (i) Parties in the Contract: The *al-Musaqat* contract must be done by persons who are eligible to join in the contract of property such as have sound minds and they are puberty (*bulugh*). The reason is that *al-Musaqat* is a form of contract, which involves the use of property or *al-Mu'amalat al-Mal*. As such, persons who are not qualified to manage their properties cannot participate in this contract. In some cases, a guardian (*wali*) may represent child, insane or dumb persons in this kind of contract.
- (ii) Source of Partnership: According to jurists from Shafi'i school, the originality for this contract is date and grape fruits. Meanwhile, *ulama'* from Hanbali school regards that the originality of this contract is fruit plant that requires a form of management by the cultivator or tiller who will gain a division of fruit produce. This partnership will nullify unless the contract specify the particular tree. If the tree is unclear and cannot be identified thus, this contract will void.
- (iii) Fruit: Distribution of fruit produce for each party has to be clearly defined, between owner and cultivator. All the fruits produce from the orchard is regarded as the production in this contract and must be divided equally between both parties. It is considered as null if only one party receives all of the fruits produce. Therefore, it is stipulated that both parties obviously understand and agree upon the distribution of the produce such as 50 to 50, 40 to 60 or 70 to 30 or etc.

- (iv) Job: The cultivator is given fully control over his work. This includes the entire scope of managing the orchard for instance, how, when and methods of accomplishing his jobs. If in any case that the contract has stipulated the landlord to be join along in the management jobs, this type of *al-Musaqat* contract is regarded as null and void.

- (v) Word Expression (*Sighah*) of Contract: The word expression of this contract can be done by the landowner or cultivator such as the cultivator says to the owner “I will manage your orchard with the distribution of fruit produce of 30 to 70 or 40 to 60”. Otherwise, the owner says to the cultivator “I surrender this orchard management to you with produce sharing contract” or “I cede you my plantation to be taken care of” or any similar of wording. The most important thing is that these word expressions are not in the form of hiring since jurists from Shafi’i school of the view that the word expression of hiring cannot be used for this kind of contract.

Al-Muzara’ah

Al-Muzara’ah (partnership in agriculture) literally means planting of something, from the root word of “*zara’a*”. From the *fiqh* terminology, *al-Muzara’ah* refers to an agricultural compact between land possessor and cultivator. This contract also means cede of land and seed to the cultivator while produce of the orchard is divided for both parties in the contract (landlord and cultivator) (Mustafa al-Khin, 1992).

Yet, *ulama’* from Maliki school of Islamic law defines *al-Muzara’ah* as contract of sharing in agriculture. Imam al-Shafi’i (d.820) defines this contract as a compact between landlord with others in planting and taking care of crop, whereby the landlord provides the seeds and the fruit produce will be divided between them at agreed ratio.

Moreover, jurists from Hanbali school refer *al-Muzara'ah* as a contract of submitting land to the cultivator and both parties are involved in the plantation project.

According to *Majallah al-Ahkam al-Adliyyah*, contract of *al-Muzara'ah* refers to a kind of partnership, where the land comes from one, and the work from the other, *i.e.*, a partnership to cultivate, and divide the crops. Most of the *ulama'* permit the contract of *al-Muzara'ah*. This view is justified by a *hadith* narrated by Ibn Umar.

Prophet Muhammad (*s.a.w.*) said to the effect:

"The Prophet (s.a.w.) made a deal with the people of Khaybar that they would have half the fruits and vegetation of the land they cultivated".

(Bukhari and Muslim)

According to jurists from Hanafi school of Islamic law, the essence for the contract of *al-Muzara'ah* is proposal (*Ijab*) and acceptance (*Qabul*). Landlord offers to the cultivator by saying "I submit this land to you for sharing project". The cultivator replies by saying "I accept your proposal" or "I like with your offer" or any other words that show an acceptance for the compact. When these two essences exist, the contract is effective.

The contract of *al-Muzara'ah* may be terminated either by the completion of the project or it may be terminated before the completion of the project as the following (al-Kasani, 1974).

- (i) The Expiry of Period: Contract of *al-Muzara'ah* will be terminated when the period of the contract ended. The ending of the contract happens when all the crop produce be divided corresponds with the agreement and the agreed conditions by both parties. In the case when the period of the contract ended but the aim of the project still unattained (the tree still green and bears no

fruit), the period of the contract should be prolonged until the tree bears fruit and ripe. This attempt tries to celebrate and satisfy both parties in the contract as much as it can be.

- (ii) One of the Parties in the Contract Has Deceased: The contract of *al-Muzara'ah* will be terminated when one of the parties in the contract was dead even though the cultivation job has been started or not, or the project has borne fruit or not. In the case when the dead person was the landlord and the project is not yet producing anything thus, the cultivator or his heir still obliged to carry on with the job they has agreed. This is because the contract has placed the responsibility upon the cultivator to complete his duty from the beginning until the end of the contract.
- (iii) Termination by Proof: In the case when there is an annulment of the contract before the project even started hence, the contract will be terminated. *Ulama'* from Hanafi school view that the availability of one party to provide seed does not mean that he will be participated in the joint project.

According to Maliki's jurists, the contract of *al-Muzara'ah* is not binding unless the relevant jobs have been started. Therefore, contract that is not yet been started can be cancelled.

Bay' Al-Salam

The term *Salam* forms the irregular verbal noun of the fourth declension of the Arabic root *Salima*, meaning to deliver up. The term means advance payment or forward buying. *Bay' al-Salam* is also known as *Bay' al-Salaf* and it is included under the category of sale (*Bay'*).

From the *fiqh* terminology, *Bay' al-Salam* is the sale of a thing, which will be delivered to the purchaser on a future date. That future date must be set at the time of the contract. In other words, *Bay' al-Salam* refers to a sale of an object, which is not available at the time of the conclusion of the sale, but will be delivered in the future or a fixed future date. The price is, however, to be paid immediately during the session of the contract (Abd al-Sami' al-Misri, 1975).

According to *Majallah al-Ahkam al-Adliyyah*, *Bay' al-Salam* is to sell a deferred payment for a present payment, that is to say, to buy a thing to be delivered at a future time, by a payment of money in cash. Besides, scholars from Shafi'i and Hanbali schools of Islamic law define this contract as a contract of specific goods in liability and the price of the goods is received in the session of contract (*Majlis al-Aqd*). In this contract, the buyer is called *Rab al-Salam*, the seller is *Muslam ilayh*, the cash price is *Ra's al-Mal* and the purchased commodity is termed as *Muslam fih* (Wahbah al-Zuhaili, 2006).

The legality of *Bay' al-Salam* contract is mentioned in the *Quran*, *al-Hadith* as well as consensus of *ulama' (Ijma')*. In fact, the contract of *Bay' al-Salam* is authorized and rendered legal by a particular passage in the *Quran* and *al-Hadith* of Prophet Muhammad (*s.a.w.*).

In the *Quran*, there is a verse that discusses with regards of loan contract, as Allah (*s.w.t.*) says to the effect:

"O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing".

Al-Baqarah (2):282.

Ibn Abbas in elaborating this verse had said: “*I witness that the contract of al-Salam (with a guarantee in the specific date) has been allowed by Allah (s.w.t.) in his revelation and has approved on it*”. He then recited the verse.

In a *hadith*, narrated by Ibn Abbas, when Prophet Muhammad (*s.a.w.*) arrived at Madinah, the resident of Madinah at that time exercising the contract of *al-Salam* on fruits for the duration of one, two and three years.

In this regards, he (*s.a.w.*) said:

“*Whoever wishes to enter into a contract of Salam, he must effect the Salam according to the specified measure and the specified weight and the specified date of delivery*”. (Bukhari and Muslim)

Based on this *hadith*, *Bay' al-Salam* was allowed by the Holy Prophet (*s.a.w.*) subject to certain conditions. The basic purpose of this sale was to meet the needs of the small farmers who needed money to grow their crops and to feed their family upto the time of harvest. After the prohibition of *riba*, they could not take usurious loans. Then, it was allowed for them to sell the agricultural products in advance.

Furthermore, based on their consensus, *ulama'* have authorized the contract of *Bay' al-Salam*. Their argument are that people needs this type of contract since owner of crops, fruits or businesses require some expenditures for themselves and for their crops up to the harvesting period. It is to be observed that *Bay' al-Salam* contract is contrary to the ordinary rules of sale, which forbids sales of a non-exist article, but because of its necessity in the business and economic, this kind of contract has rendered lawful especially in helping farmers and their activities (Ibn Abidin, 1979).

The essence for *Bay' al-Salam* contract is offer (*Ijab*) and acceptance (*Qabul*). According to Hanafi, Maliki and Hanbali schools of *fiqh*, the contract of *Bay' al-Salam* can be made either in the expression of sale or *Salam*. For instance, one party says "I book this item from you" and being accepted by another party by saying "I accept", or by any other expression such as "I sell the goods to you at price of RM50" and be accepted by other party.

Meanwhile, jurists from Shafi'i school of Islamic jurisprudence and Zufar of the opinion that the contract of *Salam* cannot happen unless by using the *Salam* words or expression based on the analogy (*Qiyas*). Therefore, the contract of *Salam* will nullify because of selling of non-existed article. The permissibility of this contract in the *Shariah* is based on the *Salam* expression only.

Besides, Shafi'i's jurists of the two views regarding this matter. Some of them opine that the contract of *Salam* is nullified when using the ordinary sales expression, because if the contract is valid, it is regarded as similar to the ordinary sales contract, which in reality it is not. Nonetheless, some of them argue that using the ordinary sales expression in the *Salam* contract is still lawful because it is considered as a type of sales, which requires a form of acceptance in the session of contract. Thus, it can be done by using the sales words as in the case of transaction for the currency exchange.

Muslim jurists from four schools of Islamic jurisprudence unanimously agreed that the contract of *Bay' al-Salam* is valid when fulfilling six conditions below (Ibn Rushd, 1995): the attribute of the article is well defined, the type of the article is clearly mentioned, the quantity of the article is well recognized, the delivery time of the article is stated clearly, the price of the article is well known by both parties and the place for the delivery of the article is well understood.

They also unanimously agreed that the contract of *Salam* is valid for all measured and weighted goods and crops such as coconut, almond, egg and etc. Nevertheless, they are in argument in terms of conditions with regards of price, article or goods of the contract and the issue of withdrawing half or some of the booked or reserved article in the contract.

(i) Condition with regards of Price: Scholars from Hanafi school of Islamic law precisely fixed six conditions with respect of price in the contract of *Bay' al-Salam* as follows:

- * Defining type of the article either in the form of *Dinar* or *Dirham* or in the form of measurable goods such as wheat and barley, or in the form of weighted items likes cotton, iron and etc.
- * Clarifying type of the currency if a particular country has various kinds of currencies in circulation.
- * Justifying nature of the article either in good, fair or poor quality.

The clarification of the above three matters is very imperative in order to avoid any ignorance (*Jahalah*) in the contract of *Bay' al-Salam*. Any ignorance in the nature, type or form of article in this contract may lead to incoherent and conflict, which may nullify the contract.

- * Defining the rate or price value of the item in measurement or weight scale. Therefore, when a person says "I book this wheat", without clarifying the rate of weight or measure, then this contract is invalid because of the ignorance of the quantity and price value for the item.
- * According to Abu Hanifah, the currency of *Dinar* or *Dirham* should be inspected since any conflict and fighting because of ignorance will nullify the contract.

- * The cash or capital should be paid in advance and being accepted in the session of contract, before both parties separated. If the both parties separated before payment is made thus, the contract is invalid. This is because the word of *al-Salam* in Arabic language means the delivery of price in advance then, if the price is delivered in future date, the original meaning of *al-Salam* is no longer accurate and the contract become invalid.
- (ii) Conditions for the Subject/Article in the Contract: *Ulama'* from Hanafi school of Islamic law has fixed eleven conditions for the booked or reserved items in the contract of *Bay' al-Salam* as the following.
- * Type of the subject is clear such as wheat, barley, rice and etc.
 - * Sub-type of the subject is also clear such as field wheat or hill wheat or etc.
 - * Nature of the subject is clear either in good, fair or poor quality.
 - * Rate or quantity of the subject is well defined either through weigh or any measurement. This is important to be clarified in order to eliminate the aspect of ignorance in the contract since it may produce dissatisfaction and conflict between parties in the contract, which may nullify the contract totally.
 - * The exchanging item should not be involved with any element of *Riba al-Fadl* namely the equivalent of value or type (gold with gold). If so, this contract is considered involve with *riba*, which has been prohibited in Islam. If the equivalent of value or type does not exist i.e. there is a different between the subject and the price of the contract such as sale of wheat with money or rice with *Dirham* thus, the contract of *Bay' al-Salam* is lawful.

- * The subject of the contract can be differentiated easily. If the subject cannot be differentiated, then the subject cannot be booked in the case of *Dinar* and *Dirham*, whereby these two items are saleable items and cannot be differentiated in the exchanging contract.
- * The booking item should be delivered in future date. Scholars of different views with regards of this condition. Jurists from Hanafi, Maliki and Hanbali schools of the views that in order to make this contract valid, the delivery of the subject should be deferred. It is not valid to make the booking contract in spot.
- * Type of the booking item is sold in the market namely similar in type and nature of the item as in the contract, from the beginning of the contract (session of contract) until the delivery time of the goods.
- * The contract should be definite. The definite contract means the contract does not has option (*Khiyar*) for both parties.
- * Clarifying the place or location for delivery of the item. According to Abu Hanifah, if the delivery of the item needs extra expenditure or extra cost and the item is very difficult to be carried such as wheat and barley, the location for the delivery needs to be specified in order to make this contract valid.
- * The item in the contract can be defined in definite and clear. Based upon the nature of the item, the price of the subject can easily be determined. Succinctly, the item of the contract can be clarified in terms of quantity, weigh or measure for the subject that almost similar.

In the event of death of the seller, the contract of *Bay' al-Salam* will be deemed to be rescinded and the buyer will claim the return of his money from the heirs. In the event

of the death of the buyer, however, the contract will remain operative. Damage to the goods will nullify the contract only when it exceeds the normal extent of damage. In the case of abrogation of the contract, the buyer will receive his advance.

Ordinarily, the buyer has no right to change the conditions of the contract in respect of quality or quantity or the period of delivery of the contracted goods, after payment is made to the seller. However, both parties have the right to rescind the contract in part or in full. The buyer will thus have the right to receive the amount advanced by him, but not more or less than it (al-Sarakhsi, 2001; Mustafa al-Khin, 1992).

Islamic Financing for Agro Initiative in Islamic Banking Institutions

In Malaysia, not all Islamic banks or Islamic windows of conventional banks do offer Islamic financing facility for land cultivation and development projects. Nevertheless, because of the important of agriculture to our country, there are some Islamic banks and Islamic windows of conventional banks do provide financial helps to farmers and agro entrepreneurs, (where only selected products offered by the Islamic banking institutions will be discussed for the purpose of this article) as the following.

Agro Bank

The facilities available for financing agriculture sector provided by Agro Bank can be classified into two categories namely commercial funds and special funds established by government in order to provide funds for agriculture sector and have been channeled through Agro Bank.

The objective of providing these financing facilities is to provide working capital for a new agriculture project or for expanding of existing agro project.

- (i) Commercial Funds: Financing under these funds are basically market and profit driven, hence the terms and conditions of these facilities are based on commercial consideration. The source of fund is the normal deposits by the depositors of Agro Bank and usually regulated by market forces. Agro Bank is keen to finance all activities related to the agriculture sector and the scope of financing is expended to the production, processing and marketing of agriculture produces.

Table 1: Agro Cash-i

Features	Description
Objective	•To provide financing facility for consumption needs related to agricultural and agro-based activities.
Eligibility	•Government servant (permanent or contract). •Private servant. •Age between 18 to 58 years old.
Financing Limit	•Up to RM150,000. •Up to 15 years.
Category	•Terms Financing.
Shariah Concept Applied	•Bay' al-Innah.
Collateral	•No collateral, only one guarantor.
Projects Eligible for Financing	•All activities relates to agriculture.

Source: Suhaimi Yacob, Executive 2, Financing Division, Agro Bank, Jalan Padang Garong, Kota Bharu, Kelantan. Interview carried out on 14th December 2008 at 11.15 a.m. to 11.50 a.m.; *Agro Bank Pamphlet* (2008), "Financing Facilities"; Agro Bank, <http://www.agrobank.com.my>, 15th December 2010.

- (ii) Special Funds: From time to time, Malaysia government established schemes and provided funds for financing agriculture sector. These funds can be considered as incentives to promote investments in priority agricultural sector. The incentives usually take the forms of low cost of financing, longer duration of financing period and higher margin of financing. These schemes are open to all institutions and companies incorporated in Malaysia as long as

the ownership by Malaysians is more than 50%, as well as to all Malaysian citizens.

Through these special funds, Agro Bank will continue its social responsibility in order to finance agriculture sector as been assigned by the government through Ministry of Agriculture and Agro-Based Industry in achieving the related policies under Nineth Malaysia Plan (RMK-9).

Table 2: Fund for Food (3F Loan)

Features	Description
Objective	<ul style="list-style-type: none"> •To promote investment in the food production activities at the reasonable cost. •To promote primary food production (including sea-food, animal husbandry, vegetables and fruits). •To promote the efficient distribution of food and food products.
Eligibility	<ul style="list-style-type: none"> •Malaysia citizens residing in Malaysia. •Malaysian owned institutions and companies (at least with 51% ownership).
Financing Limit	•RM10,000-RM10 million.
Maximum Financing	•90% of project cost.
Financing Period	•Up to 10 years.
<i>Shariah</i> Concept Applied	• <i>Bay' Bithaman Ajil</i> .
Collateral	•Fully secured.
Projects Eligible for Financing	<ul style="list-style-type: none"> •Food production, processing and marketing (crops, livestock and fishery). •Eligible items for crops are vegetables, tea, paddy, roselle, maize, tapioca, production of seeds and planting equipment for food crops and fruits such as banana, mango, guava, watermelon, papaya, pineapple, sugar cane, coffee, cocoa and etc.

Source: Suhaimi Jacob, Executive 2, Financing Division, Agro Bank, Jalan Padang Garong, Kota Bharu, Kelantan. Interview carried out on 14th December 2008 at 11.15 a.m. to 11.50 a.m.; *Agro Bank Pamphlet* (2008), "Financing Facilities"; Agro Bank, <http://www.agrobank.com.my>, 15th December 2010.

Table 3: Food Production Credit Scheme (SKPM)

Features	Description
Objective	<ul style="list-style-type: none"> •To increase the national food production. •To provide fixed capital and working capital for the purpose of financing food production project.
Eligibility	<ul style="list-style-type: none"> •Malaysia citizens residing in Malaysia. •Malaysian owned institutions and companies (at least with 50% ownership).
Financing Limit	•Not exceeding RM500,000.
Maximum Financing	•90% of project cost.
Financing Period	•Up to 8 years or up to 10 th September 2018.
<i>Shariah</i> Concept Applied	• <i>Bay' Bithaman Ajil</i> .
Collateral	•Fully secured.
Projects Eligible for Financing	•All upstream and downstream food production activities.

Source: Suhaimi Yacob, Executive 2, Financing Division, Agro Bank, Jalan Padang Garong, Kota Bharu, Kelantan. Interview carried out on 14th December 2008 at 11.15 a.m. to 11.50 a.m.; *Agro Bank Pamphlet* (2008), "Financing Facilities"; Agro Bank, <http://www.agrobank.com.my>, 15th December 2010.

Table 4: Paddy Credit Scheme (SKP)

Features	Description
Objective	<ul style="list-style-type: none"> •To increase production of paddy in the National Rice Bowl areas. •To provide revolving credit for the production of paddy in eight Rice Bowl areas.
Eligibility	<ul style="list-style-type: none"> •Malaysia citizens residing in Malaysia. •Malaysian age between 18 to 58 years old.
Financing Limit	•Not exceeding maximum financing of RM15,000 per season.
Maximum Financing	•100% of project cost.
Financing period	•Up to 6 months (1 season).
<i>Shariah</i> Concept Applied	• <i>Bay' Bithaman Ajil</i> .
Collateral	•Case by case.
Projects Eligible for Financing	•All paddy planting production activities.

Source: Suhaimi Yacob, Executive 2, Financing Division, Agro Bank, Jalan Padang Garong, Kota Bharu, Kelantan. Interview carried out on 14th December 2008 at 11.15 a.m. to 11.50 a.m.; *Agro Bank Pamphlet* (2008), "Financing Facilities"; Agro Bank, <http://www.agrobank.com.my>, 15th December 2010.

Bank Kerjasama Rakyat Malaysia Berhad

Facility offered by Bank Rakyat with regards of land development and agricultural financing can be divided by three types namely Financing Scheme of Land-i Ardhi, Term-i and Property-i, but by the limitation space in this article only one of the financing will be discussed as the following.

Financing Scheme of Land-i Ardhi is offers for developing idle land with respect of agriculture project by customer. The facility for financing under the scheme of Land-i Ardhi uses the contract of sales based on *Bay' Bithaman Ajil* (BBA) principle. Under this principle, the bank will buy property from the customer on cash basis and the bank will sell the property back to the customer based on deferred payment basis. Based on normal procedure, the bank initially will determine the owner of the land. If the land is owned by the customer, bank will act as a buyer for that property with cash basis purchase.

The contract of selling will be undertaken after the contract of buying completed under the concept of BBA. If the land is not owned by the customer, the bank will ask for the letter of permission from the actual owner in order to utilize and develop the land. The bank will use the concept of *al-Wakalah* in completing this contract. Both buying and selling contracts can be done between bank and customer using the concept of *al-Wakalah*. The contract of selling between bank and customer will be based on deferred payment basis under the concept of BBA. The specific features and terms of this scheme are as below:

Table 5: Financing Scheme of Land-i Ardhi

Features	Description
Eligibility	<ul style="list-style-type: none"> •Malaysia citizens. •Malaysian aged between 18 to 65 years old. •Not in the state of bankruptcy.
Category	•Developing agriculture land.
<i>Shariah</i> Concept Applied	• <i>Bay' Bithaman Ajil</i> .
Margin and Quantum of Financing	<ul style="list-style-type: none"> •90% of project cost for the member of the bank. •80% of project cost for non-member of the bank.
Repayment Period	<ul style="list-style-type: none"> •Up to 7 years. •Grace period is allowed until 2 years whereby within this period, customer is still not obliged to pay for the financing.
Collateral	•Fully secured on the land of the project.
Insurance	•Optional- normally Mortgage Takaful Plan.
Deposit for Security	•3 months of the financing will be deducted automatically from the total of financing.
Accredited Land Estimator	<ul style="list-style-type: none"> •Only required for financing above than RM30,000. •Report from the external land estimator will be validated until 6 months. •For financing below RM30,000, the bank will make own valuation.
Process and Service Fees:	•Not applicable.
Documents required:	•Agriculture Financing Form, Photocopy of I/C, salary slip and grant, Financial Statement of company or Current Account Statement.

Source: Mohd. Jozy Mohd. Ghani, Executive, Financing Unit, Bank Kerjasama Rakyat Malaysia Berhad, Jalan Raja Perempuan Zainab 2, Bandar Baru Kubang Kerian, Kota Bharu, Kelantan. Interview carried out on 10th December 2008 at 3.30 p.m. to 4.15 p.m.; Bank Rakyat, <http://www.bankrakyat.com.my>, 15th December 2010.

Maybank Islamic Berhad

One of the facilities offered by Maybank Islamic Berhad with regards of agriculture sector is BBA Term Financing-i. MIB offers two types of BBA term financing facilities. Firstly, Fixed Rate Term Financing-i. This facility offers a fixed financing cost throughout agreed tenure of financing. This enable customer to protect themselves against risk of rising cost of financing. Secondly, Variable Rate Term

Financing-i. Under VRF, the selling price is fixed upfront based on a selling price rate while the effective rate levied on the account will vary based on charges in the Base Financing Rate (BFR), provided it does not exceed the fixed selling price rate.

If the BFR moves up to the extent that the effective rate exceeds the fixed selling price rate, the system will only compute profit based on the selling price. Customer will enjoy very competitive rate based on ongoing good market condition and yet protected by a fixed ceiling rate against adverse market condition.

BBA term financing is granted under the principle of *al-Bay' Bithaman Ajil* (BBA) or deferred payment sale. The requirement for the presence of sale and purchase elements is compulsory under BBA financing. Under this facility, MIB will assist the customer to identify suitable asset for the purpose. The bank shall purchase the asset concerned and simultaneously sell it to the customer at an agreed price. Payment of selling price can be paid by installment over an agreed period. The salient features of this facility are as below:

Table 6: BBA Term Financing-i

Features	Fixed Rate Financing	Variable Rate Financing
Eligibility	<ul style="list-style-type: none"> •Individuals. •Joint account holders. •Firms and corporate customer i.e. companies incorporated under the Companies Act. 	
Purpose	<ul style="list-style-type: none"> •Purchase of assets such as landed properties, plants and machineries, share and etc. •Investment portfolio. •Business working capital. •Refinancing of assets. 	
Tenure	•Up to 10 years.	•Up to 20 years.
Profit Rate	•Fixed at 1% over and above the conventional lending rate.	•At par with conventional rate at the time of application.

Source: Aizatul Akma Arifin, Consumer Sales Executive, Financing Unit, Maybank Islamic Berhad, Jalan Sultan Yahya Petra, Kota Bharu, Kelantan. Interview carried out on 14th December 2008 at 2.35 p.m. to 3.15 p.m.; Maybank Islamic Berhad, http://www.maybank2u.com.my/maybankislamic/products_services/index.shtml, 21st December 2010.

Analysis of Contracts of Land Revival Applied by Islamic Banking Institutions.

Analysis from the Perspective of Contract.

From the contracts of land revival discussed in section 1, it shows that none of the three classical contract of agriculture in *fiqh muamalah* is being used by Islamic banking institutions in financing agro initiatives. According to Associate Professor Datin Dr. Paizah Binti Ismail (Shariah advisor for Agro Bank), it happens because of the difficulty of Islamic banking institutions to find suitable third party or buyer to secure for the purchase of the produces since the bank only interest in managing and storing money and not other materials.

In order for the Islamic banking institutions to solve this problem at least for the time being, the said banks apply *Bay' al-Innah* and *Bay' Bithaman Ajil* in order to replace the element of *riba* for the financing of land revival in this country as well as to minimize their risks in business.

Analysis from the Perspective of Islamic Banking Institutions.

From all the tables of financing facilities offered by the Islamic banking institutions in the earlier section, it shows that only Agro Bank has offered variety types of financing for agro entrepreneur for the land revival initiative, where other Islamic banking institutions in Malaysia such as Bank Islam Malaysia Berhad and Bank Muamalat are not offering such financing although the development of this country is very important for the development of our country in general. Their reason is for the time being no specific fund is allocated for the financing of the land revival initiatives in their institutions.

Conclusion

In the final analysis, Islam has explained in details pertaining to the method and contract for developing land and agricultural activities. These contracts can be applied in modern Islamic banking institutions for financing farmers and agro entrepreneurs, but need a little risk taking attempt by the Islamic banks. It can be concluded that there are various types of Islamic financing provided to the Muslim community especially for farmers and agro entrepreneur in Malaysia to support their activities ranging from small until large scale of enterprises and covered up to different kind of agricultural projects. Thus, they should grab this opportunity in order to expand their projects and develop uncultivated lands based on *shariah* compliant financing facilities provided by the local Islamic banks.

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