

OPPORTUNITY FOR AGRO ENTREPRENEUR IN DEVELOPING AGRO INITIATIVE IN ISLAMIC BANKING IN MALAYSIA

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ABSTRACT

This article tries to examine the concept of agriculture and agribusiness in Islam and financing facilities available for the agriculture sector provided by the Islamic Banking in Malaysia. Thus, this article will be divided into two sections. The first section begins with the exploration of agriculture and agribusiness in Islam, whilst the second section in this article will discuss Islamic financing facilities in agriculture provided by the local Islamic Banks. All financing facilities offered by the banks will be explained in details in this section as well as the relevant products with respect of financial assistant to agro entrepreneurs in developing their projects. The methodology of this research is through documents analysis as well as field study with the officers of the selected Islamic Banks.

Key words: Agriculture, Agribusiness, Islamic Banks.

INTRODUCTION

From the general perception it is clear that agricultural projects seem less viable than any initiative in other sectors. While it is admitted that the risks in agricultural investment are higher due to various factors, these risks are very rare in respect to the effect weather and natural disasters on the production of primary produce.

With the introduction of high-technology farming and rapid advancement in the field of biotechnology, the impact weather on agricultural production has been minimized. Nowadays, many opportunities have been given in order to assist agro entrepreneurs not only to finance their projects but also to expand them in a larger capacity, especially by the local Islamic Banks.

Production function in the Islamic economics has been regulated by the concept of livelihood (*al-Rizq*) as well as lawful (*halal*) and unlawful (*haram*) sources of earnings. The term *al-Rizq* is applied to connote livelihoods and means of further production, which has been intimated by the Prophet Muhammad (*s.a.w.*) and predetermined by Allah (*s.w.t.*). The problem is how Islam views agriculture and agribusiness? What are the opportunities given by Islamic Banks in Malaysia in helping agro entrepreneurs with their projects? The answers for these issues will be explored in details throughout this article.

1. Agriculture and Agribusiness in Islam: This section will be begin with a discussion of seeking *halal* earnings from the Islamic perspective, as the Islamic law has laid down detailed rules and regulations regarding livelihoods

and earnings. Islam also, however discouraged all persons from remaining unemployed without reason¹.

The Prophet Muhammad (*s.a.w.*) was very mindful about the economic utilization of resources, with the concept that all the resources are a gift from God containing the suggestion that they should be utilized carefully. As such, the Holy Prophet (*s.a.w.*) has laid emphasis on intensive development of human resources, and assigned a high value on industry, efficiency and labor¹.

Parasitic dependence on others, idleness or beggary are discouraged by Islam. People are encouraged to put in hard work and earn livelihoods instead of wasting their energy in idle pursuits. It is in this spirit that pastimes, which do not add any utilities have been disliked by the *shariah*².

Islamic law has therefore prohibited begging, with an exception for a individuals in grave difficulties. The attitude of Islam towards man's position in the world is that Allah (*s.w.t.*) has made the earth for the benefit of man, to whom He has given control over. It is the duty of man to profit from this favor and to exert himself to seek Allah's bounties throughout the earth³.

Allah (*s.w.t.*) says to the effect:

"It is He who has made the earth manageable for you, so traverse ye through its tracts and enjoy of the sustenance which He furnishes, but unto Him is the Resurrection".

Surah al-Mulk (67):15.

It can be inferred from the above verse that Allah has created the earth full with various kind of sustenance and sources for earnings, water, minerals, and therefore provided many things for man to cultivate and do business with, so that they may enjoy all sustenance

for their benefit. As such, man has managed to make paths through deserts and over mountains, through rivers and seas by means of ships, through the air by means of airways, and bridges and tunnels and other means of communication 4.

Man has only been able to do so because Allah (*s.w.t.*) has given him the necessary intelligence and has made the earth tractable to that intelligence. Therefore, man should try their best to benefit for all sustenance provided to them and be thankful to Allah, the true creator for everything 5.

Meanwhile, land has been an important factor of production since ancient times. Emphasis on the development of dead/barren lands is indicative of the Prophet Muhammad (*s.a.w.*) interest in the utilization of resources for the well-being his people. Good peasant-landlord relationships are fundamental for the economic well-being of the population dependent on the soil 6.

The Holy Prophet had given general instructions to regulate the peasant-landlord relationships, but details of the law were left to in a temporal context within the framework of *Shariah*. In addition to this, He (*s.a.w.*) placed a high value on the economic welfare of the people, with some traditions suggesting that the Holy Prophet desired to see his followers at a higher echelon on the ladder of development 7.

After establishing the state of Medina, one of the first steps, which the Holy Prophet (*s.a.w.*) took was the establishment of brotherhood among the *Ansars* of Medina and *Muhajirs* or immigrants from Mecca. This brotherhood was, in fact, a step towards the economic rehabilitation of the newly arrived immigrants, with Medina as an agrarian base was engaged in agriculture 8.

Prophet Muhammad (*s.a.w.*) invited people to develop the dead land (*al-Mawat*), and creed that the dead land belongs to the person who develops them. The Prophet also instituted many laws regarding cultivations and marketing of agricultural products 9.

Islam however does not permitted cultivation of plants, which has been prohibited such as opium and cannabis for instance, cultivation and sale of any prohibited substances to non-Muslims is forbidden in Islam 10.

In the *al-Qur'an*, while referring to His bounties and favors to mankind, Allah mentions the principles needed for the pursuit of agriculture. Allah has spread out the earth and made it suitable and fertile for cultivation and production. This is a bounty to human beings, which we ought to recall and be thankful for. *Al-Qur'Én* has encouraged agriculture in many of its verses 11.

Allah (*s.w.t.*) stresses in the *al-Qur'an*:

“It is He who sendeth down rain from the skies, with it We produce vegetation of all kinds, from some We produce green (crops), out of which We produce, close-compounded grain out of the date-palm and its sheaths (or spathes) (come) clusters of dates hanging low

and near, And (then there are) gardens of grapes, and olives, and pomegranates, each similar (in kind) yet different (in variety), when they begin to bear fruit, feast your eyes with the fruit and the ripeness thereof. Behold! in these things there are signs for people who believe”.
Surah al-‘An‘am (6):99.

“And the earth we have spread out (like a carpet), set thereon mountains firm and immovable, and produced therein all kinds of things in due balance. And We have provided therein means of subsistence, for you and for those for whose sustenance ye are not responsible”.

Surah al-Hijr (15):19-20.

“It is He who has spread out the earth for (His) creatures. Therein is fruit and date-palms, producing spathes (enclosing dates). Also corn, with (its) leaves and stalk for fodder, and sweet-smelling plants. Then which of the favors of your Lord will ye deny?”

Surah al-Rahman (55):10-13.

In all these Quranic verses there is encouragement for mankind to engage and involve in agriculture activity, for it has been made easy for him as a divine favor 12. Prophet Muhammad (*s.a.w.*) said in a *hadith* narrated by ‘Anas 13:

“When a Muslim plants a plant or cultivates a crop, no bird or human being eats from it without its being accounted as a rewardable charity for him”.

The implication of this *hadith* is that the reward for a person who plants a tree or a crop which continues to produce crop or items which can be eaten or used, even though he may sell it to someone else 14.

2. Financing Facilities Provided by Islamic Banks: For the purpose of this article, only three selected Islamic Banks offering Islamic financing in agriculture will be discussed namely Agro Bank, Maybank Islamic Berhad and Bank Kerjasama Rakyat Malaysia Berhad.

i. Agro Bank 15.

The facilities available for financing in agriculture sector, provided by Agro Bank can be classified into two categories which are commercial funds and special funds established by government to provide funds for agriculture sector (that are channeled through Agro Bank). The objective of providing these financing facilities is to give working capital for a new agriculture initiatives and expanding existing agro project 16.

Commercial Funds: Financing under these funds are basically market and profit driven, hence the terms and conditions of these facilities are based on commercial considerations. The source of fund is the normal deposits by the depositors of the Agro Bank, and therefore usually regulated by market forces. The Agro Bank is keen to finance all activities related to the agriculture sector, with

the scope of financing is expanded to production, processing and marketing of agriculture produces 17.

Special Funds: From time to time, the Malaysia government has established schemes and provided funds for financing agriculture sector. These funds can be considered as incentives to promote investments and give priority to agricultural sector. These incentives usually are taken in the form of low cost of financing, longer duration of financing period and higher margin of financing, with these schemes 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 18.

Table 1.1. Agro Bank: 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 Bin 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.

Table 1.2. Agro Bank: Agro Contract.

Features:	Description:
Objective:	•To provide revolving credit facility to finance contract works.
Eligibility:	•Malaysian citizens between 18 to 58 years old.
Financing Limit:	•Annual and renewable.
Category:	•Revolving financing.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Case by case.
Projects Eligible for Financing:	•All agriculture indentures awarded by the agricultural body.

Source: Suhaimi Bin 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.

Through these special funds, Agro Bank will continue its social responsibility to finance agriculture sector, as has been assigned by the government through Ministry of Agriculture and Agro-Based Industry in achieving the related policies under Nineth Malaysia Plan (RMK-9) 19.

Table 1.3. Agro Bank: Agro Business.

Features:	Description:
Objective:	•To provide agro entrepreneurs a continuous working capital via overdraft facility.
Eligibility:	•Malaysian citizens age between 18 to 58 years old.
Financing Limit:	•Annual and renewable.
Category:	•Revolving financing.
Shariah Concept Applied:	•Bay' al-Innah.
Collateral:	•Case by case.
Projects Eligible for Financing:	•Agriculture contract, working capital, raw materials and salary for workers.

Source: Suhaimi Bin 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.

Table 1.4. Agro Bank: Fund for Food (3F Loan)

Features:	Description:
Objective:	•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:	•Malaysia citizens residing in Malaysia. •Malaysia 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.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Fully secured.
Projects Eligible for Financing:	•Food production, processing and marketing (crops, Livestocks 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 Bin 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.

Table 1.5. Agro Bank: 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). •Not exceeding RM500,000.
Financing Limit:	•90% of project cost.
Maximum Financing:	•Up to 8 years or up to 10 th September 2018.
Financing Period:	•Bay' Bithaman Ajil.
Shariah Concept Applied:	
Collateral:	•Fully secured.
Projects Eligible for Financing:	•All upstream and downstream food production activities.

Source: Suhaimi Bin 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.

Table 1.6. Agro Bank: 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).
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Case by case.
Projects Eligible for Financing:	•All paddy planting production activities.

Source: Suhaimi Bin 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.

Table 1.7. Agro Bank: Bumiputera Industrial and Business Community Scheme (MPPB)

Features:	Description:
Objective:	<ul style="list-style-type: none"> •To encourage and develop Bumiputera Entrepreneurs in the agriculture sector. •To provide fixed capital and working capital to Bumiputera Enterprise in developing agriculture project or agro based businesses.
Eligibility:	<ul style="list-style-type: none"> •Companies with paid up capital exceeding RM100,000. •For farmer and fishermen institutions, they should have equity more than RM100,000. •Priority is given to the individual entrepreneurs who are expanding their businesses.
Financing Limit:	•RM10,000-RM5 million.
Maximum Financing:	•90% of project cost.
Financing Period:	•Not exceeding 10 years or up to 23 rd October 2014.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Fully secured.
Projects Eligible for Financing:	•Commercial agriculture sector, sectors of agriculture based manufacturing or processing and also agriculture services.

Source: Suhaimi Bin 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.

Table 1.8. Agro Bank: Oil Palm Loan Scheme (TASKS)

Features:	Description:
Objective:	•To promote replanting of non-productive oil palm.
Eligibility:	<ul style="list-style-type: none"> •Malaysia citizens residing in Malaysia. •Malaysian aged between 18 to 58 years old.
Financing Limit:	•Not exceeding RM6,000 per hectare.
Maximum Financing:	•90% of project cost.
Financing Period:	•Up to 10 years.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Fully secured.
Projects Eligible for Financing:	•Planting of oil palm up to 100 acres.

Source: Suhaimi Bin 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.

Table 1.9. Agro Bank: Commercial Agriculture Graduate Entrepreneur Scheme (SUTKS)

Features:	Description:
Objective:	•To reduce unemployment rate among graduates and to produce commercial farming graduates.
Eligibility:	•Unemployed graduates.
Financing Limit:	•RM50,000 and not exceeding RM100,000.
Maximum Financing:	•90% of project cost.
Financing Period:	•Up to 6 years.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Case by case.
Projects Eligible for Financing:	•All upstream and downstream commercial agricultural production activities (short and medium term or 1 to 5 years projects).

Source: Suhaimi Bin 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.

Table 2.0. Agro Bank: Fund for Small and Medium Scale Industries 2 (TIKS2)

Features:	Description:
Objective:	•To finance working capital to the small and medium scale entrepreneurs in the manufacturing of agricultural products, agro-based industries and support service industries.
Eligibility:	•Malaysia citizens residing in Malaysia. •Malaysian owned companies (at least with 51% ownership), registered under Companies Act 1965, the Co-operatives Act 1993, the Societies Act 1996. •Malaysia-owned company with shareholder's fund not exceeding RM2 million. •Entrepreneurs registered under the Registrar of Business.
Financing Limit:	•RM50,000-RM5 million.
Maximum Financing:	•75% of project cost.
Financing Period:	•Up to 5 years.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Fully secured.
Projects Eligible for Financing:	•For the purchase of machines, plantation equipments, plantation and building development, research and development, food processing and food packaging.

Source: Suhaimi Bin 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.

Table 2.1. Agro Bank: Small and Medium Enterprise (PKS).

Features:	Description:
Objective:	•To promote and develop small and medium enterprise.
Eligibility:	•Malaysian citizens. •Individual or group of individuals. •Sole-proprietor or partnership. •Companies owned by Malaysia citizens.
Financing Limit:	•RM10,000-RM1 million for revolving financing. •RM10,000-RM5 million for term financing.
Maximum Financing:	•90% of project cost for a new project.
Financing Period:	•100% of project cost for expansion project. •Up to 10 years.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Fully secured.
Projects Eligible for Financing:	•Financing for fixed capital and working capital, all projects related to manufacturing and production process, service projects. •Purchasing of land and building (not exceeding 30% of total financing).

Source: Suhaimi Bin 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.

Table 2.2. Agro Bank: Youth Farmer's Scheme-i

Features:	Description:
Objective:	•Assisting youth in self improvement activities related to the agriculture and agro-based industry.
Eligibility:	•Malaysia citizens. •Individual or group of individuals.
Financing Limit:	•RM15,000-RM50,000.
Maximum Financing:	•90% of project cost.
Financing Period:	•Up to 7 years.
Shariah Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•No collateral and guarantor are required.
Projects Eligible for Financing:	•All upstream and downstream agriculture and agro-based industry projects.

Source: Suhaimi Bin 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.

Table 2.3. Agro Bank: Financing Scheme for Low Intensity Tapping System (LITS).

Features:	Description:
Objective:	<ul style="list-style-type: none"> •To increase rubber tapper’s income. •To solve the shortage of rubber worker in the estate.
Eligibility:	<ul style="list-style-type: none"> •Malaysia citizens residing in Malaysia. •Malaysian aged between 18 to 58 years old.
Financing Limit:	<ul style="list-style-type: none"> •RM1,000 per hectare, whereby 70% in the form of grant and 30% in the form of financing.
Financing Period:	<ul style="list-style-type: none"> •12 months inclusive 2 months grace period.
Shariah Concept Applied:	<ul style="list-style-type: none"> •<i>Bay’ Bithaman Ajil</i>, profit rate at 3 % each year.
Collateral:	<ul style="list-style-type: none"> •Fully secured.
Projects Eligible for Financing:	<ul style="list-style-type: none"> •The wideness of the land exceeds 4 hectares and up to 40.5 hectares. •Technology LITS approved by Malaysia Board of Rubber.

Source: Suhaimi Bin 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.

ii. Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) 20: Facility offered by Bank Rakyat with regards of agriculture financing can be divided by three types namely Financing Scheme of Land-i Ardhi, Term-i and Property-i as follows:

Financing Scheme of Land-i Ardhi is offered 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 21.

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 22. The specific features and terms of this scheme are as below:

Table 2.4. Bank Rakyat: 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: Shariah Concept Applied:	<ul style="list-style-type: none"> •Developing agriculture land. •<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:	<ul style="list-style-type: none"> •Fully secured on the land of the project.
Insurance:	<ul style="list-style-type: none"> •Optional- normally Mortgage Takaful Plan.
Deposit for Security:	<ul style="list-style-type: none"> •3 months of the financing will be deducted automatically from the total of financing.
Accredited Land Reviewer:	<ul style="list-style-type: none"> •Only required for financing above than RM30,000. •Report from the external land reviewer will be validated until 6 months. •For financing below RM30,000, the bank will make own valuation.
Process and Service Fees: Documents required:	<ul style="list-style-type: none"> •Not applicable. •Agriculture Financing Form, Photocopy of I/C, salary slip and grant, Financial Statement of company or Current Account Statement.

Source: Mohd. Jozy Bin 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.

iii. Maybank Islamic Berhad (MIB) 23: For the time being, Maybank Islamic Berhad offers five types of Islamic financing facility with regards of agriculture sector, as follows:

Table 2.5. Bank Rakyat: Term-i.

Features	Description
Objective:	•To finance the working capital requirement for business expansion in various types of economic sectors.
Eligibility:	•Private Limited Companies. •Public Limited Companies. •Cooperatives.
Category:	•All types of economic sector.
Margin and Quantum of Financing:	•Financing of up to 80% of the working capital requirement.
Repayment Period:	•Maximum 10 years.
<i>Shariah</i> Concept Applied:	•Bay' Bithaman Ajil/ Bay' al-Innah.
Collateral:	•Fully secured.
Deposit for Security:	•3 months of the total financing.
Process and Service Fees:	•Not applicable.

Source: Mohd. Jozy Bin 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.

Table 2.6. Bank Rakyat: Property-i.

Features:	Description:
Objective:	•To purchase land and building.
Eligibility:	•Private Limited Companies. •Public Limited Companies. •Cooperatives.
Margin and Quantum of Financing:	•Financing of up to 80% from the purchase price or 100% on the force sale value (whichever is lower).
Repayment Period:	•Maximum 20 years.
<i>Shariah</i> Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Fully secured.
Deposit for Security:	•3 months of the total financing.
Process and Service Fees:	•Not applicable.

Source: Mohd. Jozy Bin 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.

Short Term Revolving Credit (STRC-i):STRC-i is a *shariah*-compliant short term revolving credit facility granted to corporate and middle market customers. This facility can be offered under the Islamic contract of either *Bay' al-Innah* (sale with immediate repurchase) or *Murabahah* (cost plus profit sale). The salient features and general terms for STRC-i are as below:

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 24.

Table 2.7. Maybank Islamic Berhad: Short Term Revolving Credit (STRC-i).

Features:	Description:
Concept:	•Based on the <i>Murabahah</i> concept. As such, an underlying asset is required for the sale and purchase transactions. •Or based on <i>Bay' al-Innah</i> , whereby the identified underlying asset required for the sale and purchase transactions belongs to bank.
Eligibility:	•All corporate customers. •Middle market customer.
Tenor:	•1 month, 2,3,6, 9 and 12 months.
Rate:	•Variable rate i.e. Selling Price: BLR + 4 or 10% whichever is higher. •Effective rate: To be pegged to cost funds i.e. KLIBOR + (liquidity/reserve cost) + margin.

Source: Aizatul Akma Binti 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,.

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 25.

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:

New Entrepreneurs Fund 2 (NEF2): Central Bank of Malaysia has approved the granting of NEF2 under Islamic banking. NEF2-i is offered by MIB and available at all Business Center of Maybank. The NEF2 funding is administered by Central Bank Of Malaysia and part of

the government's continuous effort to promote the growth of small and medium sized Bumiputera enterprises by ensuring that they have access to financing at reasonable cost. The salient features and terms of this facility are as follows:

Table 2.8. Maybank Islamic Berhad: 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 Binti 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.

MMTF-i is a *shariah* compliant financing facility offered for new and existing corporate and commercial customer for asset acquisitions and refinancing such as landed properties, plant and machinery, vessels, commercial vehicles and etc. This facility is based on *Musharakah Mutanaqisah* or diminishing partnership concept where both the customer and the bank jointly acquire and co-own an asset or property. Customer's monthly installments for the financing paid to the bank will increase customer's ownership of the asset or property. The ownership of the asset or property will progressively move towards the customer and the financing ends when the customer owns 100% of the asset or property. The product features of MMTF-i are as follows:

Financing for Purchasing Vacant Land: This financing facility is offered for the purchase of vacant land either to develop agro project or to build house or shop-house for residential or business purposes. This facility is based on the *shariah* concept of *Bay' Bithaman Ajil*. The features and general terms of this facility are as below:

Table 2.9. Maybank Islamic Berhad: New Entrepreneurs Fund 2.

Features:	Description:
Eligibility:	<ul style="list-style-type: none"> •Bumiputera entrepreneurs who fulfill the following criteria: Shareholder's funds of not exceeding RM10 million. Wholly-owned Bumiputera institutions incorporated under the Companies Act 1965, the Cooperative Societies Act 1993, the Societies Act 1996 or Bumiputera citizens residing in Malaysia. Bumiputera entrepreneurs registered under the Registrar of Business or any other authoritative bodies. •Bay' Bithaman Ajil.
<i>Shariah</i> Concept Applied:	
Tenure of Financing:	•Maximum of 5 years from the first drawdown date by Central Bank of Malaysia.
Purpose of Financing:	•For expansion in productive capacity and/or working capital for eligible Bumiputera entrepreneurs.
Financing Amount:	<ul style="list-style-type: none"> •No minimum amount of financing. •Maximum financing of RM5 million per customer including financing approved under the earlier NEF scheme and financing approved for any other related companies that have similar shareholders.
Profit Rate:	•Presently at 4.00%-6.00% p.a. based on credit rating exercised by the Business Unit of MIB.
Penalty/Commitment Fee:	•Not applicable.
Processing Fee:	•Not applicable.
Projects Eligible for Financing:	<ul style="list-style-type: none"> •All projects which are viable under the sector of manufacturing, agriculture, services, commerce, tourism, construction, engineering, transportation, furniture, printing, film and quarrying. •The small and medium sized Bumiputera industries participating under the vendor development programs of the Ministry of Entrepreneur Development or Ministry of Finance with at least 70% Bumiputera equity and management control.

Source: Aizatul Akma Binti 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.

***Musharakah Mutanaqisah* Term Financing-i (MMTF-i).**

For more clear picture and comparison between the banks, Table 4.26 below depicts all the financing

facilities in agriculture offered by each Islamic bank. The data in this table are derived from all the sources that have been mentioned earlier either through the interviews or other references.

Table 3.0. Maybank Islamic Berhad: *Musharakah Mutanaqisah* Term Financing-i.

Features:	Description:
Purpose:	<ul style="list-style-type: none"> •Financing purchases of asset or property such as landed properties, plant, machinery, vessels, commercial vehicles and etc. •Refinancing of the above assets and properties.
<i>Shariah</i> Concept Applied:	•Musharakah Mutanaqisah.
Eligibility:	•Eligible commercial and corporate customers, local and foreign.
Tenor:	•Up to 20 years.
Pricing:	•The pricing is competitive as per the conventional loan which could be offered under: Fixed rate, or Floating rate, or A combination of fixed rate and floating rate.

Source: Aizatul Akma Binti 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.

Table 3.1. Maybank Islamic Berhad: Financing for Purchasing Vacant Land.

Features:	Description:
Objective:	•To purchase land for agro project or build house/shop-house.
<i>Shariah</i> Concept Applied:	•Bay' Bithaman Ajil.
Collateral:	•Fully secured on the land under project.
Land Reviewer:	•Internal bank reviewer only.
Application requirements:	<ul style="list-style-type: none"> •Salary slip. •Financial statement of 3 consecutive years. •For business enterprise or commercial customer, a guarantee from Credit Guarantee Corporation (CGC) is needed.

Source: Aizatul Akma Binti 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.

From three banks discussed above, we can concluded that Agro Bank is the only bank in Malaysia that provides very comprehensive types of financing facilities for agro entrepreneurs regardless of either they are new-comers in this field, young generations, unemployed graduates, individuals or even large enterprises who intend to develop or expand their projects

to a larger capacity and successfully. This shows that the bank is indeed committed to develop and expand the agriculture sector to the highest level compared to any other Islamic financial institutions in this country.

Table 3.2. Financing Facilities Offered by Each Islamic Bank.

Bank:	Facility:
1. Agro Bank	<ol style="list-style-type: none"> 1. Agro Cash-i. 2. Agro Contract. 3. Agro Business. 4. Fund for Food (3F Loan). 5. Food Production Credit Scheme. 6. Paddy Credit Scheme. 7. Bumiputera Industrial and Business Community Scheme. 8. Oil Palm Loan Scheme. 9. Commercial Agriculture Graduate Entrepreneur Scheme. 10. Fund for Small and Medium Scale Industries 2. 11. Small and Medium Enterprise. 12. Youth Farmer's Scheme-i. 13. Financing Scheme for Low Intensity Tapping System.
2. Bank Rakyat	<ol style="list-style-type: none"> 1. Land-i Ardhi. 2. Term-i. 3. Property-i.
3. Maybank Islamic Berhad	<ol style="list-style-type: none"> 1. Short Term Revolving Credit. 2. BBA Term Financing-i. 3. New Entrepreneurs Fund 2. 4. Musharakah Mutanaqisah Term Financing-i. 5. Financing for Purchasing Vacant Land.

We can conclude also that most of the contract uses in the financing scheme is *Bay' Bithaman Ajil*. *Bay'* refers to "an opposite word for buying namely selling"²⁶. *Al-Bay'* from the *fiqh* terminology can be defined as "the exchanging of property with property based on definite way"²⁷. *Thaman* means "price or the value of certain goods in a transaction"²⁸. And, *Ajil* refers to "defer or delay"²⁹.

Therefore, *Bay' Bithaman Ajil (BBA)* can be defined in many ways. It can be defined as the sale of goods on a deferred payment basis at a price which includes a profit margin agreed by both parties³⁰. *BBA* also refers to a sale agreement between the owner of the goods and the buyer, whereby the buyer will defer the payment of the goods to a specific period of time or will pay by installment ³¹.

According to Dr. Ma'sum Billah, *BBA* refers to the delivery of a product is taken on the spot but the delivery of the payment is delayed for an agreed period, whereby payment can be made in a lump sum or in

installments, provided there is no extra charge for the delay 32.

In terms of a mode of financing, *BBA* operates when the bank initially determines the requirements of the customer in relation to the duration and manner of repayment. The bank then purchases the asset and subsequently sells the relevant asset to the customer at the agreed price, which comprises the actual cost of the asset to the bank and the bank's margin of profit that varies according to the value and type of the project 33.

Based on the explanation above, the contract of *BBA* is a form of Islamic financing with respect of selling and delivery of asset or property to the buyer at the time of contract (on the spot), whereas the payment for the price plus the profit margin will be delivered in the future time by installment 34.

The validity of *BBA* contract is obvious since it uses the sale concept as mentioned in the *fiqh mu'amalat*. Through this kind of contract, the customer will not borrowing any money from the bank, instead the bank will buy the desired asset by the customer and the bank will sell it back to the customer at mark-up sales price. The relationship between customer and bank is similar to the relationship between buyer and seller in the sale contract and not as in loan contract, whereby the connection is between borrower and lender as being practiced by the conventional bank 35.

According to Associate Profesor Dr. Noor Naemah Bt. Abdul Rahman, the contract of *BBA* and *Bay' al-Innah* is lawful since there is a current need to the society as a mode of Islamic financing in order to avoid the prohibition of *riba* in Islam as a temporary means before a better alternative of financing is found 36.

This view is also shared by Associate Professor Datin Dr. Paizah Binti Ismail 37. She regards that the contract of *BBA* and *Bay' al-Innah* is an alternative towards conventional loan system which is based on interest or *riba*. This concept should be accepted in order to avoid the element of *riba*, which is clearly against the *Shariah* law. She also added that Agro Bank uses the contract of *BBA* and *Bay' al-Innah* intensively for financing agro projects based on the public interest or general good of the society in this country on the basis of current reality (*Waqi'*). *Shariah* experts cannot be too rigid in validated a *shariah* contract in the rapid growing and expanding of financial sector nowadays 38.

Conclusion: This article has covered aspects relating to the agriculture and agribusiness from the perspective of Islam. In the being of this article, there was a discussion in detail of the concept of earning and agribusiness from the Islamic spirit. Islam honors persons who involves in and seek *halal* livelihoods in the agriculture sector, in which their efforts are regarded as acts of charity and good deeds. This article then continued its discussion with importance being placed on the facilities of Islamic

financing in the agriculture sector provided by the Islamic Banks in Malaysia. It can be concluded that there are various types of financing assistant provided to the agro entrepreneur ranging from small to large scale enterprises, and covering different kind of agriculture activities. Hopefully, the banks will continue to support agro entrepreneurs, and try to introduce different concept of *shariah* contracts in their incoming products rather than solely focus on *Bay' Bithaman Ajil* and *Bay' al-Innah*.

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 25. In Malaysia, the enactment of the Islamic Banking Act that came into effect on 7th April 1983 marked its official introduction into the banking arena. On 1st July 2002, Takaful business was launched by Maybank Takaful Berhad, which is licensed under the Takaful Act 1984. Maybank group is proud to play an important role in the development and promotion of Islamic Banking & Takaful in Malaysia and beyond. On January 1st 2008, Maybank's Islamic Banking began to operate under a new subsidiary of Maybank known as Maybank Islamic Berhad (MIB). By moving into MIB, customers will enjoy a better range of Islamic products and services. The aims of MIB are to continue to be market leader in the provision of Islamic products and services, to introduce financing facilities based on Musyarakah Mutanaqisah (MM) concept in order to improve the concept of BBA, introducing new facilities based on Ijarah Muntahiah Bittamleek (IMB), establishing International Currency Business Unit (ICBU) and actively involved in commodity Murabahah products. Yet, Maybank is the largest Islamic financial services provider in the Asia Pacific region and is set to further reinforce its leadership with the creation of its Islamic subsidiary. Maybank began offering Islamic financing in 1993 through the Islamic windows operations. To date, Maybank has 12 full fledged Islamic banking branches in addition to 376 branches and 20 private banking centers locally offering Islamic banking products and services. See Maybank Islamic Berhad. [http:// www.maybank2u.com.my/maybankislamic/corporat e_info/index.shtml](http://www.maybank2u.com.my/maybankislamic/corporate_info/index.shtml). 21st December 2008; Datuk Amirsham A. Aziz. 2007. "Maybank Launches Maybank Islamic Berhad". [http:// www.maybank2u.com.my/maybankislamic/corporat e_info/press_release/index](http://www.maybank2u.com.my/maybankislamic/corporate_info/press_release/index). 21st December 2008.
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 39. Associate Professor Dr. Noor Naemah Bt. Abdul Rahman is a lecturer at Department of Fiqh and Usul, Academy of Islamic Studies, University of Malaya, Kuala Lumpur. Her expertise is in principles of Islamic jurisprudence, *fatwa* and also in contemporary *fiqh*. She is also a member of Shariah Committee for AMBANK Berhad since 2007. This interview was conducted on 12th March 2009 at 11.00 a.m. to 11.35 a.m. at her office.
 40. Associate Professor Datin Dr. Paizah Binti Ismail is currently teaches at Department of Islamic Law, Ahmad Ibrahim Kulliyah of Laws, International Islamic University Malaysia, Gombak. Her expertise is in the field of *fiqh* and *usul* as well as in Islamic transactions. She is also a Shariah Advisor for Agro Bank since 2005.