

ISLAMIC MICROFINANCE FOR RURAL FARMERS: A PROPOSED CONTRACTUAL FRAMEWORK FOR AMANAH IKHTIAR MALAYSIA

(Kewangan Mikro Islam dalam Kalangan Petani Luar Bandar: Rangka Kerja
Cadangan kepada Amanah Ikhtiar Malaysia)

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ABSTRACT

Rural poverty is considered as a major challenge for the current economies. In Malaysia, the rural farmers faces problems in the cultivation process due to unavailability of financial support. The support of Department of Agriculture is only limited to first stage of agriculture project, leaving the farmers in problems for the second stage. Hence in this study we have provided a solution to the issues confronted by the famers through the involvement of Amanah Ikhtiar Malaysia. The aim is to involve Amanah Ikhtiar Malaysia to provide support to the rural famers based on the profit and loss sharing scheme unlike the current mode of financing. Before proposing a contractual framework, a qualitative and narrative form of literature review method is used to explore the issues. It is suggested that *al-Muzāra 'ah* contract is more suitable to provide assistance to the rural famers with the supervision from Department of Agriculture. This study would help not only Amanah Ikhtiar Malaysia but also other microfinance institutions in developing a partnership based contract that would be specifically designed for the poor rural farmers.

Keywords: Poverty; rural farmers; Amanah Ikhtiar Malaysia; *al-Muzāra 'ah*; *Waqf*; *Zakat*

ABSTRAK

Kemiskinan luar bandar merupakan salah satu cabaran utama dalam ekonomi masa kini. Dalam konteks Malaysia, petani luar bandar sering menghadapi masalah dalam proses menuai hasil disebabkan masalah kekurangan dana. Bantuan dana yang diberikan oleh Jabatan Pertanian hanya diberi dalam proses awal projek pertanian dan petani sering menghadapi masalah dalam proses seterusnya. Oleh itu, kajian ini bertujuan untuk menyediakan cadangan penyelesaian daripada isu kewangan ini khususnya melibatkan Amanah Ikhtiar Malaysia (AIM). Cadangan Penglibatan AIM dalam memberi bantuan kewangan kepada para petani adalah berdasarkan prinsip perkongsian untung dan rugi. Sebelum mencadangkan rangka kerja kontrak, kajian literatur berbentuk kualitatif dan naratif digunakan untuk meneroka isu-isu. Kertas ini mencadangkan kontrak al-Muzāra'ah sebagai kontrak utama dalam rangka kerja ini dengan penyeliaan dan kawalan dari Jabatan Pertanian. Kajian ini bukan hanya dapat memberi cadangan kepada AIM, namun kepada institusi kewangan mikro dalam membentuk kerjasama dengan petani luar bandar sekaligus menangani masalah kemiskinan.

Kata kunci: *Kemiskinan; petani luar bandar; Amanah Ikhtiar Malaysia; al-Muzara'ah; waqf; zakat*

INTRODUCTION

Two main types of poor can be found in the economy i.e. extremely poor and economically active poor. Extremely poor are those people who are unemployed or extremely underemployed, as well as those whose work is compensated so poorly that even they are not able to meet their caloric intake required per day. Whereas, economically active poor are those people who have some sort of employment and are not severely food deficit. These types of poor mostly reside in rural areas of developing countries (Robinson 2001).

The earnings of the people in developing countries are mostly linked with agriculture. These people mostly reside in rural areas with less education and health facilities. It has been observed that the poverty ratio is also higher in the rural areas with 80% of the poor are living there and about 70% of the workforce depends their livelihood on the income from agriculture, fisheries, forestry and livestock sectors (Polman 2002).

The issue in the rural areas exists with the poor farmers in shape of exploitation by the landlords who take advantage of their poverty and take more work from them with less wage paid. However in Malaysia, the rural farmers face different kind

of challenges. Many small farmers use the outputs of their crops for consumption use rather than selling in the market as they have no other source of income to feed the family. On the other hand, Department of Agriculture provides assistance in cultivation whereas in the second stage of harvesting, no financial support is provided that leaves many prepared crops abandoned (Shafiai & Rizki Moi 2015).

In the countries such as Bangladesh and Indonesia, financial support is provided to the farmers in form of Microfinancing. The Rural Development Scheme introduced by Islamic Bank Bangladesh provides microfinancing facility to the rural farmers to support them in case of any natural disaster occurs. On the other hand *Baitul Mal Wa Tamwil* (BMT) in Indonesia provides financial support to the farmers based on microcredit scheme as well as through agriculture profit and loss sharing contracts (Haneef & Alpay 2015).

In Malaysia, Amanah Ikhtiar Malaysia has a strong potential to provide such schemes to the rural farmers in order to increase the agriculture output as well as to improve the living standards of those poor rural farmers. Hence, in this study based on the previous literature, we have tried to identify the problems that are faced by the Malaysian rural farmers. In that scenario, the potential role of Amanah Ikhtiar Malaysia is discussed and a contractual framework based on *al-Muzāra'ah* contract is provided so that the burden of cultivation on the poor farmers can be minimised.

LITERATURE REVIEW

Issues Confronted by the Rural Farmers in Malaysia

In Malaysia the nature of the issues is quite different as compare to the South Asian region. Most of the agricultural projects are often in the form of small holdings and are owned or rented from landlords by small families and households predominantly in the rural areas (Shafiai & Rizki Moi 2015). The large portion of land is mostly owned by the corporate sectors who have free access to the capital. These small land holders are left to themselves as they are in no position to acquire capital form the financial institutions due to lack to collaterals.

In order to overcome this situation, the government of Malaysia setup an Agriculture bank in 1970 which is currently known as Agro Bank. This bank was setup to provide loans to the farmers so that they can continue to cultivate their lands without any hustle. According to Borhan and Ab Aziz, 2009 there are only three Islamic Banks windows that provide agriculture financing using Islamic principles namely Agro Bank, Bank Rakyat and Maybank Islamic. However, Agro Bank is a leading Bank in this sector with more than 30 years of experience.

Agro Bank provides loan to the farmers based on Islamic contracts such as *Bay al-Inah*, *al-Bay Bithaman Ajil* and *al-Rahn*. However, the nature of this sort of financing is based on debt-financing. These contracts according to Shafiai and Rizki Moi (2015) are suitable for short-term financing while the harvesting in the agriculture sector is mostly long-term activity. Hence, they mentioned the role of partnership based financing for the agriculture sector which is suitable for the long term economic activities.

Profit and loss sharing schemes are never preferred by the financing institutions because of the nature of the agriculture sector. The risk of loss is more in agriculture sector due to natural disasters as compare to manufacturing and services sector. In order to overcome the financial problem, Department of Agriculture (DOA) provides one-off subsidy to the farmers on modern inputs such as chemical fertilizers, pesticides and seeds. The aid is also provided in form of capital investment in farm machinery, irrigation system, and structural systems for land (Shafiai & Rizki Moi 2015).

The findings of Mohd Shafiai and Rizki Moi (2015) study showed that Department of Agriculture only provide assistance for the first cycle of the agricultural project i.e. cultivation but for the second cycle i.e. harvesting, DOA only monitors the activity. Consequently, the farmers are not independent enough in the second cycle and the as a result the developed agricultural land become abandoned.

In order to overcome such issues, financing based on the profit and loss become vital. However due to the investments involved in the financial institutions, is risky to be used for agricultural financing based on the profit and loss sharing. In this case the role of microfinancing become vital as the past records of microfinance shows a positive impact on improving the living standards of the rural poor. Though Islamic microfinancing has the potential in providing financial assistance from the other sources of funds such as *zakat* and *waqf* to help the poor farmers in cultivating and harvesting the lands.

The Contributions of Microfinance Institutions in Assisting Poor Farmers

Since 1980s microfinance has become a vital part of economic development, alleviating poverty and economic regeneration strategies around the globe. In early 21st century, millions of people are availing the services from formal and semi-formal microfinance institutions (MFIs). It has emerged as a global industry which involves governments, banks, aid agencies and NGOs. Due to its emergence and expansion of branches, hundreds of thousands people got the employment (Arun & Hulme 2009).

Historically, microfinance was started in Latin America and South Asia as the poverty ratio in these regions is considered high. But it gained popularity from Bangladesh in 1976, following the wide-spread famine in 1974 (Yunus 2003). Supporters of this program argued that the microfinance scheme helped in poverty alleviation, improvement in schooling, and generated or expanded millions of small businesses. After the success of microfinance in Bangladesh, this idea spread in the other regions such as Africa, Latin America, Asia and Eastern Europe as well as in the developed *economies* like Norway, USA and England (Abdul Rahman 2007).

The idea of microfinancing has opened the ways for poverty alleviation because such kind of financing schemes are mostly uncollateralized loans that are provided to the poor as opposed the bank loan where the borrower must pledge an asset against the loan (Morduch 2009). The main feature of microfinance is the disbursement of small size loans to the micro entrepreneurs and the poor. The terms and conditions of such loans are more flexible as compare to the bank loan. The loans are not only provided to general poor but also to the rural farmers who need financing in cultivating their lands. Rural Development Scheme in Bangladesh and *Baitul Mal Wa Tamwil* (BMT) in Indonesia are good examples of microfinancing that provides support to the rural farmers.

However, due to the unpredictable nature of agriculture, it is not necessary that the farmers will achieve the desire outcome as natural disasters may destroy the crops. In such case, it would be almost impossible for the farmer to return the borrowed amount. Thus, instead providing microcredit to the farmer, there is a need of profit and loss sharing mechanism in which none of the party should bear all the loss but to share it. However, risk-sharing might not be a good option for Microfinance Institutions as they are responsible to pay back a return to the donors of the funds.

On the hand, introduction of Islamic Finance in the Muslim world has influenced the people to demand for the products that are compliant with the Syariah principles. In the recent years the Microfinance Institutions have stepped to provide services for those Muslims who want products consistent with Islamic financial principles. *Baitul Mal Wa Tamwil* (BMT) in Indonesia is one of the prime example of microfinancing in ASEAN region with more than 3900 branches and approximately 3.5 million clients. The financing schemes are based on the shariah principles and the loans and subsidies are provided to the poor on the basis of different Islamic contracts. However the focus of Malaysian and Bangladesh microfinance institutes is on *Murabaha* financing but BMT Indonesia provides a wide range of financial products such as *Musharakah*, *Mudarabah*, *Qard Hasan*, *Wakalah* and *Hawalah*. Other products include those based on *Muzara'ah*, *Istisna'*, *Muajjal* (*Bai' al-Salam*) and *Ijarah* for agriculture sector (Haneef & Alpay 2015). Similarly, in agriculture

sector the initiatives that has been provided by the International Fund for Agriculture Development (IFAD) in the form of Islamic microfinancing has shown a positive sign in Republic of Sudan, Syria and Bosnia and Herzegovina (IFAD 2014). It has been seen that Islamic microfinance mechanism is not only expanding in Muslim countries but also spreading over in the other regions.

In Malaysia, the focus of the microfinance institutions is more on *Murabaha* product. Amanah Ikhtiar Malaysia (AIM), a leading microfinance institution is the same replica of Grameen Bank Bangladesh which charges extra profit on the borrowed loan. However, the experience and potential of AIM can bring productive results for the farmers if the contract is based on *al-Muzāra'ah*. Nevertheless, for such kind of partnership, the risk of financial loss would be high and the investments involved in the AIM would not be feasible to be used for *al-Muzāra'ah* contract. Hence in such case the capital must be channelled from *zakat* and *awqaf* so that the problem of providing back the return with profits on the invested amount is minimized. On the other hand, the financial assistance that is provided to the poor farmers by the government and NGOs can also be channelled through AIM and then be used for *al-Muzāra'ah* contract between the farmer and AIM.

The contract of *al-Muzāra'ah* that is discussed by different Islamic scholars in past can be used as an agriculture contract between AIM and the farmer. This contract would provide risk sharing basis for both the parties. In conventional economics this contract is called as sharecropping which is a most widely used contract in the agricultural countries. In Islamic *fiqh*, three contracts related to agriculture are widely discussed namely, *al-Muzāra'ah*, *al-Musāqāt* and *Ijarah* with a lot of debate on the acceptability of *al-Muzāra'ah* amongst scholars from different schools of *fiqh*. However, *al-Muzāra'ah* and *al-Musāqāt* are more suitable for the poor farmers as compare to *ijarah*. Though there is a need of a just contract that benefits both the parties involved in the agriculture activity based on *al-Muzāra'ah* and *al-Musāqāt*. In the next section, a detail of the arguments on the validity of *al-Muzāra'ah* and *al-Musāqāt* amongst different school of *fiqh* has been discussed and rules are proposed to be stipulated in the contract to make it more just.

Profit and Loss Based Contracts in *Fiqh* Pertaining to Agriculture

Al-Muzāra'ah (derived from the word *zar'* which means sowing or cultivation though not necessarily with grain) is a sharecropping contract between two parties i.e. the landowner and the tenant whereby the landowner provide the land and the tenant or farmer cultivates the land against the specified ratio of the output share (Donaldson 2000). However, *al-Musāqāt* is the same sort of partnership contract as *al-Muzāra'ah*

though the only difference is the source of output in *al-Muzāra'ah* is crops while in *al-Musāqāt* fruit trees.

The theory of *al-Muzāra'ah* has prompted more criticism amongst the legal schools as compare to *al-Musāqāt*. However, there is neither a proof in the Quran which the primary source of law for all the Muslims, nor the Sunnah, the secondary source of law, has given a clear idea about whether or not sharecropping is permissible for the Muslims. There is only one Hadith on which the *al-Muzāra'ah* and *al-Musāqāt* are based. According to that Hadith, the Prophet Muhammad SAW said to the Jews on the day of conquest of Khaybar that “I keep you on the land on which the God has kept you, on the condition that the fruit will be equally shared between you and us” (Sunan Abu Dawood, Book 23, hadith 3401).

Imam Abu Ḥanīfah acknowledged the contract of *al-Ijara* but invalidate the contract of *al-Muzāra'ah* and *al-Musāqāt*. According to him, the land cannot be the basis of the entitlement of the profit and it is not liable for loss too, whereas partnership is founded on the notion of profit and loss sharing. Imam Mālik and Imam Shafīe validate the contract of *al-Musāqāt* while they rejected the *al-Muzāra'ah* contract. According to their argument this contract involves uncertainty regarding the sale of commodity at yet unknown future values.

A major element of *gharar* (uncertainty) can be found in *al-Muzāra'ah* contract because such contract is frequently regarded as *ijārah* contract and ultimately the contract of *al-Muzāra'ah* contract will be consider as either *fāsīd* (defective) or *bātil* (invalid) due to the strict interpretation of the rules for *ijārah* contract. According to *ijārah* contract, the date of payment cannot be specified since the time and date of the harvest cannot be exactly known. Secondly, the exact value of the rent cannot be determined as the output (harvested crop) is not available at the time of contract is made (Donaldson 1989).

Imam Abu Yusuf and Muhammad al-Shaybani were the followers of Imam Abu Ḥanīfah. But their views regarding *al-Muzāra'ah* and *al-Musāqāt* were opposed to Imam Abu Ḥanīfah. Based on their view, these contracts are considered to be the partnership between property and work, which is permissible under analogy of *Mudaraba*. According to them, the seed contributed by the landowner can be considered as capital whereas the land is to be considered as real estate because of which the profit will be generated with the help of labour input (Nyazee 2002). The view of these two has been accepted by the later Hanafite jurists and declared *al-Muzāra'ah* as a valid contract.

The contract of *al-Muzāra'ah* and *al-Musāqāt* are validated by the scholars as a legal contract of financing operations. There are certain rules that needs to be stipulated in the contract deed in order to avoid any confusion or dispute between the parties. The rules regarding input sharing, supervision and output sharing must be defined before the commencement of the *al-Muzāra'ah* agriculture contract.

The input sharing in *al-Muzāra'ah* can be in many forms such as the land and other physical factors of production will be provided by one party whereas, the labour will be provided by the other. Alternatively, the land will be provided by one party while the other factors of production and labour will be provided by the second party. According to the third alternative for input sharing the land is provided by one party whereas the other factors may be provided by all the other parties in the contract (Kāsānī 1968). He further stressed that the primary responsibilities such as sowing, cultivating falls upon the tenant while the other works such as harvesting and transportation must be the joint liability of both the parties. In case, if the land does not produce the output, then neither party is entitled for the profits. The landlord cannot claim the rent and the labour is not entitled for the wages for his work.

Furthermore, the responsibility of farmer regarding the crops is like a trustee, he is not responsible for the damage or loss to the crops except in case where excessive authority provided to farmer, default or violation of *al-Muzāra'ah* contract conditions (Shafiai 2011). It is an obvious condition for *al-Muzāra'ah* that the output should be share in percentage e.g. one third, one fourth of the output etc. None of the party can be paid with the money instead of output share, otherwise the contract will be considered as void.

Currently *al-Muzāra'ah* contract for agriculture is practiced in Yemen on which as detailed study is done by Donaldson (2000). On the other hand, same practice is carried out in different countries in ASEAN region including Malaysia. In Malaysia, the sharecropping contract is practice in two form namely *bagi-dua* and *bagi-tiga*. In the former form of sharecropping the output is divided in 50:50 ratio whereas in later form one-third of the output goes to landlord (Haughton 1983; Shafiai & Rizki Moi 2015). However, this contract is carried out only between the rural farmers and their local landlords. It is interesting to involve an Islamic microfinance institution such as AIM so that the contract and the output is decided more transparently without discriminating the farmer.

METHODOLOGY

In order to identify the issues, qualitative but narrative form of literature review is selected. Under narrative method, there are five types of literature reviews

(Baumeister & Leary 1997). One of those types is the literature review that focus on problem identification. According to Baumeister & Leary (1997), the purpose of this type of literature review to identify problems, and weaknesses in the particular area of research. Hence, the aforementioned method of literature review has helped us in identifying the problems faced by the farmers and the acceptance of Islamic contract of agriculture in *fiqh*. In order to overcome the issue, a conceptual framework is provided, which is explained in several steps in next section.

RESULTS AND DISCUSSION

The Potential of Amanah Ikhtiar Malaysia in Providing Assistance to the Rural Farmers through *al-Muzāra'ah* Contract

In Malaysia, the government took an initiative to overcome poverty by providing assistance to development organisations. Amanah Ikhtiar Malaysia (AIM) is one of those organisations which is supported by the government. AIM has coverage over 6700 villages with over 123 branches and 99% recovery rate (Haneef & Alpay 2015). The focus of AIM is more on the providing small scale financial services and training to the poor and hardcore households in Malaysia (al-Mamun & Adaikalam 2011). AIM was established as an applied research institute in 1986 and was then institutionalised as a registered private trust in 1987. The hardcore poor are selected on the basis of Poverty Line Income (PLI) which is set by the government. Those households whose monthly income is below the set PLI are considered as hardcore poor. AIM provides collateral free financial assistance with human capital development programmes. However in 2008, AIM launched another programme namely Urban Microfinance Programme to support the lower income group with household income of less than RM 2000 which shows the commitment of AIM in improving the living standards of not only the hardcore poor but also the lower income poor households.

Although the support provided by AIM is outstanding but the assistance to the farmers in the agriculture sector is still vague. Other countries such as Bangladesh is providing immense support to its farmers through Rural Development Scheme initiated by Islamic Bank Bangladesh. BMT in Indonesia is providing financial support not only the general poor but also to the poor rural farmers by using *al-Muzāra'ah* contract (Haneef & Alpay 2015). The strong coverage in rural areas and recovery rate of AIM depicts its potential to penetrate the agriculture sector by providing assistance to the poor rural farmers in cultivating and harvesting the crops. However due to the risky nature of the agriculture sector itself pose a challenge to AIM in acquiring capital from the financiers and mitigating the risk. To overcome this challenge we have proposed four financing resources that can be utilised for the purpose of agriculture partnership contract namely *al-Muzāra'ah*.

Government Financing

The government role is most important as the focus of the current 11th Malaysian Plan is on increasing the manufacturing and agricultural exports. Hence, the financing from the government will focus on these two sectors. If the government channel the funds through AIM to finance agriculture sector, there is strong possibility to increase the agriculture output while battering the life of the rural farmers. AIM is already succeeded in channelling the government funds to alleviate poverty and thus by channelling the funds to agriculture sector may reflect the same results in the future.

NGOs Financing

The second source of financing can be the NGOs that provides financial supports to the farmers to improve their living standards. This sector has contributed significantly in alleviating poverty, deprivation and discrimination through media awareness campaigns and training (Karuppanan & Raya 2011). NGOs can play the role of microcredit provider as what has been observed in India where farmers are financed by NGOs through microcredit facility (Mall 2013). However in Malaysia, NGOs can collaborate with AIM to channel its funds to the rural farmers to help them in cultivating the land due to the outreach of AIM to the critical rural areas unlike the NGOs.

***Waqf* as a Source of Fund**

Waqf is an Arabic word which means to hold or to prevent. In legal terms *waqf* means to protect a thing from becoming the property of a third person (Mohd Puad et al. 2014; Sabran 2002). *Waqf* can be in the form of moveable assets (land, building etc.) or immoveable assets (shares, cash etc.) Cash *waqf* completed variety of jobs in the times of Ottoman caliphate and contributed efficiently to the economy of that time. The government of that time was quite efficient in transferring the savings of those who were well off to those who were in need i.e. small entrepreneurs or general public and also financing the religious, social and educational services (Cizakca 1992). Therefore, another potential donor for the microfinance institute can be *waqf* institutions. *Waqf* institution can invest the cash that is obtained from the beneficiaries who endowed it for the benefit of others. Moreover, *waqf* institutes can also provide the agricultural lands for *al-Muzāra'ah* contract that has been endowed by the founder of the *waqf*.

***Zakat* as a Source of Fund**

Zakat collection and distribution comes under State Islamic Religious Council in Malaysia. Each of the state has its own Islamic Religious council. *Zakat* amount can be used for the purpose of providing financial assistance unless the crops are not harvested. It is studied that the poor farmers mostly consume the output of their land rather than selling in the market because of unavailability of income to be used for food (Shafiai & Rizki Moi 2015). Hence, AIM may provide them *zakat* amount as financial assistance unless the crops are not harvested.

The Role of Department of Agriculture as Facilitator

It is eminent that Islamic MFIs are immature in the field of agriculture where it has to be involved directly. In such case, there is a chance of default because the required output from the agriculture field might to be achieved due to lack of expertise of Islamic MFI (Abdul Rahman 2007). In order to overcome such issue the collaboration of Department of Agriculture (DOA) with AIM can play a vital role (Shafiai & Abidullah 2014). AIM can be assist by the DOA in terms of defining pricing policies, contract formulation, field selection etc. While it will also assist farmers in field selection, crops selection, inputs selection, farmers training regarding technological advances in the field of agriculture etc (ibid). The assistance of DOA can make this contract viable and effective. It is worth noting that DOA is government department hence it will play the role of facilitator and would not have any share in the output.

The Contractual Framework

It can be seen from Figure 1, that the donor or financier for Islamic MFIs are government, NGOs, *zakat* and *waqf* institutions. Each party would provide financing to AIM based on *Mudaraba* principle except the government and *zakat* institution. In this case the financiers would play the role or *rab ul mal* or capital provider whereas AIM would be *mudarib* or entrepreneur. Under *Mudaraba* contract the loss would be borne by the *rab ul mal* providing that, the loss is not incurred due to the negligence of *mudarib* (Usmani 2002). As agriculture activity is risky due to the fact that natural disaster may destroy the crops hence, it would be the *rab ul mal* who will borne the losses. It is also known that the financier's sole purpose is to alleviate poverty and profit making is their second priority. In case of loss, it would not be difficult for them to accept the losses. On the other hand, for the purpose of agriculture activity, the land would be provided by *waqf* institution or farmer's own land or leased land.

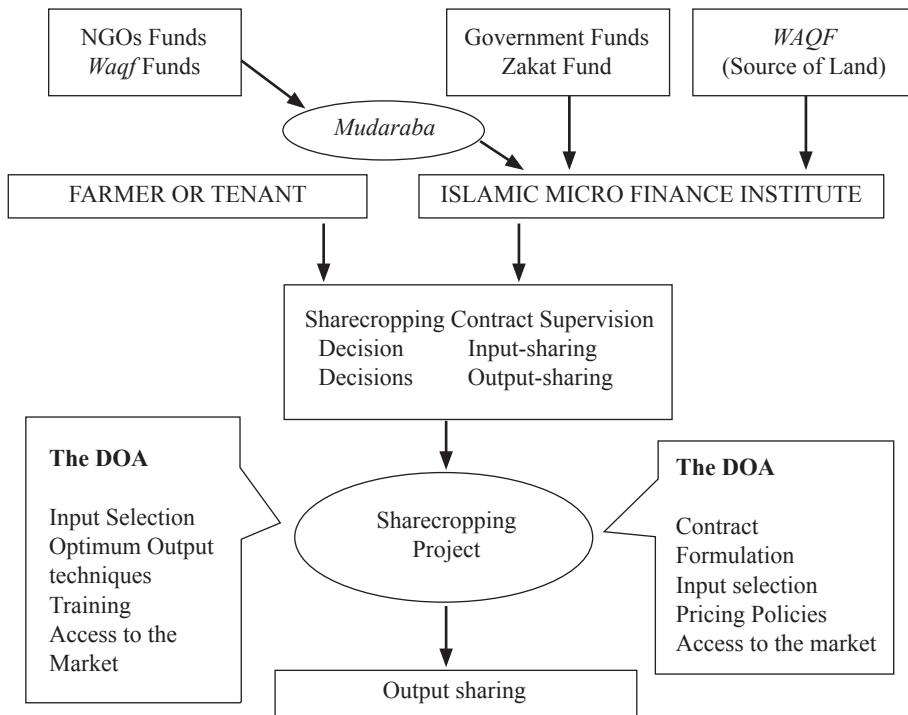


FIGURE 1: The model regarding the application of ‘IMFIs’ in sharecropping contract to alleviate poverty amongst rural farmers

In the second phase farmer would enter in the contract of *al-Muzāra‘ah* with the AIM. In the meanwhile the terms and conditions in the contract would be stipulated by Department of Agriculture (DOA). All the decision regarding supervision, input sharing and output sharing in the contract would be designed by DOA.

After entering successfully into the contract, the work on the land would be started. Once the work is started, the department of agriculture would play the role of supervisor and facilitator from the initiation of the contract till the output is shared. It would help the farmer in providing assistance regarding input selection and techniques to get maximum outputs, as well as providing training. On the other hand it would also help AIM in certain ways, such as contract formulation, selection of the right inputs, providing with the pricing policies etc. As the output is achieved, it would be divided between the two according to the ratio decided in the contract. The contract would be terminated after the output is shared. Department of agriculture can assist both the parties in reaching the selling market in order to get a good price for their output.

CONCLUSION

It is evident that the government in past had tried to alleviate poverty by financing the poor in agriculture sector. The development banks and other donors from the credit market were elected to channel the funds to the rural farmers. In Malaysia, Department of Agriculture was setup to provide financial support to the rural farmers. However, the financial assistance of this department is only limited to the first cycle of cultivation. In order to overcome this problem, a solution is provided by involving Amanah Ikhtiar Malaysia.

With the help of *al-Muzāra'ah* contract an effort has been made to provide a balanced contract that favours both the parts involved in the contract. There are few problems in the conventional sharecropping contract such as problem of supervision, input and output sharing. It has been tried in the study to overcome these issues and bring up a just contract.

Moreover, with the excess availability of tenant and fewer landlords, it is always hard for the tenant to be the part of sharecropping contract. In order to overcome such issue, we have come up with a model by means of which we analysed the role of Islamic AIM as landlord who will provide land and capital to the farmer whereas the department of agriculture will assist both the parties in agricultural activity. The land can be provided by waqf institutes while the capital would be provided by Zakat and Waqf institutions, Government and NGOs which will be then tapped to the farmers by the Islamic MFIs through *al-Muzāra'ah* contract. This contract would provide the essence of risk and profit sharing for both the parties in the form of agriculture output. In this way the burden of bearing loss by a single party would be avoided.

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