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Islamic Agricultural Finance and Rural Development in a Glocalizing Society: Envisioning Malaysian Experiences and Achievements

Dr. Muhamad Hakimi Bin Mohd Shafiai

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Contents

Part B

Foreword

Islamic Economics was once a frontier science in the middle of the twentieth century. At the beginning, there were more aspirations and theoretical discussions than empirical and practical considerations. Then, in 1975, Dubai Islamic Bank, the first commercial Islamic bank, was launched. This marked the beginning of Islamic economics, as evidenced by the rich empirical data mirroring conventional economics studies, particularly because many Islamic banks were established in various parts of the world in the following two decades.

In earlier periods, "*La Ribawi* banking," or "Interest-free finance," was often met with skepticism among academics as a religiously oriented ideal or an economically incoherent concept. However, the warm reception these banks received from Muslim customers, many of whom had previously avoided conventional Western-style banks, encouraged the subsequent success of Islamic finance. Today, no one doubts the viability of the concept and practice of Islamic finance. It is firmly established in many Muslim and non-Muslim societies, with a substantial business presence.

In the last decades of the twentieth century, a heavy financialization of Islamic economics brought different orientations among the specialists who argued for the revitalization of traditional Islamic welfare systems, such as zakat, sadaqah, and waqf. In the first decades of the twenty-first century, new scholarship emphasizing the real economy in Muslim societies, particularly Halal Industries, began to gain momentum.

Dr Muhammad Hakimi Mohd Shafiai, the author of this book, belongs to this new generation of scholars of Islamic economics in the twenty-first century. If we count from the "founding fathers" of Islamic economics, the author may be situated in the sixth or seventh generation of scholars of Islamic economics.

Islamic economics combines Shariah sciences and conventional economic sciences. Dr. Hakimi began his studies in Arabic and Shariah-related fields at Malaya University, then advanced to Islamic economics at Universiti Kebangsaan Malaysia (Malaysia National University), before moving to Japan to earn a doctorate in Area Studies, with a specialization in Islamic Finance for Agricultural Development, at Kyoto University.

Japan, as an Asian country, was the first to achieve modernization outside the West. It provided a role model for the industrialization of other Asian countries. Certain scholars have argued that Japan succeeded in combining modern capitalism and Asian industrial and business management. In the same vein, Islamic economics can be understood as an Islamic approach to building a modern economy, and Malaysia serves as a prime example of this path of Asian development. For this reason, we see Dr. Hakimi at the intersection of Muslim society and the Asian path of development.

This book presents his research achievements over the last decade, during which he has been teaching and supervising undergraduate and graduate students at the Faculty of Economics and Management, Universiti Kebangsaan Malaysia. He also served, with the university's endorsement, at the Office of Tun Abdullah Badawi, the fifth prime minister of Malaysia (2003–2009), who left a significant mark by promoting Malaysia's Islamic economy and Halal industries during his tenure.

Dr. Hakimi, as a younger-generation leader, has also been extremely active in building global networks of Islamic economics specialists. His contributions include setting up the annual International Conference in Islamic and Halal Economic Studies (ICIHES) in 2023 and serving on the secretariat of the International Consortium of Islamic and Halal Economic Studies (whose acronym, ICIHES, is the same as that of the annual conference) since 2024.

I sincerely hope that our readers will enjoy this volume and engage with the many interesting arguments the author presents.

January 2026

Yasushi Kosugi
Director and Professor, Asia-Japan Research Institute, Ritsumeikan University
Professor Emeritus, Kyoto University

Preface

Islamic Agricultural Finance and Rural Developement in a Glocalizing Society: Envisioning Malaysian Experiences and Achievements emerges from a long-standing personal and academic interest in understanding how Islamic finance can meaningfully contribute to real socio-economic change, particularly within rural communities. In an increasingly interconnected world where global and local forces intersect, Malaysia provides a unique and instructive context in which Islamic financial principles are not only theorized but actively applied to development challenges.

This book is motivated by the belief that Islamic finance should be viewed not merely as an alternative financial system but as a value-driven approach capable of fostering inclusive, ethical, and sustainable development. Rural communities often face persistent structural limitations and financial exclusion, and it is within these spaces that Islamic finance has the potential to make a tangible difference. Through Malaysian experiences, this book highlights how Islamic financial institutions, policies, and instruments have supported rural livelihoods, reduced socio-economic disparities, and strengthened community resilience.

The chapters are arranged to guide readers gently from conceptual foundations to practical realities. Early discussions introduce Islamic finance and the idea of glocalization, followed by empirical examinations of Malaysian policies, initiatives, and achievements in rural development. Throughout the book, effort has been made to connect theory with lived experience, so that academic discussions remain closely linked to real-world applications.

This work is written for students, researchers, policymakers, and practitioners who share an interest in Islamic economics, development studies, and Southeast Asian experiences. It is my hope that the reflections and findings presented here will encourage further dialogue, inspire new research, and offer useful insights for societies seeking to balance global economic engagement with local development needs.

I am deeply aware that this book is shaped by the ideas, guidance, and generosity of many individuals. While every effort has been made to present a careful and thoughtful analysis, any limitations or shortcomings remain entirely my own.

Acknowledgements

This book would not have been possible without the support and guidance of many people to whom I am deeply indebted. I would like to express my heartfelt appreciation to **Prof. Kosugi Yasushi**, **Prof. Anthony Brewer**, and **Dr. Ammar Khashan** of **Ritsumeikan University**, as well as **Prof. Nagaoka Shinsuke** of **Kyoto University**. Their mentorship, encouragement, and willingness to share their knowledge have profoundly shaped my academic thinking and personal growth. I am also sincerely grateful to **Prof. Abdul Ghafar Ismail** and **Dr. Izzat Mohamed** of **Universiti Kebangsaan Malaysia (UKM)** for their continuous support, trust, and invaluable advice throughout the research and writing process.

My deepest gratitude is reserved for my parents, **Haji Mohd Shafiai Salleh** and **Hajjah Hazizah Hamzah**, whose prayers, sacrifices, and unwavering belief in me have been a constant source of strength. I am equally thankful to my parents-in-law, **Haji Zainal Abidin Naning** and **Hajjah Pauziah Othman**, for their kindness, understanding, and continuous encouragement.

Above all, I owe more than words can express to my wife, **Syahida Zainal Abidin**, for her patience, compassion, and steadfast support through every stage of this journey. I am also profoundly grateful to my children—**Hana Syamimi**, **Hana Syafiyah**, and **Muhammad Harith**—whose love, smiles, and presence have given true meaning to this work and sustained me through its completion.

May Allah reward all of them abundantly, grant them continued health and peace, and bless them with lasting *barakah*.

Part A
Chapter 1: The Intellectual Foundations of Islamic Economics and Malaysia's Development Track

1.1 Introduction

The late nineteenth and twentieth centuries witnessed a profound intellectual and political awakening across the Muslim world, a collective endeavour to reimagine the role of Islam in the face of Western hegemony and the challenges of modernity. From the ashes of once-glorious empires and the rigid confines of colonial territories emerged a concerted revivalist project, seeking not merely to reclaim a lost heritage but to rearticulate Islam as a comprehensive and dynamic system capable of guiding all facets of human life in the contemporary era. It is within the crucible of this broader Islamic renaissance that the discipline of Islamic economics was conceived and nurtured. This field emerged as a direct intellectual and institutional response to the dual challenges of Western economic dominance, embodied by capitalism and communism, and the internal yearning for an authentic developmental model grounded in the eternal principles of the Qur'an and the Sunnah. The foundational thinkers of this movement, from the anti-imperialist polemics of Sayyid Jamal al-Din al-Afghani to the systematic treatises of Abu al-A'la al-Mawdudi, posited that economic life could not be divorced from the moral and spiritual necessities of the faith. They argued for a renewed *ijtihad* (independent legal reasoning) to confront modern economic realities, laying the groundwork for an economic perspective that would champion social justice, equity, and human welfare as its supreme objectives.

The philosophical underpinnings of Islamic economics are therefore intrinsically linked to a critique of the perceived moral failings of conventional economic systems. Where capitalism is seen to prioritise individual profit and capital accumulation often at the expense of social equity, and socialism is seen to suppress economic freedom under the weight of state control, Islamic economics proposes a middle path, a balanced synthesis that harmonizes the material with the spiritual. At its core, it is an endeavour to construct what is often termed a "moral economy," an economic system where the pursuit of material prosperity is consciously embedded within an ethical framework derived from divine revelation. This framework mandates specific injunctions, most notably the prohibition of *riba* (interest), the institutionalisation of *Zakat* (obligatory alms), and the encouragement of risk-sharing and asset-backed financing. These are not merely technical rules, but the pillars of a system designed to ensure the equitable distribution of wealth, curb exploitative practices, and foster a sense of social solidarity. Prominent economists in the field, such as M. Umer Chapra, Monzer Kahf, and Syed Nawab Haider Naqvi, have dedicated their scholarship to systematising these principles, arguing that an Islamic economic system is uniquely positioned to achieve the *maqasid al-Shariah* (the higher objectives of Islamic law), which include the protection of faith, life, intellect, progeny, and wealth.

The most tangible and globally recognised manifestation of this theoretical project is the rapid ascent of Islamic banking and finance (IBF). From a niche theoretical concept in the mid-twentieth century, IBF has grown rapidly into a multi-trillion-dollar industry with a significant presence in global financial centres from Kuala Lumpur to London. The establishment of the Islamic Development Bank in 1975 and the subsequent proliferation of commercial Islamic banks in the 1970s and 1980s, fuelled in part by petrodollar liquidity, marked a critical turning point, transforming abstract principles into operational financial institutions. The industry has developed a sophisticated array of financial instruments such as *mudarabah* (profit-sharing), *musharakah* (joint venture), *murabahah* (cost-plus sale), and *sukuk* (Islamic bonds) designed to replicate the functions of conventional finance while adhering to Shariah prohibitions. However, this very success has sparked a vigorous and ongoing debate within academic and scholarly circles. A central critique, advanced by scholars like Mehmet Asutay, is that the practice of Islamic finance has increasingly diverged from the normative goals of Islamic economics. Critics argue that the industry has become preoccupied with financial engineering and legalistic compliance, often replicating the risk-averse, debt-based products of conventional banking, while paying insufficient attention to its broader social role in poverty alleviation, equitable development, and the promotion of a genuinely distinctive economic ethos.

The complex interplay between theoretical aspiration and practical implementation in the Malaysian experience assumes paramount importance. Malaysia presents a singular and highly instructive case study of the strategic integration of Islamic economics into the development track of a modern, multi-ethnic, and rapidly growing nation. Unlike the Islamization models pursued in Pakistan, Iran, or Sudan, which aimed for a comprehensive overhaul of the economic system, Malaysia adopted a pragmatic, state-led, and gradualist approach. Under the visionary and often controversial leadership of Prime Minister Mahathir Mohamad, Islam was consciously deployed as a positive and constructive force for national development, particularly for the advancement of the Malay-Muslim community. The Malaysian government did not seek to supplant the existing conventional financial system but rather to build a robust, parallel Islamic system that could operate alongside it. This "dual-banking system" became a hallmark of the Malaysian model, fostering an environment of competition and innovation that has propelled the country to the forefront of the global Islamic finance industry. The pioneering establishment of Tabung Haji in 1962, followed by the enactment of the Islamic Banking Act of 1983 and the subsequent liberalisation of the financial sector, demonstrates a consistent and strategic commitment to embedding Islamic finance within the national economic framework.

This chapter, therefore, seeks to explore the intellectual foundations of Islamic economics and trace its practical evolution, with a particular focus on Malaysia's unique developmental track. It will begin by examining the modern revival and philosophical basis of Islamic economics, situating it within the broader historical context of Islamic revivalism and its critical engagement with capitalism and socialism. The discourse will then delve into the core conceptual debates surrounding Islamic economics as a system or a science, and its intrinsic connection to the idea of a moral economy. The analysis will subsequently shift to the operational realm of Islamic banking and finance, outlining its theoretical principles, its historical emergence worldwide, and its proposed linkage to economic growth. The final and most substantial part of the chapter is devoted to the Malaysian context. It will meticulously analyse the role of Islam in the nation's development, dissect the components and phases of the state's Islamization programme, and evaluate the important role of Mahathir Mohamad's leadership. A detailed historical examination of the development of Islamic banking and finance in Malaysia will be provided, highlighting the role of government policy, the structure of the dual-banking system, and the critical function of Shariah governance. Through this comprehensive exploration, this chapter aims to provide a deep and nuanced understanding of how Islamic economic thought has been translated into practice, and how Malaysia has successfully harnessed it as a tool for national development, while simultaneously navigating the enduring tensions between its commercial success and its higher moral objectives.

1.1.1 The Modern Revival and Philosophical Basis of Islamic Economics

The zenith of Muslim civilization, when the community flourished under a sophisticated and well-functioning social order, eventually declined as Western expansionism reshaped the global order. The once-unified Islamic empire fragmented into multiple colonial territories, each inheriting the legal structures and economic policies of its respective colonial power. In response to this erosion of Islamic cultural and institutional heritage, prominent scholars such as Sayyid Jamal al-Din al-Afghani, a leading figure of Islamic modernism and anti-imperialism in the late nineteenth century, sought to rearticulate Islam not merely as a religious belief system but as a comprehensive politico-religious ideology. Central to the modernists' project was the agenda of legal reform and renewed ijtihad reinterpreting the Shariah to confront modern challenges. The reformist thrust championed by al-Afghani and continued by his disciples, Muhammad Abduh and Rashid Rida, was primarily political, aiming to fortify the Muslim world against Western ascendancy.

Islamic economics began to crystallize within this broader revivalist effort to reassert Islamic values as an alternative to both capitalist and communist development models, an intellectual and institutional attempt to depart from the political, economic, social, and cultural legacies imposed through colonial rule (Bjorvatn 1998; Lohmar 1983; Wilson 2004, 195).

It was only in the post-colonial period, especially during the latter half of the twentieth century, that economic and developmental concerns became central to the politics of Muslim-majority states. Abu al-A'la al-Mawdudi, who popularized the term "Islamic economics" through his influential writings of the 1940s, was formally trained in the Shariah rather than modern economics. Nevertheless, his intellectual contribution profoundly shaped a new cohort of professionally trained economists from the Indian subcontinent who sought to harmonize Islamic teachings with the analytical tools of modern economic thought.

An important turning point in the development of Islamic economics occurred during the Arab oil boom of the 1970s. With the dramatic rise in oil revenues, influential Arab states, particularly Saudi Arabia, required institutional mechanisms to invest their burgeoning wealth. This period witnessed the establishment of the first Islamic commercial banks in 1972 and the creation of the Islamic Development Bank (IDB), which channelled petrodollar resources to Muslim countries through interest-free financial instruments. The oil-boom years also accelerated the institutional consolidation of Islamic economics, marked by the formation of new scholarly bodies, the publication of dedicated academic journals, and the convening of regular international conferences.

From the late 1940s onwards and more prominently after the mid-1960s, a growing corpus of writings on Islamic economics emerged, offering systematic articulations of an economic order aligned with Islam's foundational sources. Across this literature, Islamic economists generally converged on three core pillars of the proposed Islamic economic system: (i) a set of behavioural norms derived from the Qur'an and Sunnah, (ii) the institutionalization of Zakat as a form of Islamic wealth taxation, and (iii) the prohibition of interest (Choudhury 1990; Kuran 1986).

In sum, driven by the broader Islamic revival, the field of Islamic economics has expanded vigorously since the 1940s and, with the growth of Islamic banking and finance from the 1970s onwards, has made notable progress toward articulating and institutionalizing a viable alternative economic perspective.

1.1.2. Islamic Economics and Capitalism

Within the discipline of economics, scholars tend to conceptualise Islamic economics either as an alternative framework to capitalism and communism or as a sub-discourse situated within the broader capitalist perspective. A third perspective, championed by Islamic reform movements, views Islamic economics as an integrated moral–economic system aimed at achieving social harmony and distributive justice. The global diffusion of capitalist economics has undeniably produced significant inequalities both across nations and within their domestic structures. As capitalism's inability to uphold economic justice becomes increasingly apparent, leading figures such as Siddiqi, Chapra, al-Sadr, Taleghani, and Khurshid Ahmad have argued that Islamic economics represents a compelling alternative to both capitalist and socialist models.

Siddiqi (2002) asserts that Islam offers a balanced middle ground between capitalism and socialism. He highlights three foundational principles of Islamic finance: its emphasis on real-sector linkages, the reduction of speculative activities, and a commitment to the holistic well-being of humanity. Siddiqi further contends that many developing nations including Muslim societies have historically been compelled to choose between socialist and capitalist systems, despite their limited suitability. Islamic economics, he argues, provides these societies with a model anchored in their own intellectual traditions and cultural heritage.

Taleghani (1982) observes that Islam recognizes individuals as legitimate owners of the fruits of their labour and grants them freedom in economic transactions within the boundaries set by Islamic law. So, Islam prescribes limits on private, public, and collective ownership in a manner consistent with human nature and principles of justice. It upholds private ownership grounded in natural human freedom while simultaneously acknowledging collective ownership rooted in public interest and shared resources. Thus, Islamic economics avoids both extremes: the unrestrained private ownership characteristic of capitalism, which generates inequitable wealth disparities, and the excessive public ownership of communism, which suppresses individual freedom and denies personal property rights.

Chapra (1992) argues that neither capitalism nor socialism has succeeded in allocating scarce resources efficiently and equitably to realise socio-economic justice. He proposes an Islamic approach that enhances both spiritual and material well-being and advances a just socio-economic order. Chapra identifies two dominant worldviews: the secular and materialistic worldview underpinning conventional economics, and the spiritual and humanitarian worldview foundational to Islamic (or religious-based) economics. He emphasizes that Islam harmonises the material and moral dimensions of life by encouraging the pursuit of material prosperity while firmly grounding such endeavours in an ethical framework. This simultaneous emphasis on material and spiritual well-being distinguishes Islamic economics from both capitalism and socialism.

Khurshid Ahmad, an influential proponent of Islamic economics, maintains that Muslim societies should draw from their Islamic heritage rather than adopting Western economic models uncritically. He stresses that an Islamic framework for economic development must be grounded in the value system articulated in the Qur'an and the Sunnah (Ahmad 1980).

Conversely, Rodney Wilson (2008) contends that Islamic economics emerged from within the capitalist system as an attempt to render financial activities Shariah-compliant and to avoid *riba*. He argues that Islamic finance effectively constitutes a modified form of capitalism, an "Islamic capitalism." Henry and Wilson further assert that Islamic capitalism does not pose a systemic threat to Western capitalism, unlike Soviet communism. This is because respect for property rights and the protection of trade and commerce are shared attributes of both Western and Islamic forms of capitalism. In their view, the two systems can coexist and mutually benefit from cooperation (Henry and Wilson 2004).

Synthesizing these perspectives, it becomes evident that Islamic economists can draw valuable insights from the capitalist system despite its inclination to prioritise profit at the expense of wider social benefits. At the same time, proponents of capitalism should seriously engage with Islamic economic thought, particularly its emphasis on equality and justice, for the broader advancement of humanity.

1.1.3 Islamic Economics as a System or a Science

Islamic economists continue to debate whether Islamic economics should be understood primarily as a system or as a science. Chapra (2001) argues that Islamic economics is grounded in a perspective that places socio-economic justice at its core, rooted in the conviction that human beings serve as Allah (SWT)'s vicegerents on earth and that all creation belongs to the One Creator. Accordingly, he maintains that the central purpose of Islamic economics is the promotion of human well-being through the realization of the *maqasid al-Shariah* (objectives of the Shariah). On this basis, Chapra defines Islamic economics as a body of knowledge that facilitates the efficient allocation and equitable distribution of scarce resources in line with Islamic principles without imposing undue restrictions on individual freedom or generating persistent macroeconomic or ecological distortions.

Mannan (1991), meanwhile, contends that Islamic economics is unequivocally embedded within the broader field of sociology. It is therefore a study of the human being not merely as an isolated individual, but as a social actor whose behaviour is shaped by Islamic values. From this standpoint, he asserts that Islamic economics constitutes a social science, with society rather than the individual as its primary unit of analysis. So, its methodological orientation should reflect its descriptive and socially grounded character.

In contrast, al-Sadr (1983) conceptualizes Islamic economics as comparable to a political economy, whose function is "to uncover the laws and analyse the realities of life within an Islamic society in which the Islamic way of life is fully established." He argues that such a system can only emerge once an authentically Islamic society exists, a condition that has yet to be realised. While acknowledging that preliminary theorisation may proceed based on certain assumptions, he notes that Islamic economics has been criticized for lacking a general theory derived from the study of real-world Islamic economic practices. The absence of a truly Islamic society, he argues, is precisely why Islamic economics remains largely a normative exposition of Shariah-based positions on economic matters rather than a fully developed empirical discipline.

Mannan (1991) later adds that Islamic economics should be regarded simultaneously as a system and a science: part of a larger Islamic socio-moral system, yet also both a positive and normative science concerned not only with what currently exists but also with what ought to exist.

In summary, Islamic economics still has considerable ground to cover before it can be firmly established as an autonomous academic discipline. Its intellectual foundations remain in an early developmental stage. Nonetheless, its most prominent practical manifestation, Islamic banking and finance, has expanded rapidly and now constitutes a significant component of the global financial landscape. Thus, one may conclude that Islamic finance, as the leading expression of Islamic economic thought to date, holds substantial economic potential as well as moral and humanitarian value.

1.1.4 Islamic Economics and the Moral Economy

Islamic economics is often described as engaging directly with the core concerns of the moral economy. It does so not merely by proposing ethical reform, but by positioning itself as an economic project tasked with constructing a viable economic order grounded in distinctly Islamic principles—one that aspires to material success while offering a credible alternative to twenty-first century capitalism. At its essence, Islamic economics articulates foundational axioms and advances an ethical and systemic conception of economic and financial life rooted in the ontological and epistemological sources of Islam, namely the Qur'an and the Sunnah.

Prominent Islamic economists such as Chapra, Siddiqi, and Naqvi have developed a systematic framework that underpins the conceptual foundations of Islamic economics. These foundations articulate a vision of an Islamic moral economy and its accompanying ethical norms, which serve as an evaluative lens for analysing economic and social policies across all domains of human life. For instance, Siddiqi (2004) argues that the Islamic economy in the twenty-first century should be framed in relation to the broader objectives of Islam as a holistic way of life rather than being limited to the objectives of Islamic law. Such an orientation enables Islamic economic institutions to address persistent challenges such as poverty and inequality that a strictly law-centred approach has struggled to resolve. Haneef (1997) similarly notes that economic research and policy formulation, when anchored in the Islamic worldview, go beyond technical economic concerns and instead contribute to establishing the Deen of Islam on earth through moral governance among human beings (Asutay 2007a).

Asutay (2010) observes that widespread critiques of the global financial system, especially following recent financial crises, have revitalised debates on the significance of morality in economic and financial relations. Islamic moral economy offers a constructive response by embedding ethical considerations within Islamic banking and finance in both systematic and spiritually informed ways. He argues that contemporary Islamic financial institutions should transcend a narrow focus on Shariah compliance, such as the prohibition of interest, and instead adopt genuinely Islam-based financial practices that promote the values of the moral economy.

Nevertheless, Asutay (2008) emphasizes that, despite considerable progress, existing Islamic banking and finance have largely fallen short of the aspirations of the Islamic moral economy as a genuine value-based system oriented toward human-centred development and social justice. In practice, he argues, Islamic finance has increasingly gravitated toward the conventional perspective of wealth management and has become, in effect, an industry primarily concerned with eliminating *riba* and structuring financial products based on Shariah-derived contractual forms, rather than realising the moral and developmental objectives envisioned by the Islamic economic framework.

1.1.5 Islamic Economics and Islamic Finance

Within the Islamic economics literature, considerable effort has been devoted to demonstrating why an economy that relies less on credit and more on equity-based financing may outperform a credit-driven system. The *al-mudarabah* contract, frequently highlighted by Islamic scholars, represents a form of Profit and Loss Sharing (PLS) in which both the capital provider and the entrepreneur share profits as well as risks. This mechanism is promoted as an efficient alternative to interest-based financing, given the prohibition of *riba* in Islamic economic thought. In an interest-free banking framework, returns are earned only when participants assume the risks inherent in productive enterprise (Bjorvatn 1998; Presley and Sessions 1994).

Despite these conceptual advances, the pace of technical development in Islamic finance appears to have surpassed the intellectual progress of Islamic economics. Further growth in the industry ultimately depends on parallel advancements in Islamic economic theory, as both fields are intertwined: the legal requirements governing Islamic financial transactions are formulated through human reasoning, and their application remains subject to human judgment.

Yet, Asutay (2007a) argues that Islamic finance, as the operational manifestation of Islamic economics, has increasingly diverged from the normative principles and aspirational goals of the Islamic economic system. Contemporary Islamic finance, he suggests, has become integrated into the global financial order, emphasizing economic incentives rather than embodying the moral and behavioural norms grounded in Islamic teachings.

Conversely, Wilson contends that Islamic scholars have succeeded in formulating Islamic economics as a credible alternative to both communism and capitalism, and that Islamic finance has effectively emerged as a distinct industry. Nonetheless, he observes that key areas—such as Islamic microfinance—remain underdeveloped. Abdul Rahman (2007), for example, describes microfinance as the "missing component" of Islamic banking (Wilson 2004).

Moreover, several scholars note that, in practice, most Islamic bank transactions gravitate toward retail trade financing rather than supporting agricultural or industrial activities. Siddiqi (2001) highlights the importance of Islamic finance at the grassroots level, referencing early pioneering institutions such as Mit Ghamr in Egypt and Tabung Haji in Malaysia during the 1960s.

Given that Islamic economics aspires to offer an alternative to conventional economic models, Islamic financial institutions must extend their services to support all sectors of economic activity, including agricultural land development. Bjorvatn argues that instead of focusing solely on eliminating interest across the financial system, profit-and-loss sharing mechanisms should be applied more extensively in traditional and rural contexts within the Muslim world.

In this regard, Nagaoka (2011) suggests that Islamic finance for agricultural land development represents a new and important domain within Islamic economics, offering opportunities to document and advance its theoretical and practical evolution.

1.2 The Malaysian Context: A History and the Role of Islam in Development

1.2.1 The Role of Islam in the Development of Malaysia

Historically, an early British administrator remarked that "there can be no doubt that Muslim law would have become the law of Malaya had British law not intervened to restrain it" (Roff 1998). In Malaysia, it is arguable that Islam has exerted a considerable influence, particularly in the spheres of politics and economics, as the modern Malaysian economy took shape. Three major themes illustrate Islam's evolving role following the nation's track of economic progress: the Islamization agenda, the leadership and policies of Mahathir, and Vision 2020, which sought to advance Malaysia towards developed nation status based on its own distinctive model.

Malaysia is often perceived by other Muslim countries as a success story of the Islamic world, characterised by robust economic growth and a developmental strategy that has promoted industrial diversification, shifting the economy from its traditional reliance on primary commodities toward manufacturing.

Although the precise extent to which Islam has contributed to Malaysia's broader development is difficult to quantify, Islamic values and institutions have clearly acted as catalysts for significant socio-political transformation within the Malay community, particularly in rural settings. Ethnic and religious identities remain central to economic planning and, in certain instances, even pre-empt the planning process itself. Malaysia's political leadership has consistently endorsed policies that prioritise the economic upliftment of Indigenous groups (*bumiputra*). Concurrently, Islam in Malaysia has been continually reshaped in alignment with local political and economic necessary, resulting in competing interpretations of Islamic norms and conduct even among Malay Muslims (Means 1969; Nagata 1997).

The formulation of Malaysia's economic and political strategies is deeply rooted in the nation's complex demographic composition and the historical experiences of its diverse communities. A long-standing, sometimes delicate, accommodation between Malays and non-Malays, and between Muslims and non-Muslims, continues to be sustained through negotiated cooperation and mutual concessions among political and business elites.

In navigating its ethnic sensitivities, Malaysia has adopted a strategy of gradualism when introducing major reforms or policy shifts, particularly where such changes affect non-Malay communities such as the Chinese and Indians. For example, the Islamization of economic institutions—such as the establishment of Tabung Haji, Islamic insurance, and Islamic banking—has unfolded incrementally. These institutions now operate nationwide on firm foundations, functioning parallel to existing conventional systems. This gradual approach has ensured that non-Muslims do not perceive their interests, freedoms, or religious identities as being threatened (Zakaullah 1995).

Moreover, Malaysia has successfully cultivated an image of "moderate Islam," distinguishing itself from the more confrontational or extremist portrayals associated with certain fundamentalist movements in parts of the Arab world. The government's Islamization initiatives have not only integrated Islamic principles into the mainstream economy and heightened religious consciousness among the Malay-Muslim middle class, but have also positioned Malaysia within the Muslim world as a prosperous, politically stable, and culturally plural Islamic nation (Aziz and Shamsul 2004; Weiss 2004).

The Islamic resurgence in Malaysia, meanwhile, must be understood in the context of broader societal tensions surrounding rural–urban disparities, Malay identity, and socio-economic rights. Islamic activism (*dakwah*) in Malaysia has therefore been inseparable from global Islamic revivalism and continued to shape developments throughout the 1980s, particularly in rural regions (Nagata 1980). The intensification of this revival exerted pressure on the government to accord greater attention to Islam, prompting Mahathir's administration to reaffirm the role of Islamic values and law in Malaysia's economic policy during the 1980s. With Islam increasingly regarded as compatible with economic development, the government introduced a series of Islamic economic instruments and legal reforms to encourage greater Malay involvement in the economy.

Since the 1980s, Malaysia's response to Islamic resurgence has typically blended cautious support for Islamic activism with regulatory control over independent Islamic groups to mitigate the risk of extremism. Coercive measures were employed only temporarily and were subsequently followed by state engagement with key Islamic actors and the institutionalisation of Islamization policies—steps that ultimately enhanced regime legitimacy (Abdul Hamid 2007; Nor Hashimah 1996).

In summary, Malaysia's ability to sustain peace and stability amidst Islamic revivalism can be attributed to deliberate strategies aimed at neutralizing, rather than suppressing, resurgent Islamic movements. The state's response has been generally flexible if not always fully accommodating, towards Islamist pressures, integrating rather than excluding resurgent Muslim groups.

1.2.2 The Islamization Programme

Mahathir's Islamization programme can be understood as an outcome of the broader benefits generated by Malaysia's modern economic development. Four major developments significantly shaped the track of Islamization in the country: the 1969 ethnic riots; Mahathir's rise to the premiership; the expansion of Islamic missionary movements; and PAS's capture of Kelantan in the 1990 General Election (Mutalib 1996).

The Islamic resurgence in Malaysia may be delineated into five distinct phases. The first, the formative phase (1971–1981), began with the introduction of the New Economic Policy (NEP) in the aftermath of the May 1969 riots. This was followed by the maturing phase (1981–1991), coinciding with Mahathir's tenure as prime minister, during which he exerted dominant influence over socio-economic and political developments. The third, the pragmatic phase (1991–1998), marked a period during which Islamist groups moderated their positions to ensure peaceful coexistence and socio-political stability. The fourth phase, the Reformasi period (1998–2003), witnessed Islamists engaging in street protests and demonstrations in response to the dismissal of Anwar Ibrahim from all governmental and party positions. The final phase, the readjustment period (2004), coincided with the transition of power from Mahathir to Abdullah Ahmad Badawi (Abdul Hamid 2008).

Key accomplishments of the state-led Islamization efforts include the establishment of Islamic banking, insurance, and pawn-broking systems in 1983; the government's sponsorship of an Islamic Medical Centre the same year; the issuance in 1984 of an official directive to integrate Islamic values into the administrative machinery under the slogans "*kepimpinan melalui teladan*" (leadership by example) and "*bersih, cekap dan amanah*" (clean, efficient, and trustworthy); the elevation of Shariah courts and judges to parity with their civil counterparts in 1988; and the founding of the Malaysian Institute of Islamic Understanding (IKIM) in 1992 (Abdul Hamid 2008).

A central Islamic value that has significantly contributed to Malaysia's economic success, justice with fairness (*al-'adl wa al-ihsan*), found policy expression in pragmatic state interventions such as the NEP. With its dual objectives of poverty eradication and social restructuring, the NEP sought to ensure equitable opportunities across ethnic groups. Through this policy, Muslim communities in particular were able to rise from poverty and pursue Islamic aspirations of self-actualization, encompassing sustenance, intellectual growth, and the rightful enjoyment of wealth generated through personal effort.

From another perspective, one of the important Islamic-related policy legacies continued by Prime Minister Abdullah Ahmad Badawi, Mahathir's successor, was the introduction of the *Islam Hadhari* (Civilizational Islam) framework from 2004 onwards. *Islam Hadhari* promoted a moderate, progressive understanding of Islamic civilization, emphasizing development, social justice, and tolerance. Abdullah stressed that *Islam Hadhari* was not a new doctrine but an effort to reconnect Muslims with the authentic essence of Islam. Similar to global Islamic revivalist movements, it articulated a vision for a revitalized and empowered Muslim Ummah. He also encouraged the Malays to draw upon the intellectual and cultural heritage of Islamic civilization as a source of inspiration for national progress (Chong 2006; Vaughn and Martin 2007).

The Malaysian government articulated ten core principles of *Islam Hadhari*, integrated across political, social, economic, scientific, and environmental domains (Mohd Sani et al. 2009):

1. Faith and devotion to Allah (SWT)
2. Just and trustworthy governance
3. A free and independent citizenry
4. Mastery of knowledge
5. Balanced and comprehensive economic development
6. A high quality of life
7. Protection of minority and women's rights
8. Cultural and moral integrity
9. Environmental stewardship
10. A robust defence capability

1.2.3 Mahathir Mohamad (The Prime Minister who First Employed Islam as a Positive Developmental Force)

Since independence in 1957, Malaysian politics has been dominated largely by two long-serving prime ministers: Tunku Abdul Rahman (1957–1970) and Mahathir Mohamad (1981–2003). Mahathir was the first prime minister who neither hailed from the traditional Malay aristocracy nor received legal training in the United Kingdom. Instead, he emerged from a middle-class background, graduated in medicine from the University of Malaya in Singapore, and practiced as a doctor for over a decade before entering full-time politics (Yoshihara 2004).

Between 1957 and 1981, throughout the administrations of Malaysia's first three prime ministers, Islam was not explicitly articulated as a factor influencing economic policy or political governance. This changed with Mahathir Mohamad, who consciously positioned Islam as a constructive element in national development and in advancing the socio-economic position of the Malays in particular (Haneef 2009).

Mahathir's Islamization agenda, however, was rooted primarily in political considerations. The Islamic resurgence of the late 1970s and early 1980s was viewed by the government as potentially destabilizing, especially given its polarizing political effects. So, Mahathir's administration sought to spearhead Islamization from within state institutions to neutralize the appeal of Islamist opposition parties and maintain inter-ethnic stability through controlled and strategic engagement with Islamic activism (Camroux 1996).

Unlike many other global Muslim leaders, Mahathir emphasized that Islam is not antithetical to material progress; on the contrary, it encourages intellectual pursuit, learning, and scientific advancement. Both rhetorically and in policy terms, he sought to harmonize Islamic principles with modernity, technology, and economic progress. Under Mahathir, Islam was projected as an enabling force—an argument often described as his "correctly understood

Islam"—which framed Islamic values as catalysts for Malaysia's political stability and economic transformation. He championed technological modernization and simultaneously pushed for the socio-economic upliftment of the Malays, nurturing an emerging class of Malay professionals and entrepreneurs (Beng 2006; Schottman 2011).

Three landmark initiatives signalled the beginning of state-led Islamization in 1983: the establishment of Bank Islam Malaysia, the founding of the International Islamic University Malaysia (IIUM), and the introduction of compulsory Islamic Civilization Studies at public universities (Mauzy and Milne 1983–1984).

In addition to Islamic reform, Mahathir promoted the notion of "Asian values," presenting Asia not merely as an alternative to Western civilization but as a rising successor. He highlighted the perceived weaknesses of the West, industrial stagnation, labour disputes, unemployment, crime, and social decay and contrasted them with the economic dynamism of East Asian societies (Schottman 2008). For Mahathir, the region's success derived from demographic strength, work ethic, discipline, social solidarity, and long-term vision, as demonstrated by Japan, South Korea, Taiwan, and Hong Kong.

Six months after assuming office, he launched the *Look East Policy* in 1982 to emulate the work discipline, organizational practices, and development strategies of Japan and South Korea. This policy marked a deliberate shift away from reliance on Western models, which Mahathir increasingly associated with diminishing productivity and social fragmentation (Bass 1982; Mauzy and Milne 1983–1984).

Throughout his tenure, Mahathir consistently emphasized Muslim unity, portraying Islamic reform to foster discipline, motivation, and cohesion among Malays. Simultaneously, he reassured non-Malays that their rights and interests would be protected and communicated to the international community that Malaysia's Islamic resurgence would neither lead to revolution nor destabilize the political order.

Thus, two intertwined pillars characterised Mahathir's administration: the call for discipline and hard work embodied in the Look East Policy, and the institutional strengthening of Islam. Together, they constituted a broader strategy of achieving "discipline through Islam."

The Asian Financial Crisis of 1997 posed one of the most serious challenges to Mahathir's leadership since the 1987 UMNO crisis. Speculative attacks on the ringgit triggered economic recession and political uncertainty (Chin 1998). Notably, even though Islamic economic principles might have provided an alternative analytical lens, Mahathir seldom invoked Islamic economic doctrines. For instance, during the crisis, he condemned George Soros and currency speculation but did not refer to Islamic prohibitions against speculative behaviour.

It may be argued that Mahathir's developmental success was deeply intertwined with the Islamization initiatives. Economic modernization, particularly industrialization, was pursued first, followed by Islamization, which helped shape Malaysia's image as a progressive Muslim nation in the modern world.

Malaysia's development track during the late twentieth century formed part of Asia's broader modernization wave. Beginning in the late 1960s, Malaysia embarked on a transformative developmental path that reshaped its social, cultural, economic, and political structures, altering the colonial and early postcolonial patterns of social stratification (Kahn 1997).

Guided by Mahathir's policies, the government articulated a national ambition to become a fully developed country through *Vision 2020*. As Islamization accelerated during his tenure, *Vision 2020* increasingly symbolized Malaysia's aspiration to serve as a model not only for developing nations but also for the global Muslim world (Furlow 2009).

For Mahathir, developed-nation status required three essential foundations: wealth, technological advancement, and strong moral values. So, debates surrounding modernity, science, and Islam were framed as competing projects for restructuring Malaysia's economy, society, and national identity. *Vision 2020* offered a localized articulation of modernity rooted in Malaysian cultural and moral foundations rather than in Western replication (Mohamad 1991).

Mahathir envisioned Malaysia as "a united nation with a confident society, guided by moral and ethical principles, democratic, liberal and tolerant, caring and just, progressive and prosperous, and equipped with a dynamic and resilient economy" (Mohamad 1991).

To operationalize *Vision 2020*, nine central challenges were outlined, including forging national unity, building a psychologically confident society, institutionalizing a mature democracy, cultivating moral and ethical integrity, promoting tolerance, advancing scientific capability, nurturing a caring society, ensuring economic justice, and achieving shared prosperity.

A series of strategic policies was introduced to advance these goals, such as sustaining political and economic stability, reducing the state's role in economic production, deregulating markets, accelerating industrialization and privatization, strengthening science and technology, developing human capital, and enhancing organizational efficiency (Mohamad 1991).

Mahathir believed that all economically advanced nations were "information rich," and none of the information-rich countries were poor. To sustain the target of 7% annual growth for three decades after 1991, a transformative leap was required. This led to the launch of the *Multimedia Super Corridor* (MSC) in 1996, a flagship initiative aimed at transitioning Malaysia into a knowledge-driven economy (Mustapha and Abdullah 2004). Stretching from the Petronas Twin Towers to Kuala Lumpur International Airport, and incorporating Putrajaya and Cyberjaya, the MSC was designed as a high-technology corridor for global and local firms.

As the *Vision 2020* deadline approaches and outcomes remain uncertain, the long-term effort to achieve developed-nation status must be sustained beyond Mahathir's tenure. Moreover, although *Vision 2020* focused heavily on industrial, technological, and manufacturing advancements, comprehensive national development also requires attention to agriculture, especially rural agricultural modernization. In this regard, Islamic finance for agricultural development could play an important role in Malaysia's broader pursuit of its distinctive development model.

1.3 The Evolution of Islamic Banking and Finance as a Tool for Development

1.3.1 A Theoretical Outline of Islamic Banking and Finance (IBF)

Contemporary Islamic banking and finance (IBF) rests on two principal theoretical foundations. The first is the *socio-economic approach*, which emphasises the broader social and economic advantages of an Islamic financial system. The second is the *legalistic approach*, which focuses on identifying institutional structures that enable Islamic financial entities to function efficiently as lawful (*halal*) providers of banking and financial services (Hegazy 2007).

The socio-economic approach draws inspiration from early Islamic thinkers such as Abu al-A'la al-Mawdudi of Pakistan, and the Egyptian Muslim Brotherhood leaders Hassan al-Banna and Sayyid Qutb. Practical embodiments of this orientation include the Mit Ghamr savings project established by El-Naggar and Malaysia's Tabung Haji. By contrast, the legalistic approach was shaped significantly by the contributions of Iraqi scholar Baqir al-Sadr and Islamic banking pioneer Sami Hamoud. These two perspectives collectively underpin the evolution of contemporary Islamic finance, though most existing Islamic financial institutions have tended to follow the legalistic path (Hegazy 2007).

Notably, ideas related to Islamic banking were among the earliest concepts to surface in the literature attempting to formalise Islamic economics. In fact, some were operationalised before the field had reached substantial theoretical maturity. The intellectual development of Islamic economics gained momentum following the First International Conference on Islamic Economics held in Mecca in 1976, yet the practical designs, instruments, and institutional practices of Islamic banking were developed largely outside Jeddah, most prominently in Malaysia (Hasan 2005).

Today, banking sectors across many Muslim-majority countries remain dominated by interest-based, conventional financial systems. Nevertheless, since the 1940s, Muslim economists have explored the possibility of interest-free banking. A milestone was achieved in 1963 when Ahmed El-Naggar implemented the first practical model of interest-free banking, expanding the classical *al-mudarabah* contract into a modern, multi-tier system involving numerous depositors and entrepreneurs (Cizakca 1996, 195–196).

Writers during this formative period sought to demonstrate the allocative and distributive superiority of an Islamic economic system that replaces *riba*-based banking with Islamic institutions operating on "profit and loss sharing" (PLS) principles rooted in *al-mudarabah* and *al-musharakah*. During the 1970s, Sami Hamoud proposed that *al-murabahah* could play an important role in Islamic banking. As a contract with predetermined mark-up and repayment terms, *murabahah* is less risky than *mudarabah*, and this lower risk profile arguably facilitated the rapid expansion of Islamic banking in the 1970s. The Islamic Development Bank (IDB), established in 1975, used *murabahah* extensively particularly in its oil-financing operations which subsequently influenced practices in emerging Islamic banks such as Dubai Islamic Bank (1975), Faisal Islamic Bank of Sudan and Egypt (1977), Jordan Islamic Bank (1978), Islamic Banking System International Holdings in Luxembourg (1978), and Islamic Bank of Bahrain (1979) (Nienhaus 1983; Wilson 2004, 211–213).

As a result, when Islamic banks began operating in the late 1970s and early 1980s, they were not pure PLS institutions. Instead, they adopted a range of financing methods, including leasing and mark-up trading, and operated alongside conventional banks in environments where interest-based finance remained dominant. So, critics argue that Islamic banks merely substituted conventional terminology with Arabic nomenclature while offering near-identical services at a higher cost.

Nonetheless, it may be posited that Islamic banking services must inevitably evolve differently from interest-based institutions due to the inherently distinct nature of the bank–customer relationship.

Although IBF has existed for more than three decades, its theoretical foundations remain underdeveloped, and practice remains heavily skewed toward credit-based instruments. PLS modes are commonly perceived as high-risk, prompting Islamic banks to rely on debt-based instruments to maintain competitiveness. As Chapra notes, a genuine Islamic bank must undertake rigorous evaluation of every financing proposal because it shares in the entrepreneurial risk.

During the 1980s and 1990s, although Islamic financing methods diversified through *al-murabahah*, *al-ijarah*, and *al-istisna'*, *al-mudarabah* was mainly confined to investment deposit products rather than financing. Meanwhile, *al-musharakah*, which entails true equity partnership between bank and entrepreneur, remained uncommon due to perceptions of excessive risk (Khan 2010).

Today, the *al-murabahah* arrangement remains the most widely used IBF instrument. It involves the bank purchasing a required asset and reselling it to the customer at a predetermined profit margin, payable in instalments, without interest.

One of the factors limiting the adoption of PLS financing for both *mudarabah* and musharaka in Malaysia is the scarcity of practitioners with the expertise to identify, evaluate, and manage viable entrepreneurial ventures.

1.3.2 The Fundamental Principles of Islamic Banking and Finance

The primary objective of an Islamic bank is to deliver financial services in strict adherence to the teachings of the Qur'an and Prophet Muhammad (PBUH)[peace be upon him]). To realize this objective, a system that guarantees justice and fairness for all participants, both depositors and borrowers, is essential. Acting as an intermediary, the Islamic bank facilitates transactions by providing Shariah-compliant expertise and services to both parties (Zaman and Movassaghi 2002).

A fundamental distinction from conventional banking is that Islamic banks do not simply advance money to earn a predetermined return. Instead, under Shariah law, they bear a responsibility to ensure funds are invested in viable projects with reliable clients. This structure creates a partnership where the bank shares in the profits if the project succeeds and equally shares in the losses if it fails (Abul Hassan and Abdelkader 2005).

This operational model is guided by four core principles outlined by Islamic economists:

1. Risk-Sharing: All parties in a transaction must share the risks and returns symmetrically.
2. Materiality: Every financial deal must be tied to a tangible, real-economic activity.
3. No Exploitation: Transactions must be free from any form of exploitation.
4. Ethical Prohibition: Financing cannot support activities deemed sinful (*haram*) in Islam, such as the alcohol industry (El-Hawary et al. 2007).

The overarching requirement that differentiates Islamic finance is its mandatory compliance with Shariah law (Abdullah and Keon 2010). This compliance is operationalized through five key principles:

1. Divine Guidance: Islamic teachings provide comprehensive guidance for all aspects of life, including economics and finance.
2. Prohibition of Interest (*Riba*): The charging or paying of interest on loans is strictly forbidden.
3. Avoidance of Prohibited Sectors: Capital cannot be invested in businesses involved in *haram* elements.
4. Encouragement of Risk-Sharing: This principle promotes equitable distribution of profits and losses, enhancing transparency, mutual trust, and fairness. It also ties bank performance directly to project viability and client creditworthiness.
5. Asset-Backed Financing: All financial products must be linked to real assets, thereby anchoring the financial sector to the real economy and curbing excessive speculation (Abdullah and Keon 2010).

Permissible (*halal*) financial instruments are those free from *riba* (interest), *maysir* (gambling), and *gharar* (excessive uncertainty). An ideal instrument is Profit and Loss Sharing (PLS), based on contracts such as *al-mudarabah* and *al-musharakah*, in which the capital owner genuinely shares the business risks of the entrepreneur.

Other accepted contracts include *al-murabahah* (mark-up financing), *al-ijarah* (leasing), and *bay al-salam* (advance payment for future delivery) (Visser 2009). However, a "grey area" exists where some instruments, such as certain debt-trading practices and derivatives, are contested among scholars (Visser 2009).

A critical challenge for any financial system, including the Islamic one, is to achieve soundness and stability. However, even a stable Islamic financial system falls short of its purpose if it fails to establish economic justice (*maqasid al-Shariah*). According to Chapra (2007), justice can be promoted by fulfilling two conditions: first, through risk-sharing among the financiers so that the entrepreneurs do not bear all the losses, and second, through the equitable distribution of credit to a broad population spectrum to help eradicate poverty and reduce inequality. Chapra suggests achieving this through greater reliance on PLS modes and the integration of microfinance into the mainstream system (Chapra 2007).

Despite significant progress over the past three decades, a noted concern is the market's focus on developing short-term, liquid instruments, with less attention given to long-term, higher-risk investments that have greater potential for generating employment and sustainable economic growth (Mirakhor 2010).

1.3.3 The "Profit and Loss Sharing" (PLS) in Islamic Banking and Finance

The foundational theorists of Islamic banking and finance, such as Qureshi (1946), launched a robust critique of conventional interest-based theories, with a particular emphasis on the deleterious societal impacts of usury, or *riba*. These scholars championed the contribution of Islam, which, since the era of Revelation, has unequivocally proscribed interest. They substantiated the argument that a significant proportion of the afflictions plaguing contemporary capitalist society are predominantly attributable to the institution of interest (Qureshi 1946, 2). So, while global practitioners of Islamic Banking and Finance (IBF) may in practice exhibit a preference for deferred contracts that yield assured fixed returns, the theoretical underpinnings of the system dictate that it should be established upon participatory risk-sharing finance. This model, commonly referred to as Profit and Loss Sharing (PLS), is fundamentally based on the classical Islamic contracts of *al-mudarabah* and *al-musharakah*, and is intended to furnish a viable alternative to the interest- or *riba*-based financial system (Hasan 2005, 11).

Furthermore, Muslim scholars have posited that PLS contracts contribute to enhanced stability within financial markets. The underlying principle of PLS necessitates a direct vested interest on the part of the creditor, in this case, the Islamic bank, in the profitability of the underlying physical investment. This direct correlation between the creditor's return and the investment project's success is of critical importance to the entrepreneur. Moreover, profit-sharing contracts are endowed with superior attributes for risk management, as the financial obligation of the entrepreneur to the creditor is proportionally diminished under adverse economic circumstances (Mirakhor and Zaidi 2007, 49–50).

In the seminal literature on IBF studies, it was a central tenet that partnership contracts, or PLS, rooted in the principles of *al-mudarabah* and *al-musharakah*, would constitute the defining characteristic of Islamic banks' financing operations. This perspective is evidenced in the proposals advanced by economists, including Qureshi (1946), Uzair (1955), and Siddiqi (1985), who advocated for the application of the PLS scheme as the mechanism for eradicating *riba* from banking transactions (Saeed 1999, 2).

In addition, early conceptual models of Islamic banking delineated three primary sources of funds for Islamic banks, alongside four principal applications thereof. The identified sources of funds were the bank's share capital, *al-mudarabah* deposits, and demand deposits. Conversely, the four principal uses of these funds were recognized as: *al-mudarabah* financing, financing structured upon the *al-musharakah* contract, transactions involving ordinary shares or commercial and investment certificates issued in the private or public sector on a PLS basis, and finally, *qard al-hasan*, or benevolent loans (Ahmad 1994).

Concurrently, as articulated by Siddiqi (1983b), a pioneering figure in Islamic economics, the primary mechanism for profit generation for an Islamic bank is to provide capital to entrepreneurs seeking to conduct business according to the principles of *al-mudarabah*, thereby entering into a partnership with the entrepreneur. In such an arrangement, both the entrepreneur and the bank contribute to the investment and collaborate in the management of the enterprise. The partnership agreement explicitly stipulates the nature of the business, the operational parameters within which it is to be conducted, the duration of the partnership, and the proportional distribution of profits. Losses, however, are borne strictly in proportion to the capital contribution of each partner. Upon the conclusion of the business venture or the expiry of the agreed term, the profit or loss is ascertained from the finalized business accounts and distributed accordingly. The net capital is subsequently returned to the partners, with profits being disbursed after the deduction of any incurred losses (Siddiqi 1983b, 8–9).

Siddiqi (1985) further contended that the Islamic principles of *al-musharakah* and *al-mudarabah* possess the versatility to be adopted for all forms of business enterprise. Capital can be invested indiscriminately in commercial, industrial, and agricultural ventures on the principle of *al-mudarabah*, and any given enterprise can be jointly undertaken by multiple capital providers in partnership. So, he argued, any discourse on interest-free banking must position this partnership model as the cornerstone or foundational basis for the entire system (Siddiqi 1985, 104–105).

According to Uzair (1978), the principle of *al-mudarabah* serves to unite capital with enterprise and to establish a harmonious relationship between consumption and production. He elaborated on the concept of a two-fold, or two-tier, *al-mudarabah*, wherein Party B entrusts a sum of money on a *al-mudarabah* basis to Party A, who subsequently entrusts the same capital to another party, C. Parties A and B first agree upon a specific ratio for profit-sharing, after which Parties B and C agree upon their own respective percentage for sharing the profit. For instance, the proportion shared between A and B might be equal, while the percentage between B and C could be 30% and 60%. This structure results in the total profit being divided into three parts: one for the ultimate investor, one for the first *mudarib* (the bank), and one for the *rabbul mal* (the depositors) (Uzair 1978, 206–207).

Siddiqi (1988) also advanced the argument that, within the two-tier *al-mudarabah* scheme, Islamic banks, acting as financial intermediaries, can effectively insulate themselves from the direct risks inherent in trade and industry, while simultaneously fulfilling a vital role as a financial intermediary for society, a function that aligns with the public interest.

Furthermore, El-Hawary, Grais, and Iqbal (2007) elucidate that the financial intermediation performed by Islamic financial institutions is realized through the screening of potential projects and the ongoing monitoring of the performance of financed projects on behalf of depositor-investors. The *al-mudarabah* contract forms the basis of this financial intermediation between Islamic banks and their customers. To this end, two principal conceptual models have been proposed for the structure of Islamic banks: the "two-tier *al-mudarabah* model" and the "two-windows model."

In the "two-tier model," both the mobilization and the allocation of funds are conducted on an identical basis of profit-sharing among the depositor, the bank, and the entrepreneur. The first tier consists of a *al-mudarabah* contract between the depositor-investor and the bank, wherein the bank acts as the *mudarib* for the depositor, who shares in the earnings generated from the bank's investments that are financed by his deposit. The second tier comprises a *al-mudarabah* contract between the bank, in its capacity as the supplier of funds, and entrepreneurs seeking capital, with profits being shared with the bank according to a pre-agreed ratio stipulated in the contract.

In contrast to the "two-tier *al-mudarabah* model," the "two-windows" model adopts a divergent perspective on reserve requirements. This model partitions bank liabilities into two distinct windows: one for demand deposits, which are liabilities in the conventional sense, and another for investment deposits, which do not constitute liabilities in the conventional sense. Depositors retain the freedom to select their preferred window for conducting financial transactions with Islamic banks. Moreover, investment deposits are explicitly utilized to finance risk-bearing investment projects, with the full awareness and consent of the depositor. So, this model mandates that Islamic banks maintain a 100% reserve against demand deposits, which are guaranteed by the bank, while holding no reserve against investment deposits, as these are employed by the banks to finance risk-bearing investments (Iqbal 1997).

Iqbal (1997) further elaborated that in the "two-windows" model, demand deposits are fully backed by reserves, and investment deposits are accepted purely on an equity-sharing basis. This model is posited to possess inherent stability, as the terms and structure of liabilities and assets are symmetrically matched through profit-sharing arrangements; no fixed interest costs are incurred; and refinancing through debt is rendered impossible.

1.3.4 Islamic Finance and Economic Growth

Siddiqi (2006a) asserted that the theoretical framework of Islamic banking and finance exerts substantial macroeconomic effects, primarily because it is grounded in profit-sharing mechanisms. He argued that financial intermediation anchored in profit-and-loss sharing (PLS), rather than in conventional lending, promotes greater stability within the economic system due to the integration of Islamic financial instruments with activities in the real sector. He further observed that Islamic economists generally deem debt-based financing as less desirable, since an increased reliance on debt diminishes the financial system's capacity to withstand economic shocks.

Moreover, Ghannadian and Goswami (2004) contended that the Islamic banking system can provide liquidity and contribute to the money-creation process by offering transaction accounts that compensate risk-averse depositors for inflation, thereby ultimately accelerating economic growth. They added that such a system is particularly suitable for developing countries undergoing phases of expansion.

From the standpoint of Islamic contractual arrangements embedded within the Islamic banking and finance (IBF) system and their contribution to economic development and growth, Ismail and Tohirin (2009), as well as Al-Jarhi (2005), examined Islamic legal provisions relevant to finance, considering the relationship between law and finance as one of the structural determinants linked to economic advancement. The PLS contracts of *al-mudarabah* and *al-musharakah*, which embody a spirit of cooperation, are argued to foster a strong nexus with financial stability, which is essential for achieving economic growth. These scholars also maintained that adopting a cooperative ethos through the development of equity-based partnership instruments within the financial system adds value to the broader economy, thereby enabling higher economic growth and a more equitable distribution of resources to be attained simultaneously.

They sought to articulate the connection between finance and economic growth within the context of the various Islamic contractual modes, including partnership, PLS arrangements, and buy-sell structures. Their analysis concluded that Islamic financial instruments emphasising PLS inherently promote a cooperative spirit, which is expected to reinforce financial stability as a prerequisite for sustained economic expansion.

Ahmed (2005) and Saleem (2007) similarly remarked that equity-based instruments rooted in *al-mudarabah* and *al-musharakah*, core features of the Islamic financial sector, may be utilised to finance growth-enhancing components such as working capital. The mobilisation of savings and remittances through Islamic financial mechanisms and their subsequent channelling into profitable and secure commercial ventures assist in improving resource allocation within the economy (Ahmed 2005).

In addition, Ahmed (2005) noted that Islamic financial institutions may hold several advantages over *riba*-based banking by elevating investment levels, thereby stimulating growth and development. He further posited that the savings generated within society could be effectively harnessed and directed toward productive investments (Ahmed 2005, 39–40).

Islamic economists argue that Islamic banking constitutes an integral segment of the broader banking system, playing a vital role in national development. Islamic banking institutions are expected to undertake environmental impact assessments when evaluating potential project financing applications, and this has evidently become an established practice for advancing sustainable development. So, Islamic banking incorporates the precautionary principle, which plays a significant part in environmental law and governance and ultimately enhances economic growth (Sulaiman et al. 2011).

In the Malaysian context, empirical evidence indicates that Islamic financing has contributed to increases in GDP and investment in the long run. However, Islamic bank financing does not appear to have supported Malaysia's trade activities over the same period. Thus, it may be concluded that Islamic bank financing influences Malaysia's economic growth primarily by augmenting GDP through fixed investment rather than through international trade (Furqani and Mulyany 2009).

1.4 Historical Development and Emergence of Islamic Banks

Resource allocation is determined by the needs of the free market but is adjusted by social and moral considerations whenever these objectives conflict with broader societal goals. In this regard, Islamic banking offers an alternative to the less desirable aspects of the modern Western banking model. Islamic financial institutions provide instruments aligned with the religious convictions and cultural characteristics of increasingly Islam-conscious Muslim societies. As a result, Islamic banks have expanded significantly in both scale and number worldwide over the past two decades (Aggarwal and Yousef 2000; Kavoossi 2000, 74).

With respect to the factors that contributed to the emergence of Islamic banks, three principal elements may be identified. The first is the condemnation of interest (*riba*) by neo-revivalist thinkers, particularly in the nineteenth and twentieth centuries. The second relates to the oil wealth accumulated by the Gulf States, and the third concerns the adoption of traditional interpretations of *riba* by several Muslim-majority countries in their policy-making processes (Saeed 1999, 8).

One of the defining characteristics of Islamic banking is the principle of profit-and-loss sharing (PLS). Nevertheless, it has been observed that the rapid expansion of Islamic banking has been driven more by the global Islamic resurgence since the 1960s than by the intrinsic features of the PLS perspective as an alternative to interest-based finance. Furthermore, Islamic banks are expected to be subject to regulatory frameworks comparable to those governing conventional banks (Chong and Liu 2009).

Fundamentally, the emergence of Islamic banking stems from the growing number of Muslims seeking to conduct their lives in accordance with Islamic legal principles (*Shariah*), particularly through the prohibition of interest (*riba*), which is categorically forbidden. Historical evidence demonstrates that, even in the early period of Islam, Muslims established a financial system that facilitated the mobilisation of resources for productive and consumer activities without recourse to interest (Iqbal and Molyneux 2005).

The earliest pioneering attempt to apply Islamic financial principles in modern financial transactions occurred in Mit Ghamr, Egypt, between 1963 and 1967. This initiative mobilised small-scale savings from rural communities primarily through savings accounts that did not pay interest. Additionally, investment accounts based on profit-sharing were introduced, and the mobilised funds were channelled to entrepreneurs under similar profit-sharing arrangements (Chachi 2005).

Academic publications on interest-free Islamic banking began to emerge in the 1950s. Notably, Muhammad Uzair, a prominent Pakistani Shariah scholar, produced a key work entitled *An Outline of Interest-Less Banking* in 1955. During the 1960s, debates intensified regarding whether *riba* signified usury, excessive and exploitative interest, or any form of interest. The prevailing consensus among Islamic economists of that era was that *riba* encompassed all forms of interest, thus necessitating the development of an alternative to interest-based banking (Wilson 2004).

Baqir al-Sadr made a significant contribution to the discourse with his 1970 publication on Islamic interest-free banking. He recommended the application of the *al-mudarabah* contract to govern the relationship between depositors and the bank, as well as between the bank and its clients, allowing depositors to share in the bank's profits, and the bank, in turn, to share in the profits of the enterprises it finances (Wilson 2004, 210–211).

The foundational concepts underlying contemporary Islamic banking and finance (IBF) institutions can be traced back to the mid-1940s. Early models of Islamic banking emerged in the mid-1950s, although comprehensive and detailed frameworks for interest-free banking did not appear until the late 1960s. The political context across most Muslim countries during this period was not conducive to transforming the entire banking and financial system. Indeed, the first Islamic banking experiment in Mit Ghamr in 1963 was established discreetly. Its model was based on the German savings bank, yet modified to eliminate both the charging and payment of interest. The objective was to mobilise idle savings among the rural Muslim population in a Shariah-compliant manner while offering a permissible return on deposits (Kahf 2004, 18–22).

Subsequently, at the first meeting of the Organization of the Islamic Conference (OIC) in 1970, an association of 57 Muslim-majority states promoting cooperation in economic, social, and political domains, member countries were encouraged to foster economic collaboration and support initiatives in cultural, scientific, and intellectual fields in accordance with Islamic law. One of the earliest concerns of the OIC was the development of Islamic banking (Abdus-Shahid 1984).

Following this, the second Islamic Conference of Foreign Ministers in 1973 proposed the establishment of an international Islamic bank. This initiative materialised in 1974 with the creation of the Islamic Development Bank (IDB), whose membership included OIC member states. The IDB assumed a specialised role in international project financing as well as supporting the economic and social advancement of Muslim countries.

By the late 1970s, the practice of IBF had achieved significant consolidation and momentum, largely due to the increased economic prosperity in Middle Eastern countries resulting from petroleum revenues. This environment generated strong socio-political support for the growth of Islamic financial institutions. Several prominent Islamic banks were established during this period, including Dubai Islamic Bank in 1975, Faisal Islamic Bank of Sudan and Faisal Islamic Bank of Egypt in 1977, Jordan Islamic Bank for Finance in 1978, and Islamic Bank of Bahrain in 1979 (Khan and Bhatti 2008, 39).

Subsequently, Islamic banking was adopted at the national level in Pakistan, Sudan, and Iran, each of which undertook reforms to Islamize its entire banking system. For example, Pakistan restructured its financial system to comply with Islamic principles, and by 1981, all domestic commercial banks were authorised to accept deposits based on PLS.

In the case of Malaysia, the implementation of IBF has taken place within a dual banking system. According to World Bank in 2006, Malaysia hosts the world's largest Islamic banking, capital, and insurance markets, suggesting that Malaysia offers a highly representative model of Islamic banking and finance practices more broadly (Chong and Liu 2009).

1.4.1 The History of Islamic Banking and Finance in Malaysia

1.4.1.1 Early Development

The evolution of Islamic banking and finance institutions in Malaysia unfolded through several stages, beginning with the establishment of *Tabung Haji* (TH), or the Pilgrims' Management and Fund Board, in 1962. TH represented the first financial institution in the country, founded with a distinct Islamic objective, namely, to assist Muslims in accumulating savings for the pilgrimage to Mecca (*Hajj*) (Siddiqi 1988, 43).

In the mid-twentieth century, prior to 1963, most Muslims saved the substantial funds required for the once-in-a-lifetime Hajj obligation through traditional means such as investing in land or livestock, or by keeping cash in informal and unsafe locations including pillows, floor mats, or even underground storage. Although these methods posed clear risks to the security of their savings, Muslims had few alternatives that could ensure both safety and Shariah-compliance, given that conventional banks engaged in *riba*-based practices (Haji Awang 1986, 109).

A transformative development emerged when Ungku Abdul Aziz, a young and innovative Muslim economist, presented a paper proposing a new financial model for Muslim pilgrims. His "Pilgrims Economy Improvement Plan," which aimed to avoid *riba* and other elements compromising the purity of Muslim savings and investments, was submitted to the government. The proposal received strong support from the Economic Advisor of Malaysia at the time, Dato' D.A. Spencer, and it became a major milestone that advanced the economic well-being of Muslims while facilitating their ability to save, invest, and perform the *Hajj* (Haji Awang 1986, 265).

Although TH is not an Islamic bank, its core functions, collecting and managing depositors' funds resemble Islamic banking operations. It mobilizes and invests resources strictly in ways approved by the Shariah. To encourage savings, TH simplified the deposit procedures and expanded its nationwide collection network to ensure convenient access for depositors (Mannan 1997).

The establishment of TH laid the foundation for Malaysia's rapidly expanding Islamic banking sector. Through TH, the substantial savings of devout Malaysian Muslims were pooled and invested in *riba*-free ventures in accordance with Shariah principles, including major palm-oil plantations and real estate developments in Malaysia and Indonesia, yielding significant returns (Abdul-Rahman 2010).

A considerable number of Muslims in Malaysia refrain from placing their savings in conventional banks due to their involvement with interest payments or because they reject such payments altogether. So, large proportions of savings, particularly in rural regions, remained outside the formal banking sector due to the absence of halal financial institutions. In this context, Bank Islam Malaysia Berhad (BIMB) emerged as a crucial institution, mobilizing Muslim savings and channelling them into productive, Shariah-compliant investments, thus contributing to Muslim socio-economic progress and accelerating national economic development (Ariff 2009).

Building on the success of TH, consistent public pressure mounted for the establishment of an Islamic bank. A formal call materialized in 1980 when the Bumiputera Economic Congress passed a resolution urging the government to authorize TH to establish an Islamic bank to mobilize Muslim savings and invest them productively (Zakariya Man 1988, 69).

In March 1981, at the "National Seminar on the Concept of Development in Islam" organized by Universiti Kebangsaan Malaysia (UKM), a resolution was adopted encouraging the government to introduce special legislation as the initial step toward establishing Islamic banks and other Islamic financial institutions in the country.

As a direct consequence of TH's establishment, the development of Islamic banking in Malaysia subsequently progressed through *three major phases* (Mohd. Idris 2002).

1.4.1.2 First Phase

The first phase commenced in the early 1980s with the enactment of the Islamic Banking Act 1983, which provided the legal framework for establishing Islamic banks in Malaysia.

This was accompanied by the founding of Bank Islam Malaysia Berhad (BIMB). During the same period, Malaysia became the first country to issue *sukuk* following the passage of the Government Investment Act 1983, which enabled the government to introduce the Government Investment Issue (GII) based on Shariah principles. The GII served both to meet liquidity needs of Islamic banks and to absorb idle short-term funds (Venardos 2005, 7; Ariff 2009, 319).

The GII operated on the principle of *qard hasan*, whereby citizens provided interest-free loans to the state in exchange for one or more bonds. Upon maturity, the government returned the principal along with a *hibah* (gift), representing the quasi-fixed return associated with the bond (Piccinelli 2010, 32–33).

BIMB demonstrated strong performance during its first decade of operations, proving itself a viable banking institution with rapid nationwide expansion. It exhibited higher liquidity and lower risk than many conventional banks. From 1984 to 1997, its return on assets and return on equity improved significantly. BIMB was listed on the Main Board of the Kuala Lumpur Stock Exchange in 1992 and expanded to 80 branches with 1,200 employees (Laldin 2008).

Parallel to banking developments, the Takaful Act 1984 was introduced to create an Islamic system of mutual protection (*takaful*) as an alternative to Western insurance. The Act conceptualized *takaful* as a scheme grounded in solidarity, brotherhood, and mutual assistance, through which participants collectively provide financial support to one another in times of need (Mahmood 1991; Mohd. Idris 2002, 316–318).

The Malaysian Takaful Act is regarded as one of the most comprehensive legislative frameworks for Shariah-compliant insurance globally. It operates alongside, rather than in place of, conventional insurance regulation, thereby offering Muslims a halal alternative without eliminating existing institutions (Khorshid 2004, 117).

1.4.1.3 Second Phase

The second phase began in 1990 when Bank Negara Malaysia (BNM) established a parallel Islamic banking system operating alongside the conventional system. For such a system to be viable, it required a substantial number of participants, a diverse range of financial instruments, and a functioning Islamic money market (Mohd. Idris 2002, 318–319).

In 1993, BNM introduced the *Interest-Free Banking Scheme*, or *Skim Perbankan Tanpa Faedah* (SPTF), allowing conventional banks to operate Islamic “windows.” Nearly all major banks subsequently developed Islamic banking operations. The scheme is now known as the *Islamic Banking Scheme* (*Skim Perbankan Islam*, SPI) (Mohd. Idris 2002, 320–322).

In 1997, BNM established the Shariah Advisory Council, the highest Shariah authority on Islamic finance in Malaysia. The Council was entrusted with determining Islamic law for Islamic banking, *takaful*, Islamic development financing, and all other Shariah-based financial activities under BNM’s regulatory supervision (Mohd. Idris 2002, 324).

Driven by BIMB's success, the government advanced further expansion. On 1 October 1999, Malaysia welcomed its second full-fledged Islamic bank, Bank Muamalat Malaysia Berhad (BMMB), formed through the merger of BBMB and Bank of Commerce Malaysia Berhad (BOCB), a restructuring measure introduced during the 1997 Asian financial crisis (Wilson n.d., 7).

During this phase, the Islamic capital market also expanded significantly. By the 1990s, Malaysia's Islamic money market offered an array of instruments such as *sukuk* and Islamic acceptance bills, providing vital alternative financing channels for the economy (Ahmed 2009, 315).

1.4.1.4 Third Phase

The third phase of Islamic finance development in Malaysia was shaped by financial liberalisation. In 2001, BNM introduced the *Financial Sector Master Plan*, aiming to position Malaysia as a global and regional hub for Islamic finance. Further liberalization measures were announced in 2009 to strengthen Malaysia's economic integration with global markets and enhance the financial sector's role as a catalyst for national growth (BNM 2009).

Targets were set for Islamic banking and takaful to achieve 20% of the total banking and insurance market share by 2010, with substantial contributions to the national financial system (Mohd. Idris 2002, 325).

Liberalization facilitated the entry of three foreign full-fledged Islamic banks into Malaysia, heightening competition, expanding market opportunities, and elevating industry performance. Kuwait Finance House (KFH) received the first foreign Islamic banking licence in May 2004 under the new policy regime (Ahmed 2009, 215). The subsequent licences were granted to Al-Rajhi Banking and Investment Corporation and a consortium led by Qatar Islamic Bank (Mokhtar et al. 2006; Ahmed 2009, 215).

At the same time, Islamic windows were encouraged to convert into separate Islamic subsidiaries licensed as full-fledged Islamic banks. RHB Group was the first to establish such a subsidiary, RHB Islamic Bank Berhad (Mokhtar et al. 2006).

In the *sukuk* sector, Malaysia issued its first global Islamic bond in 2002, a five-year USD 600 million *sukuk* arranged by HSBC Bank Malaysia (Visser 2009, 63). The issuance sought not to raise liquidity but to test market acceptance and establish benchmark pricing for global Islamic instruments. The *sukuk* attracted substantial interest: Gulf institutions acquired 40% of the allocation, London banks 20%, and the remainder was taken up by institutions in Malaysia, Southeast Asia, and North America (Ahmed 2009, 319).

Table1.1. Historical Phases of Islamic Banking and Finance in Malaysia

Phase	Period	Key Developments
Early Development	1962–early 1980s	• Establishment of Tabung Haji (1962) to provide Shariah-compliant savings for Hajj. • Shift from informal traditional saving methods to institutionalised Islamic savings. • Ungku Abdul Aziz's Pilgrims Economy Improvement Plan. • TH's nationwide expansion and *riba*-free investments. • Demand for establishment of an Islamic bank (1980–1981).
First Phase	Early 1980s	• Islamic Banking Act 1983 passed. • Establishment of Bank Islam Malaysia Berhad (BIMB). • Government Investment Issue (GII) was introduced based on Qard Hasan. • Strong financial performance and stock exchange listing of BIMB. • Takaful Act 1984 creating Islamic insurance framework.
Second Phase	1990s	• Establishment of a parallel Islamic banking system by BNM. • Introduction of Interest-Free Banking Scheme (SPTF), later Islamic Banking Scheme (SPI). • Formation of Shariah Advisory Council (1997). • Establishment of Bank Muamalat (1999). • Rapid expansion of Islamic capital and money markets including *sukuk*.
Third Phase	2001	• Financial Sector Master Plan (2001). • Financial liberalization initiatives (2009). • Entry of foreign Islamic banks: KFH, Al-Rajhi, Qatar Islamic Bank consortium. • Conversion of Islamic windows into full subsidiaries (e.g., RHB Islamic Bank). • Issuance of Malaysia's first global sukuk (2002).

1.4.2 The Role of the Malaysian Government in Establishing Islamic Banking and Financial Institutions

It may be contended that, in the Malaysian context, the government has acted as the most influential catalyst in enabling the establishment of Islamic banking and finance (IBF), rather than Islamic revivalist movements or petrodollar-driven capital as seen in the Gulf States. This stands in contrast with the earliest modern attempt at Islamic banking, the Mit Ghamr experiment in Egypt, which was conducted discreetly and without an explicit Islamic identity, due to concerns that it would be perceived by the political authorities as an expression of Islamic fundamentalism, something the regime considered undesirable (Ariff 1988; Balala 2011, 161).

In contrast to the Mit Ghamr initiative, which was undertaken by an individual who had no political backing, the sustainability and long-term success of Tabung Haji in Malaysia can be attributed to the vision and continual support of the Malaysian government. The institutionalization of Islamic banking in Malaysia is therefore a direct product of both governmental commitment and the broader aspiration of Malaysian Muslims to integrate Shariah-compliant practices into the mainstream financial system.

During the tenure of Prime Minister Mahathir Mohamad, Islam was strategically positioned as a constructive element in national development and societal progress, particularly among the Malay population. In late 1981, the government introduced the policy of Assimilation of Islamic Values (AIV) (Penerapan Nilai-Nilai Islam) within public administration. Aligned with this policy, the government initiated a series of Islamic institutions, including Bank Islam Malaysia Berhad (BIMB), established in 1983, which embodied the objectives of this policy direction (Wan Yusoff 2008).

The development of IBF in Malaysia is also inseparable from the New Economic Policy (NEP), implemented after the racial riots of 1969. The NEP sought to promote Kuala Lumpur as a leading financial hub and to expand the economic participation of Malays, particularly the bumiputra communities (Warde 2000, 126; Ma'sum Billah 2007).

The adoption of the "Malaysian model" by Indonesia and Brunei during the early stages of establishing their Islamic banking frameworks demonstrates that Malaysia's Islamic banking system is widely regarded as more dynamic and advanced than those in many other Muslim-majority countries. Notably, even Pakistan, one of the few countries that attempted a full Islamization of its economy, sought Malaysia's expertise when considering the introduction of the Islamic "banking window" mechanism (Haron 2004).

1.4.3 The Malaysian Dual Banking System

Malaysia adopts a dual banking framework in which a fully-fledged Islamic banking system operates in parallel with an equally comprehensive conventional banking system, both relying on largely the same financial infrastructure. Although in principle each system functions within its own distinct domain, interaction between the two is unavoidable due to their shared macroeconomic environment (Ismath Bacha 2004).

This dual structure offers two key advantages. First, the range of Islamic banking products in a dual system is typically broader than that available in a purely Islamic system because Islamic banks must match the services provided by conventional banks to meet the needs and expectations of their clients. Second, alongside this wider product range, Islamic financial offerings in a dual system tend to exhibit a greater degree of sophistication. The competitive environment compels Islamic financial institutions to innovate and design parallel products that comply with Shariah principles while remaining comparable to those offered by their conventional counterparts (Yackop 2003).

Malaysia's dual banking arrangement is distinctive among Islamic jurisdictions such as Egypt and Saudi Arabia, as it operates within a rigorously regulated legal framework that maintains separate regulatory regimes for Islamic and conventional banks operating concurrently. Although such systems have been critiqued from a juristic perspective for not eliminating interest-based financing explicitly prohibited in Islamic law, the dual model possesses practical strengths that are often superior to those of a wholly Islamic banking structure (Tag el-Din and Abdullah 2007).

Furthermore, the intense competition between Islamic financial products and their conventional equivalents within a dual-banking environment has produced Islamic instruments that are more advanced and diversified than those found in single-system Islamic banking jurisdictions. To remain viable in such a competitive market, Islamic financial institutions must continuously innovate, developing products that appeal to customers accustomed to conventional financial sophistication while ensuring that all offerings remain firmly anchored in Shariah principles to preserve their Islamic validity.

1.4.4 Appointment of the Shariah Board

The development of Islamic banking and financial institutions was preceded by extensive research in which Shariah scholars played a central and direct role. Much of their work has been documented in the form of committee reports. The involvement of these scholars was crucial not only in guiding the establishment of Islamic financial institutions but also in conferring legitimacy upon them. In countries such as Pakistan, Iran, and Sudan, the process of Islamizing banking operations necessitated the participation of Shariah experts, either as members of formal advisory bodies, such as the Council of Islamic Ideology in Pakistan, or as advisors to the central bank. This model was subsequently adopted in Malaysia and Indonesia, both of which maintain in-house committees of Shariah scholars to oversee Islamic banking operations (Abdul-Rahman 2010; Siddiqi 2006b; Venardos 2005).

The Shariah Board serves a critical supervisory function, ensuring that all aspects of Islamic law are properly applied within the operations of Islamic banking and financial institutions. Specifically, the Board certifies the Shariah compliance of all financial products, models, and services, verifying that transactions adhere to the fundamental tenets of Islamic law (Abdul-Rahman 2010).

Any financial product claiming Shariah compliance must receive a *fatwa*, a formal religious ruling from qualified Islamic jurists. Such jurists are expected to possess a unique combination of scholarly capabilities: a thorough understanding of classical *fiqh* (Islamic jurisprudence), along with a solid comprehension of contemporary microeconomic and macroeconomic principles (Karasik et al. 2007).

Two principal approaches exist for the appointment of Shariah Boards. The first approach, employed in Malaysia, is centralized. The country's central bank, Bank Negara Malaysia (BNM), maintains its own Shariah Board, known as the Shariah Advisory Council of Bank Negara Malaysia, established in May 1997. This Council issues binding fatwas and regulations regarding financial products, services, and operational standards for all Islamic banks in Malaysia. Within this framework, each Islamic bank appoints its own Shariah Supervisory Committee to ensure that its operations comply with the rulings and guidelines issued by the Central Bank's Council. This centralized approach is intended to prevent confusion and conflict that may arise from divergent opinions among Shariah scholars (Abdul-Rahman 2010).

The second approach, commonly found in oil-rich Gulf states and certain other Asian countries, allows individual Islamic banks to appoint their own Shariah Boards independently.

This decentralized model has often resulted in conflicting interpretations among scholars and created challenges due to the limited availability of qualified Shariah experts.

The overarching objectives of Malaysia's National Shariah Advisory Council are threefold: first, to serve as the sole authoritative body advising BNM on all Islamic banking and *takaful* operations; second, to coordinate Shariah matters across the Islamic banking and finance (IBF) sector, including *takaful*; and third, to review and evaluate the Shariah compliance of new financial products and schemes submitted by Islamic banks and *takaful* operators in Malaysia (Venardos 2005).

1.5 Conclusion to Chapter 1

The intellectual and historical journey delineated in this chapter affirms that Islamic economics is a dynamic and evolving field, born from a profound engagement with modernity and a desire to reassert the relevance of Islamic values in the contemporary world. Its emergence was not an isolated academic exercise but a constituent element of a broader Islamic revivalist movement that sought to provide a distinct civilizational alternative to the dominant perspectives of capitalism and socialism. This revival was a direct response to the historical decline of Muslim empires and the subsequent colonial fragmentation, which imposed alien legal and economic structures upon Muslim societies. Pioneering thinkers like Sayyid Jamal al-Din al-Afghani, Muhammad Abduh, and later, Abu al-A'la al-Mawdudi, laid the foundational ethos for this project, framing Islam not merely as a system of personal belief but as a comprehensive politico-economic ideology capable of confronting modern challenges. The subsequent crystallization of Islamic economics was thus an intellectual and institutional attempt to depart from colonial legacies and articulate a development model rooted in the ontological and epistemological sources of Islam, namely, the Qur'an and the Sunnah. The field gained significant momentum in the post-colonial period, particularly from the 1940s onwards, with its institutional consolidation accelerating dramatically during the 1970s Arab oil boom, which provided the necessary petrodollar capital for establishing pioneering institutions like the Islamic Development Bank and the first commercial Islamic banks.

A central and enduring debate within the discourse revolves around the ontological character of Islamic economics itself, whether it is primarily a system, a science, or an amalgam of both. Scholars such as Chapra have defined it as a body of knowledge aimed at the efficient allocation and equitable distribution of resources in accordance with Islamic principles, thereby placing socio-economic justice and the realisation of *maqasid al-Shariah* at its very core. Mannan, conversely, has situated it firmly within the realm of sociology, emphasising the study of human social behaviour as shaped by Islamic values. A more cautious perspective, offered by al-Sadr, conceptualises it as akin to political economy, whose full empirical realisation is contingent upon the prior existence of a truly Islamic society, a condition he argues remains unfulfilled. This tension between the normative and the positive, between what ought to be and what is, continues to define the discipline. Despite these ongoing theoretical deliberations, there is a consensus that Islamic economics aspires to be a moral economy, one that seamlessly integrates ethical considerations into the fabric of economic life. It proposes an ethical and systemic conception of economic and financial life, challenging the materialistic and secular assumptions of conventional economics. However, as critics like Asutay observe, there remains a significant gap between these noble aspirations and their practical implementation, a theme that recurs in the examination of Islamic finance.

The relationship between Islamic economics and capitalism is complex and multifaceted, characterised by both critique and selective engagement. Leading Islamic economists have mounted a substantive critique of capitalism's inherent tendencies to generate profound inequality and its failure to uphold economic justice. Siddiqi, Chapra, and Taleghani have argued persuasively that Islam offers a balanced middle path, or a "third way," which upholds the legitimacy of private property and economic freedom within a divinely ordained ethical framework that curbs excessive individualism and greed. This system avoids the unrestrained private ownership of capitalism, which leads to inequitable wealth disparities, as well as the excessive public ownership of communism, which suppresses individual freedom. Conversely, scholars like Rodney Wilson present a more integrationist view, contending that Islamic economics, particularly in its financial manifestation, emerged from within the capitalist system as an attempt to render financial activities Shariah-compliant. From this perspective, Islamic finance constitutes a modified form of capitalism, an "Islamic capitalism" that shares fundamental attributes with its Western counterpart, such as respect for property rights and the protection of trade, thereby allowing for coexistence and mutual cooperation. Synthesising these views, it becomes evident that Islamic economics engages in a critical dialogue with capitalism, seeking to learn from its mechanisms while fundamentally challenging its underlying moral philosophy and redistributive outcomes.

The most prominent and practically successful manifestation of Islamic economic thought to date is undeniably the field of Islamic banking and finance (IBF). Theoretically, IBF rests on two principal foundations: the socio-economic approach, which emphasises the broader advantages of a Shariah-compliant financial system for society, and the legalistic approach, which focuses on the technical structuring of permissible financial instruments. The ideal cornerstone of IBF is the Profit and Loss Sharing (PLS) model, embodied in classical contracts like *al-mudarabah* (trustee finance) and *al-musharakah* (joint venture). This model is promoted as superior to interest-based financing because it intrinsically links financial returns to the real economy, promotes risk-sharing, and enhances allocative efficiency by ensuring financiers bear a direct stake in the success of entrepreneurial ventures. Early theorists, from Qureshi to Siddiqi, envisioned PLS as the defining characteristic of Islamic banks. However, the practical evolution of the industry has diverged significantly from this theoretical ideal. Due to perceived high risks, agency problems, and a lack of expertise in evaluating entrepreneurial ventures, Islamic banks have gravitated overwhelmingly towards debt-based instruments such as *al-murabahah* (cost-plus sale), which offer more predictable, fixed returns. This divergence has led to criticism that contemporary Islamic finance has become overly commercialised, prioritising legalistic compliance over its original socio-economic and moral objectives, and thus converging operationally with conventional finance rather than displacing it.

The global emergence and development of IBF have been shaped by a confluence of factors: the intellectual condemnation of *riba*, the accumulation of oil wealth in the Gulf, and a growing demand from Muslims for Shariah-compliant financial services. The pioneering experiment in Mit Ghamr, Egypt, in the 1960s demonstrated the viability of interest-free savings and investment. This was followed by the establishment of key institutions in the 1970s, such as the Dubai Islamic Bank and the Faisal Islamic Banks in Sudan and Egypt. The subsequent decades witnessed the national-level Islamization of banking in Pakistan, Iran, and Sudan, while other countries, most notably Malaysia, adopted a dual-banking system. The theoretical promise of IBF extends to macroeconomic stability and growth. Scholars argue that a financial system grounded in PLS and asset-backed financing is inherently more stable, as it avoids the debt-leveraging and speculative excesses that characterize conventional finance. It is posited to foster a stronger link between the financial and real sectors, promote a more equitable distribution of credit, and ultimately contribute to sustainable and just economic development, though empirical evidence on these broad claims remains a subject of ongoing research.

The Malaysian case provides a compelling and highly instructive narrative of the strategic adoption and adaptation of Islamic economics and finance within a specific national context. Malaysia's track is unique, characterised by a state-led, gradualist, and pragmatic approach that has seamlessly woven Islamic finance into the fabric of a modern, pluralistic, and rapidly developing economy. The role of Islam in Malaysia's development is profound, evolving significantly from the post-independence era to become a central force under the premiership of Mahathir Mohamad. Mahathir was the first prime minister to consciously and strategically position Islam as a positive developmental force, harmonizing Islamic principles with modernity, technological advancement, and economic progress. His administration's Islamization programme was not merely a religious project but a calculated political strategy to channel the energies of Islamic resurgence, neutralise opposition from Islamist parties, and foster a disciplined, motivated, and economically empowered Malay-Muslim community. This was achieved through landmark initiatives such as the establishment of Bank Islam Malaysia Berhad (BIMB) in 1983, the International Islamic University Malaysia (IIUM), and the introduction of the "Assimilation of Islamic Values" in public administration.

The historical development of IBF in Malaysia can be systematically divided into distinct phases, beginning with the visionary establishment of Tabung Haji (the Pilgrims' Fund Board) in 1962. Tabung Haji was a foundational success, demonstrating the viability of Shariah-compliant savings and investment and creating a large pool of capital and public trust that would later facilitate the launch of full-fledged Islamic banking. The First Phase (early 1980s) was marked by the enactment of the Islamic Banking Act (1983) and the Takaful Act (1984), which provided the necessary legal scaffolding. The Second Phase (1990s) saw the creation of a parallel Islamic banking system and the introduction of the Islamic Banking Scheme (IBS), which allowed conventional banks to offer Islamic financial products through "windows," dramatically expanding the sector's reach. This phase also included the establishment of the authoritative Shariah Advisory Council at Bank Negara Malaysia (BNM), which provided centralised and standardised religious guidance, a key factor in Malaysia's success. The Third Phase (post-2001), guided by the Financial Sector Master Plan, involved strategic liberalisation, the entry of foreign Islamic banks, the conversion of Islamic windows into full-fledged subsidiaries, and the positioning of Malaysia as a global hub for Islamic finance, epitomised by its pioneering and sophisticated global *sukuk* (Islamic bond) issuances.

A critical factor underpinning Malaysia's success is the distinctive dual-banking system, in which a fully-fledged Islamic banking system operates in parallel with the conventional system. This model has proven to be a source of strength rather than weakness. The intense competition has compelled Islamic financial institutions to innovate rapidly, developing a wide range of sophisticated products that are both Shariah-compliant and competitive with their conventional counterparts. Furthermore, the government has acted as the primary catalyst, providing unwavering political support, a robust regulatory framework, and a clear strategic vision, contrasting sharply with the more discreet or opposition-facing early experiments in other Muslim countries. This state-led approach, coupled with the centralised role of BNM's Shariah Advisory Council, has ensured consistency, credibility, and rapid institutional growth. The Malaysian model, with its emphasis on pragmatism, gradualism, and integration into the global financial system, has thus served as an influential template for other Muslim-majority nations seeking to develop their own Islamic financial sectors.

In the final analysis, while the intellectual project of Islamic economics as a comprehensive alternative perspective remains a work in progress, its most practical application, Islamic banking and finance, has achieved remarkable institutional success, particularly in the Malaysian context. The field stands at a critical juncture. Its future development hinges on its ability to bridge the persistent gap between its normative ideals of justice, equity, and moral economy and its current operational realities, which are often dominated by commercially driven, legalistic interpretations. For Islamic economics to fully mature as an autonomous discipline, it must foster deeper theoretical rigour and generate more empirical research grounded in real-world economic practices. For Islamic finance to realise its transformative potential, it must move beyond the predominant use of debt-like instruments and embrace the risk-sharing ethos of its foundational PLS principles, expanding its services to support critical but underserved sectors like agriculture, small industries, and microfinance. Malaysia's experience offers a powerful testament to the potential of Islamic finance as a viable component of a modern financial system. Yet, it also serves as a reminder that the ultimate challenge lies not merely in creating a Shariah-compliant industry, but in nurturing one that genuinely fulfils the higher objectives of the Shariah (*maqasid al-Shariah*), thereby contributing meaningfully to human welfare, social justice, and sustainable economic development for all.

Part B
Chapter 2: Agriculture in Islamic Economics: Institutions, Principles, and Contemporary Challenges

2.1 Introduction

The global agricultural sector stands at a critical juncture, grappling with the dual challenges of ensuring sustainable food security for a growing population and adapting to the escalating pressures of climate change and economic volatility. For Muslim-majority nations, these challenges are further compounded by the need to align economic activities with the ethical and moral principles of Islam. Within this complex landscape, Islamic economics emerges not merely as an alternative financial system but as a comprehensive perspective advocating for human-centric development, social justice, and the equitable distribution of resources. At the heart of this perspective lies the agricultural sector, a domain endowed with profound historical and doctrinal significance within the Islamic tradition. From the agrarian foundation of the first Islamic state in Medina to the Prophetic encouragements of land cultivation and fair partnership contracts, agriculture is intrinsically linked to the Islamic concepts of lawful earning (*halal*), divine provision (*rizq*), and communal welfare.

However, a significant disconnect persists between the theoretical ideals of Islamic economics and the practical realities of modern agricultural finance. Contemporary farmers, particularly smallholders in developing economies like Malaysia, face a suite of formidable obstacles. These include severe capital constraints, inadequate access to formal credit, high exposure to production and market risks, and a heavy reliance on informal, often exploitative, lending channels. Conventional financing, predominantly based on interest-bearing debt (*riba*), often proves incompatible with the long-gestation nature of agriculture and places an untenable burden of fixed repayments on farmers, thereby exacerbating their financial vulnerability and leading to social imbalances. This situation creates a pressing need for financial solutions that are not only effective but also ethically grounded and religiously permissible.

The gap between principle and practice is what this study positions itself on. This research posits that the instruments of Islamic finance, specifically partnership-based contracts such as *al-muzara'ah* (crop sharing) and *al-musaqah* (irrigation sharing), hold immense yet underutilized potential to revitalize the agricultural sector. These contracts, rooted in the Profit and Loss Sharing (PLS) ethos, offer a framework for risk-sharing, aligned incentives, and long-term investment that is uniquely suited to the agricultural cycle. They represent a modern institutional reincarnation of the cooperative spirit that characterized early Islamic economic practices, capable of addressing the financing hurdles while fulfilling the social objectives of poverty alleviation, rural development, and enhanced national food security.

Focusing on the Malaysian context, this paper examines the intricate realities of farmers' lives, their financial behaviours, and the structural constraints they face. Through empirical case studies across multiple states, it uncovers the lived experiences of farmers, highlighting issues such as the prevalence of non-cash economies, the limitations of one-off government subsidies, and the fragmentation of land holdings. The study critically examines the role of existing financial institutions, with a particular focus on Agrobank, and assesses the current landscape of Islamic agricultural finance in the country.

The ultimate aim of this research is threefold. First, it seeks to articulate a robust theoretical and doctrinal case for the application of Islamic partnership contracts in agriculture. Second, it proposes a practical and innovative framework, termed Agricultural Product and Loss Sharing (aPLS), that adapts the classical principles of *al-muzara'ah* and *al-musaqah* to the complexities of the modern financial system, including its integration with microfinance concepts and other contracts such as *al-ujrah* (wage). Finally, it provides actionable policy recommendations and operational schemes for financial institutions, aiming to bridge the gap between the demand for Shariah-compliant finance among farmers and the supply of such products by the banking sector. By doing so, this study aspires to contribute not only to the academic literature on Islamic economics but also to the tangible improvement of rural livelihoods, paving the way for a more resilient, equitable, and Islamically-grounded agricultural economy.

2.1.1 The Role of Agriculture in Islamic Economics

Islamic economics, which gained practical momentum from the 1970s onwards, emerged as a critique of both capitalist and socialist systems, proposing a human-centric development strategy underpinned by Islamic values. From its inception, this discipline has been more than a theoretical exercise; it is a frontier science born from controversy and a deep-seated desire to offer moral and practical solutions to economic problems. Its instruments, such as profit and loss sharing (PLS) to replace interest, wealth tax (Zakat) for redistribution, charitable endowments (Waqf) for social welfare, and the prohibition of waste, are derived from the Qur'an and Sunnah. Within this framework, agriculture holds a position of historical and doctrinal significance. The first Islamic state in Medina was fundamentally agrarian, and Prophet Muhammad (PBUH) actively encouraged economic policies such as shareholding (*al-muzara'ah*) and the development of *mawat* (dead lands) to ensure resources were fully utilized for communal wellbeing. This established a core Islamic economic principle: that land and labour should be combined in a manner that is just, productive, and avoids idleness, guided by the concepts of lawful (*halal*) earnings and divine provision (*rizq*). Therefore, the revitalization of agriculture is not merely an economic strategy but a means of reviving a Sunnah and fulfilling the moral economy envisioned by Islamic teachings.

2.1.2 Land Institutions and Agricultural Development

Land is the primary factor of production in agrarian economies, and its development has been a vital concern from the time of Prophet Muhammad (PBUH) to the present. In early Medina, the relationship between the Meccan migrants (Muhajireen), who were largely merchants, and the Medinan hosts (Ansar), who were farmers, was governed by a spirit of brotherhood and interdependence. Sharecropping contracts were instituted as a just and practical means of providing capital to those with labour and land, and to those with expertise, ensuring a fair distribution of benefits. The Prophet's emphasis on developing dead land underscored a principle of resource utilization that is central to Islamic land ethics. However, the modern context, with its demands for mass production, advanced technology, and large-scale capital, has complicated this simple model. While the Shariah provides general instructions on land development and peasant-landlord relationships, the specific regulations for contemporary conditions need to be diligently worked out. This necessitates expanding the traditional concept of shareholding beyond individual farmers and landowners to include formal institutions, specifically Islamic financial institutions. The role of these institutions is to act as modern-day capital providers, entering partnership contracts that mirror the cooperative and risk-sharing spirit of early Islamic practices but are structured for the complexities of the modern global agricultural market.

2.1.3 Modern Issues in the Agricultural Sector

The contemporary agricultural sector, even in developing economies, faces a suite of interconnected challenges that demand sophisticated financial solutions. Firstly, capital formation is a major hurdle; farm capital—encompassing land, buildings, machinery, livestock, and stored crops—requires significant initial investment to enhance productivity through fertilization, irrigation, and infrastructure. Secondly, risk management is paramount. Agriculture is inherently exposed to natural disasters, adverse weather, and market fluctuations. While informal risk-sharing mechanisms like crop-sharing contracts exist, there is a growing need for formal, Shariah-compliant instruments like Islamic insurance (*takaful*) to help farmers manage these uncertainties. Thirdly, financing agricultural development is undergoing a structural transformation. The increasing capital requirements driven by technology and farm size force agriculture to compete in national and international financial markets. Conventional commercial banks, often urban-centric, have provided production loans but are typically oriented towards short-term debt financing, which can place farmers in high-risk situations due to fixed repayment obligations. This debt-based model can lead to social imbalance, where resources steadily flow from borrowers to lenders. Furthermore, issues of agricultural sustainability and food security are pressing. Sustainability in an Islamic context is not only about long-term profitability but also equitability and the welfare of both current and future generations. In Malaysia, for instance, despite fertile land and a favourable climate, the country remains a net food importer, particularly for its staple crop, rice, highlighting a critical area for intervention and development.

2.1.4 The Contribution of Islamic Finance to Agricultural Revitalisation

Islamic finance holds significant potential to address the issues and revitalise the agricultural sector, particularly in rural Malaysia, by offering an alternative that is Shariah-compliant, promotes long-term profitability, and fulfils social needs.

Shariah Compliance and Product Demand: For a significant portion of the Malaysian rural population, adherence to Islamic principles is paramount. The existence of institutions like Tabung Haji and the proliferation of Islamic banking windows testify to a strong demand for financial products that avoid *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling). Field research, including interviews with officials at the Department of Agriculture and Agrobank in Malaysia, confirms that many farmers and landowners actively seek Islamic financial products for land development while expressing reluctance towards conventional debt financing due to its inherent risks.

Partnership Financing for Long-Term Profitability: The core of Islamic agricultural finance lies in equity-based partnership contracts rather than debt-based loans. Instruments like *al-mudarabah* (trustee finance), *al-musharakah* (joint venture), and the more agriculturally specific *al-muzara'ah* (crop sharing) and *al-musaqah* (irrigation sharing) are built on Profit and Loss Sharing (PLS). This aligns the financier's return with the actual success of the project, creating a built-in stabilizer. For long-gestation agricultural projects from sowing to harvesting, this is far more feasible than short-term loans. While the global Islamic banking industry has been criticized for its over-reliance on mark-up (*murabahah*) contracts, successful models exist. The Agricultural Bank of Iran (ABI) has demonstrated that with close monitoring to reduce information asymmetry, *al-musharakah* can become the preferred method of finance. Similarly, in Sudan, Islamic banks have successfully combined *al-musharakah* and *al-musaqah* to provide inputs and irrigation services. In Pakistan, the central bank has issued comprehensive guidelines promoting a suite of Islamic contracts for agriculture. These examples provide a blueprint for Malaysia to enhance its use of PLS modes.

Meeting Social Needs and Driving Rural Development: The contribution of Islamic finance extends beyond mere compliance and profitability to encompass profound social objectives. In the Malaysian context, this involves directly addressing food security by financing domestic rice production to reduce dependence on imports, fostering rural development by providing capital to states with the highest concentration of crop operators (such as Sabah, Sarawak, and Kelantan), and reducing poverty. Historical data shows that while poverty has declined nationally, its incidence remains higher in rural areas. By providing smallholders with access to improved inputs (seeds, fertiliser) through cooperative or partnership models, Islamic banks can fulfil their social role of poverty alleviation and contribute to more balanced regional development, ensuring that the benefits of economic growth are shared more equitably.

2.2 Fitting Islamic Financial Contracts in Developing Agricultural Land

It is indisputable that many contemporary Islamic countries continue to be characterised by predominantly rural economies. Broadly speaking, smallholder farmers across numerous Islamic nations face challenging and often precarious conditions. For example, they commonly confront liquidity constraints that significantly undermine the operational efficiency of their farms. Moreover, their access to formal and organised credit markets remains extremely limited. As a result, it is unsurprising that informal credit markets—typically associated with considerably higher interest rates—operate alongside formal lending institutions (Hoff et al. 1995).

In addition to this, it is an established fact that the development of agricultural land demands substantial capital investments, which frequently exceed the income levels of most farmers. Financial capital is crucial for supporting agricultural infrastructure, encompassing the acquisition of seeds, machinery, irrigation systems, and fertilizers. At the same time, Islamic banking and financial institutions have experienced rapid growth in recent years. Nevertheless, a significant number of potential Muslim clients, particularly those residing in rural regions, continue to have their financial needs unmet. Under such circumstances, the introduction of a financial system capable of providing specialised facilities for smallholder farmers becomes essential, alongside efforts to enhance the availability of agricultural financing to help farmers strengthen their production capacity (Hughes et al. 1986).

Accordingly, this paper seeks to illustrate how Islamic financial principles—especially contracts closely associated with the agricultural sector—may offer an alternative pathway for developing Islamic agricultural finance. Additionally, the paper discusses the suitability of Islamic agricultural financing mechanisms and the proposed Islamic partnership contract schemes for the development of agricultural land.

2.2.1 Prospects of the Islamic Partnership Contract in Agriculture

Agricultural land has no intrinsic value unless it is cultivated and transformed into a productive input. Thus, it requires flow resources such as labour, machinery or tools, and seeds. At times, the absence of one or more of these production inputs may result in land remaining idle. Furthermore, several scholars, in their discussions on the role of agriculture, assert that the sector naturally serves as a default source of employment and a reservoir of surplus labour. At the same time, it is widely acknowledged that the agricultural sector demands long-term financing owing to the extended period between sowing and harvesting (Hughes et al. 1986).

From another perspective, Islamic commercial law clearly promotes schemes based on shared risk and reward within society. In contrast, conventional loan mechanisms place most of the risk on the borrower rather than the lending institution, thereby exposing low-income individuals to indebtedness that may worsen their financial condition and hinder their ability to contribute to community development.

Islamic financial arrangements were founded upon the prohibition of predetermined payments or receipts and guaranteed rates of return. So, the concept of interest and other debt-based instruments is excluded from Islamic finance, which instead endorses risk-sharing, encourages entrepreneurial activity, discourages speculative practices, and upholds the sanctity of contractual obligations (Iqbal 1997). The constructive features inherent in Islamic finance, coupled with the extension of such products to low-income groups, indicate its potential to serve as an effective development tool (Alasrag 2010). At the same time, Aggarwal and Yousef (2000) classify profit-and-loss-sharing arrangements rooted in the principles of *al-mudarabah* and *al-musharakah* as mechanisms suited for long-term financing, while principles such as *bay' al-salam* and *al-ijarah* are more closely associated with short-term financing.

So, Hoshmand (1995) posits that Islamic banking principles, particularly profit-and-loss-sharing or partnership-based contracts, may provide viable solutions to the challenges of credit access and simultaneously help mitigate the risks associated with debt financing in the agricultural sector. Two reasons support this view. First, banks would avoid exposing their funds to highly speculative ventures. Second, they would possess strong incentives to enhance the profitability of financed projects, given that they would effectively participate as shareholders in the ventures they support (Crane and Leatham 1993).

2.2.2 The Concept of *al-Muzara'ah* and *al-Musaqah* as Forms of Partnership Contract in Agriculture

In addition to the widely discussed principles of *al-mudarabah* and *al-musharakah* under partnership contracts in Islamic banking and finance, there also exist partnership contracts specifically associated with agricultural land development, namely al-muzāra'ah and *al-musaqah*. *al-Muzara'ah* refers to a commercial agreement between a capital provider and a worker, while *al-musaqah* denotes an agricultural partnership between a landowner and a cultivator (Shafiai 2011).

Generally, *al-muzara'ah* is derived from the word *zar'a*, meaning "crop" (Ibrahim 1983). Accordingly, it is defined as a contract between two parties—the landowner and the farmer—wherein the former grants the land to the latter to plant, maintain, and cultivate in return for an agreed shared portion of the harvest (al-Kasani 1968; al-Syarbini 1997; al-Syawkani 1985; Ayub 1998; Bal 2001).

Meanwhile, the *al-musaqah* contract originates from *saqa*, meaning "to water" or "to irrigate" the land (Ibrahim 1983). Technically, it is defined as a contract between a landowner who possesses trees and a farmer who undertakes the tasks of maintaining, irrigating, and nurturing those trees, with the produce subsequently shared between the two parties (al-Syarbini 1997).

Nevertheless, Islamic jurists hold differing opinions regarding whether *al-muzara'ah* and *al-musaqah* resemble leasing (*al-ijarah*) or partnership contracts (*al-mudarabah*). Early interpretations—particularly those of Imam Abu Hanifah—regarded *al-muzara'ah* as invalid and recognised only the concept of *al-ijarah* (leasing). Imam Abu Hanifah, Imam Malik, and Imam Shafi'i were clear that, with respect to arable land, they accepted *al-ijarah* contracts (Johansen 1988).

Conversely, later jurists such as Imam Abu Yusuf, Muhammad al-Shaybani, and Ahmad Ibn Hanbal (Nyazee 2002), as well as contemporary scholars including Muhammad Baqir al-Sadr (al-Sadr 1982) and Seyyed Mahmood Taleqani (Taleghani 1983), argued that these contracts resemble partnership arrangements and are therefore permissible. Jurists who categorise these contracts as forms of partnership view them as analogous to *al-mudarabah* (Nyazee 2002).

After examining the opinions of both classical and contemporary scholars, it may be concluded that these contracts more closely mirror partnership arrangements within agricultural activities. The principles of *al-muzara'ah* and *al-musaqah* may thus be regarded as joint ventures between a landowner, who provides the property (agricultural land), and a farmer, who contributes labour. The land and seeds supplied by the owner are treated as capital and function as essential factors of production.

Furthermore, in a partnership contract, profit, loss, and risk are shared by both parties. In the event of crop failure, losses are borne collectively: the landowner forfeits the seeds, while the farmer loses the labour invested. So, neither is entitled to claim exclusive rights to any profit. The landowner forgoes the certainty of leasing the land for a predetermined rental income, choosing instead to assume risk with the expectation of higher returns. Similarly, the farmer accepts the risk that cultivation may not produce a sufficient yield, despite having the option of securing a fixed wage from the landowner. Both parties willingly embrace risk in the hope of obtaining greater profit.

2.2.3 Comparing *al-Muzara'ah* and *al-Musaqah*

Fundamentally, the contract of *al-muzara'ah* is analogous to that of *al-musaqah*. The *al-muzara'ah* arrangement may be characterised as a partnership in cultivation, wherein the landowner provides the land while the farmer contributes labour and managerial effort from the initial preparation stage through to harvest. In contrast, *al-musaqah* applies specifically to cases involving trees that have already sprouted and become established prior to the agreement, particularly when the landowner is unable to irrigate or maintain the orchard due to incapacity (Shafiai 2011).

According to Wahbah al-Zuhayli, all conditions applicable to *al-muzara'ah* are equally relevant to *al-musaqah*. Moreover, Islamic scholars have determined that *al-musaqah* closely resembles *al-muzara'ah*, with differences arising only in minor procedural aspects attributable to varying juristic interpretations (Al-Zuhayli and Eissa 2003). So, *al-muzara'ah* may be understood as a partnership contract between a landowner and a farmer for the development of agricultural land from its initial preparation through to the cultivation phase. Conversely, *al-musaqah* pertains more specifically to a partnership involving the maintenance and cultivation of an orchard. In summary, the essential distinction between the two contracts lies in the object of partnership: *land* in the case of *al-muzara'ah*, and *trees* in the case of *al-musaqah*.

2.2.4 Suitability of Islamic Partnership Contract in Developing Agricultural Land

In essence, the requirement for financing is a universal feature of human economic activity, irrespective of whether it is undertaken within the framework of conventional (non-Islamic) finance or Islamic finance. Individuals and institutions invariably require capital to acquire assets, employ labour, and meet ongoing operational expenditures. In this regard, the present paper seeks to advance two central arguments that underscore the appropriateness of utilising Islamic partnership contracts—specifically those grounded in the principles of *al-muzara'ah* and *al-musaqah*—as viable mechanisms for the development or financing of agricultural land.

2.2.5 Shariah Compliance

Shariah-compliant finance emerged to enable Muslims to access financial products that align with the tenets of their religious belief system. As with non-Muslims, Muslims require a full spectrum of banking services, including savings facilities, educational financing, and housing loans. Historically, the establishment of Tabung Haji in Malaysia in 1963 and the first Islamic bank in Egypt in the same year (Wilson 1983) demonstrates the substantial demand for Shariah-compliant banking and financial products, particularly within rural communities. In earlier decades, especially among those living in rural areas, individuals relied on informal and conventional methods of saving to avoid *riba* and to accumulate funds for the performance of *hajj*. Savings were often kept in pillows or hidden under mattresses, a practice that posed significant security risks.

Moreover, as articulated by El-Gamal (2000), the primary function of an Islamic banking and financial system is to offer banking services that are religiously permissible for the Muslim community. Islamic banks are also designed to act as financial institutions that help Muslims abstain from elements such as *riba*, *gharar*, and *maysir*, all of which are inherent features of conventional banking systems.

2.2.6 Long-Term Profitability

Fundamentally, within Islamic banking frameworks, banks are regarded as institutions that operate by utilising funds entrusted to them by their customers. Broadly, Islamic banks provide two categories of banking facilities. The first comprises fixed-profit financing instruments such as hire purchase and instalment sales with predetermined profit margins, which are grounded in the principles of *al-mudarabah* and *al-bay‘ bi-thaman ’ajil*. The second category consists of variable-profit facilities structured around profit-and-loss sharing mechanisms, derived from the principles of *al-mudarabah* and *al-musharakah* (Iqbal and Llewellyn 2002).

Chapra (2002) contends that the stability of the financial system can be further strengthened through a broader implementation of partnership- or equity-based financing. By adopting these risk-sharing contracts, financiers would be more motivated to undertake rigorous risk assessments at the initial stage and to engage in continuous monitoring of borrowers once financing is granted (Chapra 2002).

In line with the arguments advanced by Siddiqi (1983a) and Chapra (1992), it has therefore been projected that partnership-based contracts should constitute the central feature of financing within Islamic banking. Both scholars maintain that Islamic banks can significantly contribute to economic growth in Muslim-majority countries by providing long-term partnership financing to productive and developing sectors (Siddiqi 1983a; Chapra 1992).

2.2.7 Proposed Schemes of Partnership Contract for Agricultural Land Development

In essence, a financing arrangement grounded in *al-muzara‘ah* and *al-musaqah*, or any partnership-based contract for agricultural land development, can be established through a collaboration involving the mobilisation of land, physical inputs, and labour. Within an *al-muzara‘ah* contract, multiple partnership configurations may be formed. In the basic model, one party contributes the land and other physical factors of production, while the other party provides labour (Gulaid 1995).

Alternatively, the arrangement may involve one party supplying the land, whereas the other party contributes both the physical inputs and the labour. Another permissible structure under *al-muzara‘ah* is where one contracting party provides the land and labour, while the other party supplies the remaining physical factors of production (Gulaid 1995). Instances of three-party *al-muzara‘ah* partnerships—where one party furnishes the land, a second party provides a combination of necessary physical inputs, and a third party supplies the labour—are also common in contemporary agricultural practice (Shafiai 2011).

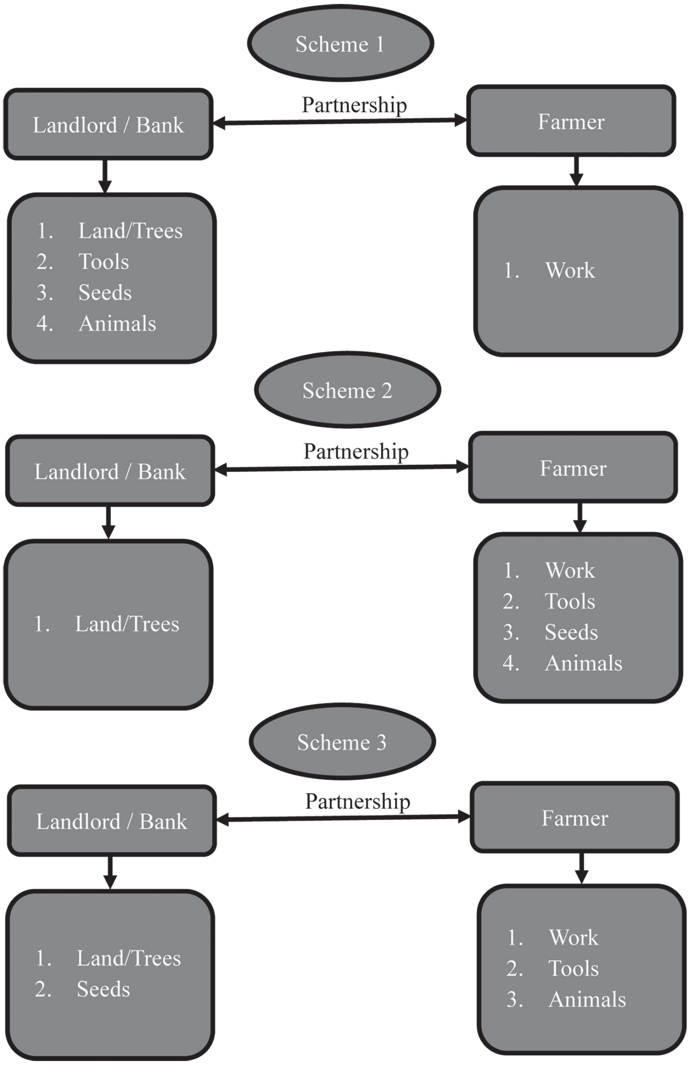

Figure 2.1. The Basic Schemes of Partnership Contract in Agriculture between Landlord/Bank and Farmer (Shafiai 2011)

Drawing on the contractual forms proposed by Abu Yusuf, this paper suggests three partnership schemes, as illustrated in Figure 2.1. In the first scheme, the land (in *al-muzara'ah*), or trees (in *al-musaqah*), along with tools, seeds, and animals, are supplied by the landowner, while the labour and effort are provided by the tenant. In the second scheme, the land (in *al-muzara'ah*) or trees (in *al-musaqah*) are provided by the landowner, whereas all other inputs are supplied by the tenant. The third scheme involves the land (in *al-muzara'ah*) or trees (in *al-musaqah*) and seeds being contributed by the landowner, with the remaining inputs provided by the tenant.

From the perspective of Islamic financial institutions, *al-muzara'ah* and *al-musaqah* arrangements can be operationalised to finance agricultural inputs over a specified period. In such cases, the bank supplies the required funds for agricultural investment, while the farmer contributes labour. Accordingly, these contracts may be employed for acquiring seeds, fertilizers, and pesticides, and for meeting the requirements of irrigation, storage, and marketing activities associated with agricultural production (Shafiai 2011). Through this financing structure, the bank effectively assumes the role of the landowner.

In addition, there is potential for the bank to become the landowner more directly. This may occur through the bank purchasing the land and subsequently granting it to the prospective farmer to cultivate under the terms of a partnership contract. In this scenario, the Islamic bank functions as the landowner while simultaneously participating as a partner with the farmer. For landless farmers, financial institutions may purchase land and allocate it to eligible farmers to cultivate under *al-muzara'ah* or *al-musaqah* principles. Upon completion of the contract, the farmer may also have the opportunity to become the landowner by making payments to the financier under another permissible structure, such as *al-ijarah al-muntahiyah bi-tamlik*. Thus, Islamic banking institutions are capable of assuming the role of landowners directly and establishing partnership-based relationships with farmers through *al-muzara'ah* and *al-musaqah* contracts.

2.2.8 Conclusion

From the standpoint of Islamic banking and financial institutions, the principles of *al-muzara'ah* and *al-musaqah* possess considerable potential to be formalised as viable Islamic partnership-based financing instruments for agricultural land. The utilisation of these modes within the agricultural sector may prove highly effective, particularly for the financing of orchards and other forms of agricultural land. Financial institutions may extend financing to the landowner, the tenant, or both parties to ensure that the partnership proceeds smoothly, productively, and in accordance with its intended objectives.

The proposed mechanisms for agricultural land financing are not confined solely to the principles of *al-muzara'ah* and *al-musaqah*. Other Shariah-compliant contracts—such as *al-ijarah al-muntahiyah bi-tamlik*, *al-murabahah*, and *bay' al-salam*—may also be incorporated. Contemporary Islamic banking institutions tend to implement a two-tier *al-mudarabah* structure, rather than the unilateral *al-mudarabah* described in classical jurisprudence. Under this arrangement, banks mobilise deposits from customers and subsequently invest these funds with third parties. So, appropriate adaptations of the principles of *al-muzara'ah* and *al-musaqah* by financial experts are necessary to enhance the operational practicality of these contracts within modern Islamic banking and financial systems. Such refinements require coordinated contributions from various stakeholders, including academics and industry practitioners, to support the continuous improvement of these products.

In conclusion, further empirical research is needed to clarify the issues outlined above and to eventually establish a robust framework for partnerships between landlords and farmers from the perspective of Islamic economics. Therefore, there is a pressing need to develop a comprehensive agricultural financing system grounded in Islamic contractual principles in order to increase and sustain the incomes of farmers and landowners, while contributing to poverty reduction.

2.3 Financial Problems among Farmers in Malaysia: Islamic Agricultural Finance as a Possible Solution

The agricultural sector operates within a distinctive and often challenging environment. It is exposed to a variety of natural risks, such as droughts, floods, and wildlife disturbances, which must be considered by both farmers and landowners. Because of these inherent uncertainties, financial institutions are frequently hesitant to invest in or extend financing to this sector. In contrast, such risks are relatively uncommon in industries such as manufacturing, trade, and services. Structurally, agricultural projects in Malaysia typically take the form of smallholdings, owned and managed by families and households in rural areas. Private ownership predominates in the control of assets and properties, and most small-scale agricultural and non-agricultural enterprises operate independently, with minimal external support. Their capacity to generate revenue is often limited to subsistence-level needs, reflecting the small-scale nature of production and its close alignment with household requirements in rural communities. So, the assets and outputs produced through these agricultural activities are often not well-suited for broader market transactions.

Although Malaysia's agricultural markets largely function within a free-market setting, certain rigidities persist, particularly in the form of government subsidies and support programmes that involve direct intervention in market processes, pricing structures, and resource allocation. This intervention is evident in the active role played by the Department of Agriculture in assisting farmers with land development efforts. Despite receiving substantial governmental support, farmers in Malaysia continue to encounter difficulties in cultivating their land, particularly in relation to financing constraints. These challenges are confirmed by case studies conducted in selected states across the country.

In parallel, Islamic financial theory posits that economic stability can be enhanced through the integration of the financial and real sectors. Islamic banks are expected to participate directly in real-sector economic activities, and, with appropriate project selection, their profit shares can exceed the returns associated with conventional interest-based financing. This view is grounded in early Islamic economic thought, which highlights that monetary expansion must be tied to real economic growth. Moreover, a defining characteristic of Islamic banking and finance is its emphasis on risk-sharing between the provider of capital (the investor) and the user of capital (the entrepreneur) through partnership-based contracts.

Shariah-compliant finance was also developed to meet the needs of Muslims seeking financial products that conform to their religious beliefs. Like their non-Muslim counterparts, Muslims require access to a wide range of banking services, including savings accounts, educational financing, home financing, and other common financial products. Historically, the establishment of Tabung Haji in Malaysia in 1962 and its continued relevance today demonstrate the significant demand for Shariah-compliant financial solutions, particularly within rural communities. Islamic financial institutions must therefore address the needs of their communities and contribute meaningfully to the economic advancement of Muslim societies. Additionally, Islamic finance must offer viable solutions to support the socioeconomic development of Muslim populations.

Against this backdrop, the present paper focuses on the lived realities of Malaysian farmers and the challenges they face in developing agricultural land, with particular emphasis on financial constraints. In response to these issues, the paper proposes Islamic financial solutions for consideration by policymakers and relevant authorities. Furthermore, the discussion highlights the potential role of Agrobank in Malaysia as a central institution capable of providing dedicated Islamic agricultural financing to support the needs of farmers.

2.3.1 General Framework of the Agricultural Sector in Malaysia

2.3.1.1 Agricultural Contract among Farmers in Malaysia

In most circumstances, the types of land tenure from the landowner's perspective may be understood through the framework illustrated in Figure 2.2, which is derived from Donaldson's (2000) analysis. According to his work, the landowner must first determine whether he will cultivate the land himself or permit another party to cultivate it on his behalf. Should he choose the latter, a subsequent decision arises whether to employ labourers to work the land for a wage, or to lease the land to a tenant in exchange for rental payments. In essence, the landowner is dealing either in the form of wages or rent. For both arrangements, he must further decide whether payments will be made as a fixed sum or as a share of the output. If a fixed payment is chosen, the landowner will either hire labour at a fixed wage or lease the land to a tenant for a fixed rental fee. Conversely, if payment is based on a share of the yield, the landowner enters into a sharecropping contract.

Huang (1975) categorised landlord-tenant relations into three principal types: (1) a fixed-rental contract, in which the tenant pays the landowner a predetermined amount, either in cash or in kind; (2) a sharecropping contract, in which the tenant pays the landowner a proportion of the harvest; and (3) a hired-labour wage contract, in which the landowner employs labourers at an agreed wage rate. Each of these contractual forms carries a different distribution of risk. Under a fixed-rental system, the tenant bears the full burden of risk, whereas under a hired-labour system, the risk falls entirely on the landowner. Sharecropping, positioned as an intermediate arrangement, enables the sharing of risk between the two parties. Although it balances the extremes of risk allocation, it has also been criticised for inefficiencies in agricultural production.

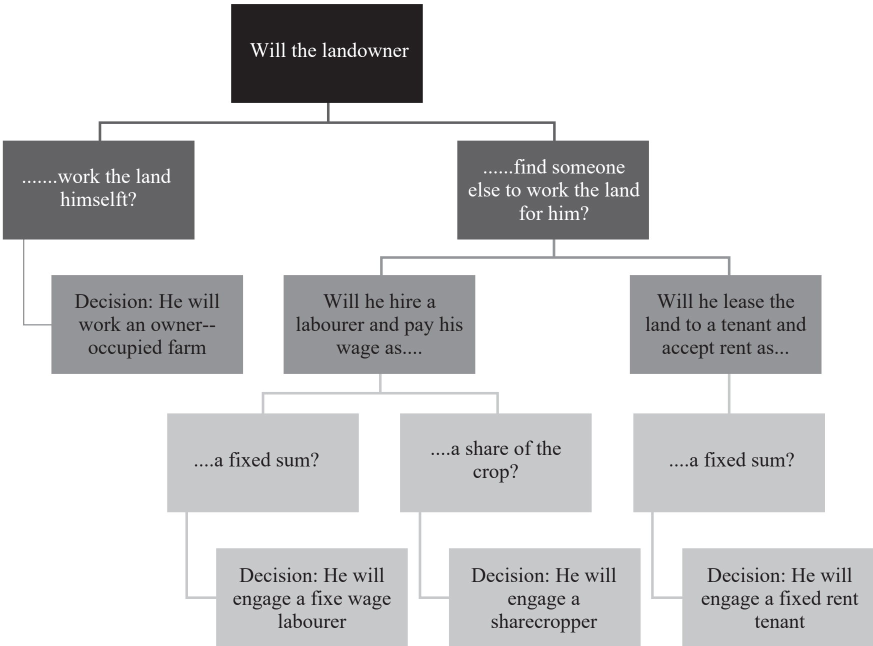

Figure 2.2 Schematic illustration of types of land tenure as viewed from the landowner's stance
Source: Donaldson (2000, p. 21)

Fredericks and Wells (1978) observe that tenancy systems are widespread across most Southeast Asian countries. A significant proportion of the agrarian population consists of tenants and sharecroppers, and a considerable percentage of farmland is cultivated under such arrangements. They further contend that the urgency of land reform in Malaysia is comparatively less pressing, largely because the government has effectively implemented large-scale development and settlement programmes.

With respect to Malaysia, Senftleben (1978) identified five fundamental types of tenancy agreements between farmers and landowners. These may be outlined as follows:

a) Fixed Rents (*Sewa*): Payments are made either in cash or in kind and are most prevalent in the West Coast states. Cash rents may be paid in advance before cultivation begins or in paddy after harvest, but they remain fixed regardless of the actual yield or prevailing paddy prices. Such contracts are typically renewed annually.
b) Crop Sharing (*Pawah*): The landlord and tenant divide the harvest according to a predetermined ratio. This system is common on the East Coast of Malaysia. For paddy cultivation, the landlord's share may range from 30% to 70%. Crop sharing is also widely found in rubber smallholdings, where latex is commonly divided on a 50:50 basis.

c) Lease (*Pajak*): A long-term tenancy arrangement in which the farmer pays a lump sum upfront covering several years (usually from three to five years), thereby gaining greater security of tenure. A variation of this arrangement is the restricted lease, which allows the landlord to terminate the agreement by refunding a portion of the prepaid amount.
d) Usufructuary Loans (*Gadai*): The landowner temporarily transfers usufructuary rights—though not proprietary title—to another party in exchange for a loan. The arrangement remains valid until the loan is fully repaid. Such agreements are not registered with the authorities.
e) Usufructuary Mortgage (*Jual Janji*): The landowner pledges ownership rights as security for the repayment of a loan within a specified timeframe. Failure to repay results in loss of the debtor's right to reclaim the property.

Haughton (1983) similarly identified the principal land rental systems in Malaysia as:

1. *Sewa*: seasonal cash rental at a fixed rate.
2. *Pajak*: rental for a fixed period exceeding one year.
3. *Pawah*: seasonal in-kind rental.
4. *Bagi-Dua*: sharecropping with an equal 50:50 division between landlord and tenant.
5. *Bagi-Tiga*: sharecropping in which one-third of the yield is allocated to the landlord.

Regarding rice cultivation, Selvadurai (1972) noted that tenancy is highly prevalent in the Malaysian paddy sector. Only 48% of paddy farmers are full landowners, whereas 52% of paddy land is rented out through various arrangements, including cash rentals, fixed paddy rentals, crop-sharing, and leasing. Furthermore, Horii (1972) found that kinship-based tenure systems are more dominant than community-based tenure arrangements in rice-growing villages of the Malay Peninsula. His research, conducted in villages in Kedah, demonstrated that kinship ties between landowners and tenants are prioritised in land tenure decisions. Farmers typically seek land first from relatives within their own village, and if unsuccessful, they then approach relatives in neighbouring villages.

In contrast, within the rubber sector, Chew (1991) observed that the most common tenure arrangement between tappers and landowners of rubber smallholdings in Peninsular Malaysia is the share contract, often referred to as share tapping. Under this arrangement, the tapper is granted the right to tap the trees in exchange for a fixed proportion of the output, such as receiving 40% of the dry rubber content, while the landowner retains the remaining 60%.

2.3.2 Agrobank: Central Institution for the Agricultural Sector in Malaysia

According to Borhan and Ab Aziz (2009), not all Islamic banks or the Islamic windows of conventional banks in Malaysia currently provide financing specifically for agricultural development. Nevertheless, recognising the strategic importance of agriculture to the national economy, three financial institutions—Agrobank, Bank Rakyat, and Maybank Islamic Bank—do offer Shariah-compliant financing for this sector. Among them, Agrobank stands out as a leading institution with a dedicated focus on agriculture. With over forty years of experience in agricultural banking, Agrobank's financing activities are guided by policies formulated by the Ministry of Agriculture and Agro-Based Industries. The bank also serves a key role as a development financial institution, supporting the enhancement and modernisation of Malaysia's agricultural sector.

Agrobank, formerly known as Bank Pertanian Malaysia (BPM), was established through an Act of Parliament on September 1, 1969, and commenced operations on January 1, 1970. As a statutory body, the bank is responsible for arranging, providing, supervising, and coordinating credit for agricultural purposes nationwide. The establishment of BPM was a direct response to the government's decision to initiate the Muda Agriculture Project—a large-scale irrigation scheme for the rice-producing areas of the Muda Valley in Kedah and Perlis. This project is currently administered by the Muda Agricultural Development Authority (MADA). Financing for the Muda Project was supported by the World Bank, which, in its appraisal report, emphasised the necessity of an institutionalised credit programme to enable double cropping of paddy. The report recommended the creation of a specialised credit scheme to ensure the project's full economic and social benefits. BPM was thus conceived as a rural finance institution specialising in agricultural credit provision.

Agrobank is also part of Malaysia's network of development financial institutions, which were established by the government to promote key economic sectors such as agriculture, infrastructure, and international trade. These institutions provide targeted financing to facilitate projects that align with national development priorities. On April 8, 2008, BPM was corporatised and rebranded as Agrobank, with the aim of strengthening its position in the agricultural market and expanding its services to include Small and Medium Enterprises (SMEs) and retail customers. The bank's current mission is to provide comprehensive financing tailored to market demands and customer needs, including support for agro-entrepreneurs, microenterprises, SMEs, and individual clients, while adhering to prudent financial management principles.

Regarding Islamic banking and finance, Agrobank's Islamic Banking Division has offered Shariah-compliant products since 1996, with the goal of becoming a full-fledged Islamic bank by 2015 (Muda 2010). Currently, the bank applies Islamic financing principles such as *bay' al-inah*, *al-bay' bi-thaman 'ajil*, and *al-rahn* to support the agricultural sector. However, these instruments remain forms of debt financing. Islamic scholars argue that, for agricultural development, profit-and-loss sharing partnership schemes are more appropriate and sustainable for long-term financing compared to debt-based products. This is particularly relevant given that agricultural harvesting cycles are inherently long-term, whereas Agrobank's current products are better suited for short-term financing.

Interviews with Agrobank management indicate that partnership-based or profit-and-loss sharing products are not currently in use. Nonetheless, there is substantial potential for these products to be introduced if they are designed to comply with Shariah principles and align with the bank's financial accounting requirements. Accordingly, the development of a framework for applying Islamic partnership-based financing to agricultural land development is both timely and essential in Malaysia, in response to the growing demand from farmers and landowners.

2.3.3 Farmers' Lives in Malaysia: A Case Study

This section is primarily grounded in a case study approach, with data on farmers' livelihoods collected from selected study areas in Malaysia. In essence, farmers in these regions experience four distinct life-cycle stages. They typically begin as a small unit, often a young couple, progress to raising several children, advance to young adulthood when the children establish their own households, and ultimately return to a stage in which the aging couple is once again alone. At each stage, the allocation of resources, land, and family labour is essential and varies in both quantity and intensity to support agricultural production while meeting the evolving consumption needs of the household. So, it can be inferred that land and other production resources for smallholder agriculture are accessed and mobilised flexibly over time to accommodate both the family's agricultural activities and its reproductive needs.

2.3.3.1 Survey Areas

To obtain a more comprehensive understanding of farmers' livelihoods in Malaysia, a case study was conducted involving 138 farmers across six states, as summarized in Table 2.1.

Table 2.1 The case study in Malaysia

No.	State	Number of Farmers Involved	Type of Crops
1	Kelantan (North-East of Peninsular Malaysia)	27	Banana, watermelon
2	Sarawak (East Malaysia)	23	Pumpkin, watermelon, banana, pepper
3	Johor (South of Peninsular Malaysia)	25	Banana, pineapple, vegetables
4	Negeri Sembilan (Western Coast of Peninsular Malaysia)	15	Coconut, guava
5	Sabah (East Malaysia)	23	Rice
6	Perak (North of Peninsular Malaysia)	25	Banana

2.3.3.2 Methods of Study

To operationalize this study, the researcher employed two primary methods for data collection: conducting interviews and distributing questionnaires.

Table 2.2: method

Data Collection Method	Details / Procedure	Purpose / Focus	Sample / Scope
Interview	In-depth semi-structured (face-to-face) interviews with officers and farmers	- Understand policies, strategies, and project implementation for agricultural land development-Complement questionnaire data-Obtain clearer information on farmers' lives	- 19 officers from the Department of Agriculture (DOA) at Putrajaya HQ and 6 selected states-Farmers in survey areas
Questionnaire	Structured survey questionnaires	- Collect detailed information on agricultural land development, farm size, subsidies, income, contract types- Assess financial capability and awareness of Islamic financial products-Identify agricultural land issues	- 138 farmers- Distributed equally across northern and southern regions, and East Malaysia (Sabah and Sarawak)
Complementary Informal Interviews	Discussions with farmers during questionnaire administration	- Gain deeper insights into daily lives, land development challenges, and opinions on financing from financial institutions	Farmers who completed the questionnaire

2.3.3.3 Findings

This section presents case studies of selected farmers to provide a detailed understanding of their lived experiences in agricultural land development. However, due to time constraints and other limitations associated with the case study, the scope of the investigation was narrowed in terms of both the level of analysis and geographic coverage. The findings from the case study indicate that farmers participating in the Department of Agriculture's schemes encounter three principal challenges: issues originating from the farmers themselves, financing-related difficulties, and matters concerning land status.

2.3.3.3.1 Farmers' Issues

The survey findings indicate that farmers face several challenges in cultivating their agricultural land. Among the key difficulties identified are the following:

Table 2.3: Farmers' Issues

Aspect	Key Findings	Data / Statistics
Farmers' Status and Agricultural Contract Dealing	83.3% (115) are involved in small-scale farming; 16.7% (23) are large-scale farmers / agricultural entrepreneurs. Three types: (a) farmer is the landowner (self-cultivation), (b) land rented to a small-scale farmer, (c) land rented to a company/entrepreneur (large-scale).	Self-cultivation: 81 (58.7%), rented to farmer: 34 (24.6%), partnership contracts: 5, special contract without payment: 1
Subsidy Program by the Department of Agriculture (DOA)	One-off subsidies to stimulate production (rice, other food crops). Aid is non-cash, covers modern inputs, machinery, irrigation, land preparation.	Subsidy only for the first cultivation cycle

Second Cultivating Cycle	DOA only monitors; provides no subsidies. Some farmers are unable to continue independently; some land is abandoned.	-
Consumption of Agricultural Output	82% (113) of farmers consume their own produce; 25 sell entire crop. Non-cash elements form a major part of daily consumption; own production is used for food despite income from the same farm.	Consume own produce: 113, sell all: 25
Age	Most farmers are middle-aged (40–55 years); youth involvement is low. Most have long-term farming experience.	40–55: 101, 45–54: 51 (37%), <40: 27, <30: 10
Type of Crops	Mostly cash crops (fruits, vegetables); some rice (26 farmers). Short-term crops preferred for quick returns due to one-off subsidies. Some interest in permanent crops (rubber, palm oil) may conflict with government food security policies.	Fruits: 90, Vegetables: 22, Rice: 26
Income and Life Sufficiency	Monthly income relatively low but sufficient for rural living. 80% (111) have adequate income to support their families; others supplement their income with part-time or entrepreneurial activities.	RM1000–2000: 89 (64.5%), RM2001–3000: 21, RM3001–4000: 14, RM4001–5000: 7, >RM5001: 7
Cooperation among Farmers	Lack of cooperation observed, especially in paddy farming; synchronised planting needed to reduce pest and bird damage.	-
Problems during Cultivation Process	Main issues: seeds (30.4%, 42), wild animals (24.6%, 34), pesticides/fertilizers (18%, 25). 60% use traditional methods, no records, difficulty calculating profit, and recurring problems in the second cycle.	Seeds: 42, Wild animals: 34, Pesticides/fertilizers: 25

2.3.3.3.2 Agricultural Financing Issues

Table 2.4: Agricultural Financing Issues

Aspect	Findings / Observations	Respondents / Numbers	Additional Notes
1) Deposit Account	Most farmers have a deposit account, indicating the ability to save.	115 have deposit accounts; 23 do not	Savings may be monetary or in real assets
Reasons for Opening Account	Safety	78	Majority cite security of funds
	Return/dividend from savings	14	Expected income from deposits
	Agricultural incentives from the government	15	Received through a deposit account
	Pre-requisite for financing	8	Required for land development loans
Type of Financial Institution	Agrobank / Agricultural Bank	89	Most popular among farmers
	Commercial Bank	20	Minor proportion

Type of Financial Institution	Government-linked financial institutions	5	Few respondents
	Islamic Bank	1	Very few farmers attached
2) Islamic Financing for Agriculture	Awareness of Islamic finance	Not aware: 98 (71%); Aware: 40 (29%)	Awareness limited; knowledge brief and incomplete
Willingness to Use Islamic Finance	Willing to apply	102 (74%)	Farmers are careful about contract details and avoid interest-based financing
Preferred Modes of Islamic Finance	Mark-up sale of assets	69	Most preferred, well-known in rural areas
	Partnership financing	65	Second preferred; less available in practice
	Lease financing	1	Least preferred
	Cash financing	3	Very low preference
Advantages of Islamic Finance	Perceived advantages	100 (72.5%)	Concerns about Shariah compliance, risk-sharing, collateral-free transactions
	Specific advantages	Shariah compliance: 85; Risk sharing: 14; No collateral: 1	The majority prioritize Shariah compliance
No advantages	38 (27.5%)	Reasons: More expensive (26), complicated procedures (12)	Criticism from a minority
3) Lack of Financial Institutions and Reluctance of Bankers	Low interaction with formal financial institutions	126 (91.3%) have no access; 12 (8.7%) have experience	Farmers rely on government agencies (DOA, FAMA, LPP)
Reasons for low involvement	Bankers are reluctant to finance small farmers	-	-
	Bureaucracy/frustration	-	-
	Reliance on government support	-	-
	Fear of loan repayment	-	-
4) Informal Financing	Borrowing from family members or landlords is common	Significant number	Informal finance is preferred due to flexibility in repayment

2.3.3.3.3 Land Issues

Table 2.5: Land Issues

Aspect	Findings / Observations	Details / Examples	Implications
1) Small Size of Landholding	Most small-scale farmers have small landholdings	1–2 hectares per farm; small farmers mostly outside Negeri Sembilan; companies/entrepreneurs rent >10 hectares (some >20 hectares), mostly in Negeri Sembilan	Small-scale farmers earn less income compared to large-scale entrepreneurs
2) Scattered Land Ownership	Fragmentation due to inheritance and land sale	Land initially under single ownership; over time, multiple ownerships arise; in Sabah, Chinese farmers focus on large-scale farming, Malay farmers on small-scale farming; inheritance contributes to fragmentation	Fragmented land may limit farm efficiency and productivity
3) Status of Land: Shift to Industry/ Commercial Use	Paddy land converted to non-agricultural uses	Particularly in Sabah, idle paddy fields have been converted for housing/industry; an interview with a DOA officer confirms the impact.	Disruption of the farming system affects irrigation, reduces pest resistance, and lowers soil quality

2.3.4 The Analytical Results on the Farmers' Financial Issues in Malaysia

Based on the case study conducted in Malaysia, which revealed the lived realities of farmers, several alternative solutions emerge from an Islamic perspective, particularly concerning Islamic agricultural financing. The findings suggest that financial institutions in Malaysia should consider the daily practices of farmers, many of whom are not actively engaged in cash transactions. For instance, numerous farmers surveyed relied primarily on their own farm produce for daily sustenance, meaning that their farm yields represent their actual or net income. This highlights a fundamental distinction between agricultural economics and other sectors such as trade, commerce, manufacturing, or construction, which predominantly operate through cash-based transactions. Given that most financial institutions currently conduct their operations with cash elements, the unique nature of agriculture necessitates special attention and adaptation in financial management practices to ensure relevance and effectiveness for farmers. Moreover, commercial banks have traditionally focused on urban environments, providing short-term financing to firms and industries, and have limited experience in rural contexts. So, Islamic financial institutions seeking to engage in agricultural financing must undertake comprehensive preparatory work, including risk assessment, financial planning, establishment of operational procedures, monitoring mechanisms, and robust legal frameworks, to ensure that their interventions are both practical and Shariah-compliant.

2.3.4.1 Why Islamic Finance for Agricultural Land Development in Malaysia?

2.3.4.1.1 The Potential of Islamic Partnership Contract in Agriculture

Siddiqi (1983a) and Chapra (1992) have argued that Islamic banks can significantly promote economic growth in Islamic countries by providing long-term financing to sectors oriented toward development, employing profit-and-loss sharing (PLS) contracts or partnership financing is closely associated with the *al-mudarabah* and *al-musharakah* principles. These scholars envisioned that PLS would constitute the core feature of Islamic banking financing (Siddiqi 1983a; Chapra 1992). Chapra (2002) further contended that increasing the use of partnership or equity-based financing could enhance the stability of financial systems, as such risk-sharing arrangements incentivize financiers both to rigorously assess risks at the outset and to monitor borrowers continuously after financing has been extended.

Within the discourse of Islamic banking and finance, partnership contracts are primarily linked to the principles of *al-mudarabah* and al-musharaka. In contrast, there exist other partnership contracts specifically suited for agricultural land development, namely *al-muzara'ah* and *al-musaqah*. Historical analysis indicates that while *al-mudarabah* and *al-musharakah* are closely connected to trade transactions between a capital owner and a trader, *al-muzara'ah* and *al-musaqah* are tailored to agricultural partnerships between a landowner and a farmer.

However, *al-muzara'ah* and *al-musaqah* should not be simplistically equated with PLS contracts under *al-mudarabah* and *al-musharakah*, as there are fundamental differences in their nature. While PLS applies primarily to trade, *al-muzara'ah* and *al-musaqa*h are more applicable to agricultural contexts. Therefore, these principles can be better described as contracts based on the sharing of agricultural products or output rather than profit and may be conceptualized as agricultural product and loss sharing (aPLS). This distinction is further illustrated by the differing types of capital involved in each scheme: PLS relies on monetary capital, resulting in profit distribution, whereas aPLS is based on land as capital, culminating in the sharing of agricultural output as the transactional outcome.

2.3.4.1.2 Agrobank as a Prospective Institution

Islamic financial institutions are expected to address the issues and challenges outlined above. In Malaysia, Islamic banks—particularly Agrobank—have the potential to assume a leading role in facilitating agricultural product and loss sharing (aPLS) financing by actively partnering with farmers. Through such arrangements, Islamic banks can deploy a portion of their own investment funds into aPLS contracts, thereby participating directly in agricultural partnerships alongside the farmers. For agricultural entrepreneurs engaged in large-scale farming operations, banks can provide financing to enable access to a substantial share of agricultural output. In contrast, for individual small-scale farmers, Islamic micro-credit instruments may serve as a viable alternative for supporting their agricultural activities.

Specifically, Agrobank is projected to become a fully-fledged Islamic financial institution in Malaysia by 2015, with a strategic focus on providing financial support to enhance agricultural land development. Moreover, farmers in the surveyed areas were already familiar with Agrobank and, at a minimum, maintained deposit accounts with the institution. This pre-existing relationship positions Agrobank as a highly promising candidate to serve as a dedicated Islamic agricultural finance provider, offering Shariah-compliant financing solutions to support farmers in the development of agricultural land.

2.3.4.1.3 Farmers' Capability to Save at Financial Institutions

The case study revealed that the majority of farmers maintain deposit accounts with financial institutions, indicating their capacity to save, whether in small or substantial amounts. Simultaneously, it was observed that some farmers rely on informal financing mechanisms, such as loans from family members or landlords. This highlights the need for Islamic financial institutions to establish a reliable financial framework that channels funds into productive uses. To achieve this, it is essential for these institutions to encourage farmers to save by actively promoting Shariah-compliant financial products within rural communities.

Furthermore, to prevent fragmented land ownership and enhance agricultural productivity, the concept of share farming can be introduced. Under this approach, family members can collaborate to jointly develop agricultural land. Alternatively, landowners who lack the capacity to cultivate their land themselves may entrust it to other parties or farmers, with outputs shared according to agricultural product and loss sharing (aPLS) principles, or the land may be leased under the *al-ijarah* framework. This approach not only maximizes land utilization but also aligns with Islamic financial principles in promoting equitable and productive partnerships.

2.3.4.1.4 Financial Problems during Second Cycling Farming

Regarding the financing challenges faced by farmers, particularly during the second cultivation cycle, the implementation of an agricultural product and loss sharing (aPLS) scheme based on the principles of *al-muzara'ah* and *al-musaqah* can be proposed. Under this scheme, Islamic financial institutions in Malaysia—such as Agrobank, which serves as a leading agricultural finance institution—can act as active partners with farmers by providing Shariah-compliant agricultural financing for essential farm inputs, including seeds, pesticides, and fertilizers, thereby addressing the significant financial constraints identified in the survey areas.

Within this framework, the bank and the farmer share agricultural risks in exchange for a proportionate share of the agricultural profit or output. The scheme necessitates close supervision by the financial institution, which helps to build trust among the partners and encourages capital investment in agricultural land development. Islamic financial institutions are also required to establish operational procedures that ensure all agricultural activities comply with Shariah principles, with agreements mutually endorsed by both parties. Furthermore, such financing schemes could also be implemented by non-financial institutions in Malaysia to support agricultural development.

In addition, intervention by official agricultural agencies is essential. If a financial institution adopts the aPLS approach and becomes an active partner with farmers, agricultural practices are likely to improve, as all procedures must be agreed upon in advance by the contracting parties. Both the farmers and the financier are obligated to comply with the terms of the agreement, which ensures proper land management. Within the aPLS framework, strict adherence to rules regarding crop type, cultivation duration, land management, output sharing, and contract termination is required, thereby promoting disciplined and efficient agricultural practices.

2.3.4.1.5 Islamic Financing Survey among Farmers

The survey findings indicate that farmers possess limited awareness regarding the availability of Islamic finance for agricultural land development; however, their willingness to utilise Shariah-compliant financial products is notably high. Moreover, the majority of respondents acknowledged the advantages of Islamic finance in providing ethically and religiously compliant financial solutions. Insights from in-depth interviews further revealed that farmers are genuinely concerned about adhering to Islamic principles and are motivated to avoid interest-based financing. Regarding their preferences for modes of Islamic financing, the farmers expressed a tendency to favour mark-up sale financing for agricultural assets, as well as partnership contracts between Islamic banks and farmers, reflecting a strong inclination toward collaborative and Shariah-compliant financial arrangements.

2.3.5 The Basic Framework of Agricultural Product and Loss Sharing (aPLS)

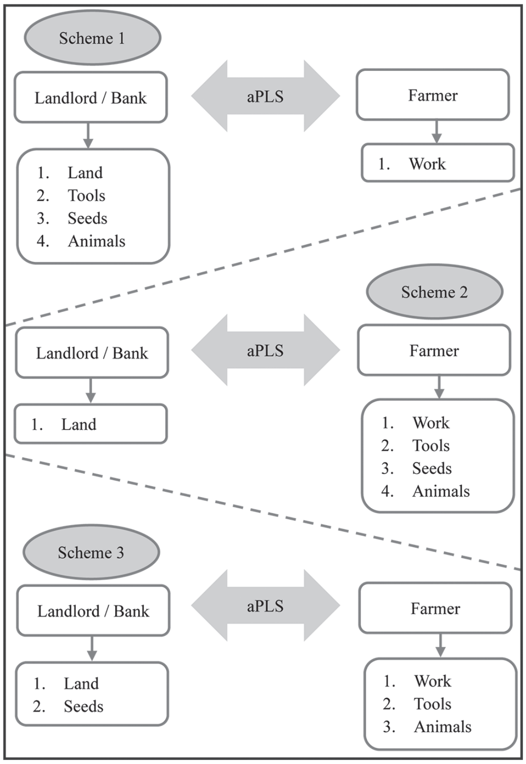

Figure 2.3 The feasible schemes of "agricultural products and loss sharing" (aPLS) between landlord / bank and farmer

Fundamentally, a financing arrangement based on *al-muzara'ah* and *al-musaqah*, or the agricultural product and loss sharing (aPLS) contract, can be established through a joint partnership in which land, other physical inputs, and labour are mobilized collaboratively. As noted by Gulaid (1995), *al-muzara'ah* contracts can take several forms in agricultural financing. In one form, the land and other physical factors of production are provided by one party, while the labour is supplied by the other party. In an alternative arrangement, only the land originates from one party, with all other production inputs, including labour, provided by the counterparty. A further variation allows for both land and labour to come from one contracting party, while the remaining factors of production are supplied by the other party. Additionally, contemporary agricultural practices often include three-party *al-muzara'ah* partnerships, wherein one party provides the land, another contributes a combination of physical inputs, and a third supplies the labour.

Based on these classifications, this paper proposes three aPLS schemes, as illustrated in Figure 2.3. In the first scheme, the land, tools, seeds, and animals are contributed by the landowner, while the tenant provides the labour. In the second, the land is supplied by the landowner and the remaining inputs, including labour, are supplied by the tenant. In the third scheme, both the land and seeds are provided by the landlord, with the tenant supplying the rest.

From the perspective of financial institutions, these *al-muzara'ah* and *al-musaqah* schemes can be applied to finance agricultural inputs over a specified period. In this context, the bank may provide the necessary capital for agricultural investments, while the farmer contributes labour. Accordingly, these contracts can facilitate the procurement of seeds, fertilizers, and pesticides, as well as support irrigation, storage, and marketing of agricultural products.

Moreover, it is possible for the bank to assume the role of the landowner. In such a scenario, the bank would acquire the land and grant it to prospective farmers for cultivation under the aPLS framework, thereby acting directly as a landowner and entering into a partnership with the farmers. The implementation of these schemes, however, may also require integration with other Islamic financial principles, such as *al-ijarah al-muntahiyah bi-tamlik*, *al-murabahah*, and *bay' al-salam*. For example, contemporary Islamic banks generally favour two-tiered *al-mudarabah*, in which customer deposits are accumulated and invested with third parties, rather than the one-sided *al-mudarabah* of classical theory. So, adapting *al-muzara'ah* and *al-musaqah* for practical application requires adjustments by financial experts to ensure these transactions are feasible within Islamic banking frameworks. The development of such schemes would therefore require collaborative input from both academicians and practitioners to define the necessary operational steps.

2.3.6 Conclusion

In conclusion, it is evident that the one-off subsidies provided by the Department of Agriculture in Malaysia have been beneficial to farmers in the short term, particularly during the initial cycle of cultivation. Insights from in-depth interviews indicate that most farmers in the surveyed areas experienced an increase in income following the receipt of these subsidies. However, the case study revealed that many farmers are unable to generate sufficient profits or accumulate enough capital to sustain independence in the subsequent cycle of cultivation. So, some agricultural land remains fallow, and the initial government support loses its long-term effectiveness.

Moreover, agricultural land development is an inherently complex process that cannot be successfully addressed by any single agency. The improvement of rural livelihoods requires coordinated efforts from multiple stakeholders, including local governments, national agencies, financial institutions, and local leadership. Within this framework, Islamic banks can play a significant role; however, their effectiveness depends on support in legal, social, and cultural domains.

Based on the findings of the Malaysian case study, the provision of Islamic agricultural financing emerges as a critical intervention. In particular, the agricultural product and loss sharing (aPLS) scheme, grounded in the principles of *al-muzara'ah* and *al-musaqah*, is proposed as a viable solution. Interviews with farmers highlighted a reluctance to seek loans from conventional financial institutions. Under the aPLS scheme, the financial institution functions as an active partner, sharing both the agricultural risks and the resulting profit or loss with the farmers.

Another key consideration concerns the prevalence of non-cash elements in the daily lives of Malaysian farmers, which contrasts with the cash-based operations of conventional financial institutions. Observations from the case study indicated that farmers often consume the produce from their own farms, which is not reflected in formal financial records or monthly income calculations. This highlights the need for financial institutions to account for non-cash contributions when designing agricultural financing products.

In summary, there is substantial potential for applying Islamic financial principles to the development of agricultural land in Malaysia. This is evidenced both by the demand expressed by farmers and the capacity of financial institutions such as Agrobank to offer Islamic-based agricultural financing. To realize this potential, the government must develop an appropriate Islamic financial infrastructure encompassing regulation, supervision, Shariah compliance, marketing, and incentive mechanisms for both institutions and farmers alike.

2.4 Farmers' Practices in Developing Agricultural Land in Malaysia: Is There an Islamic Microfinance Solution?

In Malaysia, agricultural projects are predominantly structured as smallholdings owned and managed by families and households in rural areas. Private ownership remains the primary characteristic of property and asset holdings within these communities. Most of these small-scale agricultural and non-agricultural enterprises operate independently, with limited capacity to generate income beyond meeting subsistence needs. So, it is essential for financiers to understand the realities of farmers' lives, including the risks they face, to effectively provide financial support for agricultural land development and thereby contribute to broader economic growth. Given that Islamic finance is regarded as a key component of Islamic economics and that agricultural development constitutes an important yet underexplored dimension of Islamic economic discourse, there is considerable scope to discuss the role of Islamic microfinance in the agricultural sector. This also presents an opportunity to enrich the literature on Islamic economics as well as Islamic banking and finance. Accordingly, the findings of this study suggest the design and implementation of an Islamic microfinance model tailored to the agricultural sector.

Generally, farm capital comprises four primary types of physical assets: farmland and buildings, implements and machinery, livestock, and stored crops. The value of land is derived primarily from its utility in agricultural production rather than from its potential for urban development or mineral exploitation (Tostlebe 1957). Land value can be enhanced through the investment of labour and financial resources in cultivation and maintenance. In this context, labour constitutes the key factor of production, while profit serves as the reward and incentive for productive effort. Misunderstandings regarding the source of land value have, in some cases, hindered efforts to activate agricultural land through structural and technological transformation, leading instead to an increase in the quantity of idle land. Such a scenario was observed in Malaysia during the implementation of the "Pertanian Kontrak" program, which ultimately failed (Amriah and Ratnawati Yuni 2011).

Many Malaysian farmers can be categorized as smallholding farmers, who often face financial constraints. Their use of credit has historically followed cyclical patterns of growth and decline, with each cycle typically spanning over a generation (Hughes 1986). Agricultural production is inherently seasonal: farmers must cover the costs of inputs such as seeds, fertilizers, land preparation, and machinery at the beginning of the farming season, while the revenue from output is only realized at the end of the season. This temporal mismatch between expenditure and income necessitates access to credit in order to maintain liquidity throughout the production cycle.

Enhancing the availability of agricultural credit enables farmers to secure sufficient inputs and make the necessary farm investments, thereby achieving optimal output levels and increasing profitability. Agricultural finance, therefore, plays a critical role in supporting both production expansion and the livelihood of farmers; without it, both output and welfare are likely to decline. In light of these challenges, this study focuses on addressing agricultural financing gaps by proposing Islamic microfinance products designed to support the sustainability of farmers while simultaneously reducing the incidence of idle agricultural land.

2.4.1 The "Nature" of Agriculture in Malaysia

In terms of structural organization, agricultural projects in Malaysia are predominantly smallholdings managed and owned by families and households situated in rural areas. Private ownership constitutes the principal characteristic of property and asset ownership in these communities. Most of these small-scale agricultural and non-agricultural enterprises operate independently, with minimal capacity to generate income beyond the subsistence needs of the household (Muhammad Hakimi 2012). This limited production capacity reflects the immediate and basic needs of rural households, resulting in assets and outputs that are not readily transactable in conventional markets.

Fieldwork conducted among farmers across six Malaysian states (Muhammad Hakimi 2012) identified three major categories of challenges confronting agricultural development. The first category pertains to financing. A primary concern for financial institutions in Malaysia is the non-cash nature of daily life among farmers. Unlike commercial sectors such as trade, manufacturing, and construction, where cash transactions are essential, farmers frequently consume produce directly from their farms rather than relying on monetary exchanges. So, the income derived from agricultural production effectively represents the farmers' net income.

Another crucial financing-related challenge is the limited support provided by financial institutions to farmers engaged in land development. Several factors contribute to the low engagement of farmers with formal financial institutions:

a) Muslim farmers often avoid interest-based (*riba*) financing, which is prohibited under Shariah principles.
b) Financial institutions are generally reluctant to provide credit to small-scale farmers.
c) Farmers frequently encounter bureaucratic obstacles when accessing formal financial services.
d) Many smallholders perceive that government agricultural agencies will provide adequate support, and
e) Farmers harbour concerns about their ability to repay conventional loans.

A further financing challenge emerges during the second cultivation cycle. While farmers often receive full subsidies from the Department of Agriculture (DOA) during the initial cultivation, they must rely on their own resources in subsequent cycles. In many instances, farmers are unable to generate sufficient capital to continue cultivation, resulting in land abandonment and negating the impact of prior government interventions aimed at activating idle land.

Additionally, informal financing remains prevalent among farmers. Loans obtained from relatives, landlords, or unlicensed moneylenders are often preferred due to the flexibility these arrangements offer, particularly when repayment difficulties arise. So, a significant portion of farmers actively rely on informal credit mechanisms, which can be viewed as a direct outcome of the issues.

The second category of challenges pertains to the farmers themselves. Many farmers employ traditional cultivation methods and lack organization in managing their activities, including the absence of accurate records for inputs and outputs. This deficiency impedes their ability to calculate income or profit precisely, creating unforeseen complications that affect subsequent cultivation cycles. Policy changes also contribute to difficulties, such as the shift from cash crops to permanent crops. Farmers often attempt to transition to high-value crops such as palm oil and rubber during the second cycle, which may conflict with government objectives related to food security. Moreover, inadequate cooperation among farmers and the influence of middlemen in marketing channels hinder fair pricing and reduce profitability, further complicating agricultural livelihoods.

The third category of challenges is related to land issues. Farm size significantly influences farmer income. Fieldwork data indicate that small-scale farmers managing one to five hectares typically earn between RM 1,000 and RM 2,000 monthly, whereas those cultivating 11 to 15 hectares earn between RM 3,001 and RM 4,000. Farmers overseeing more than 20 hectares achieve incomes of RM 4,001 to RM 5,000. These findings suggest that larger-scale farming correlates with higher earnings. However, it is uncommon for farmers to both own and cultivate extensive land holdings; thus, collaboration with landowners, either managing large farms or multiple smaller plots, is often necessary to achieve higher incomes.

Fragmented land ownership and uneconomic-sized holdings present additional challenges. In Malaysia, much land is held under permanent titles. Over time, however, the interplay of Islamic and customary inheritance laws, combined with land sales, has resulted in multiple ownerships and the subdivision of agricultural land. Changes in land use, particularly the conversion of agricultural land to industrial or commercial purposes, pose serious concerns for ecological sustainability and national food security.

Overall, these issues reflect the complex reality of agricultural livelihoods in Malaysia. Farmers, landowners, financial institutions, and government agencies each pursue their respective objectives, yet without mutual understanding and shared responsibility, long-term sustainability remains unattainable. Although Malaysian agricultural markets are generally free, certain elements, such as government subsidies and support programs, introduce inflexibility. Direct intervention by the Department of Agriculture (DOA) aims to support farmers in developing agricultural land and activating idle plots.

However, reliance on government subsidies can perpetuate cycles of idle land. Capital shortages during the second cultivation cycle, combined with risk-averse financiers, often leave farmers dependent on informal loans from relatives or landlords. While this traditional approach offers temporary relief, it is unsustainable over the long term. Therefore, Islamic microfinance emerges as a viable solution to address the financial constraints faced by farmers and to promote the continuous cultivation of agricultural land.

2.4.2 Microfinance and Islamic Microfinance

Based on the fieldwork, which has unveiled the actual circumstances of farmers' lives, several alternative solutions can be proposed from an Islamic perspective, particularly in relation to Islamic microfinance. Theoretically, a distinctive feature of microfinance is the concept of "joint liability," in which lenders do not claim a secured interest, unlike conventional credit mechanisms (Braschler 2006). This approach differs fundamentally from traditional loans, particularly regarding the characteristics of participants. Microfinance typically involves small-scale loans with flexible terms and conditions, short-term repayment schedules, weekly instalment repayments, and rapid, simplified loan disbursement procedures (Abdul Rahman 2007). Moreover, microfinance is often uncollateralized, requiring no pledged security from borrowers (Amit and Bhagwan 2010).

The primary components of microfinance include groups of interested individuals, multiple groups managed centrally, weekly meetings between centre representatives and participants, and official interactions with the microfinance institution (MFI) for transactional matters. Microfinance programs frequently incorporate compulsory savings and insurance schemes alongside various social development initiatives.

Many elements of microfinance align closely with the broader objectives of Islamic finance. Both approaches promote entrepreneurship, risk-sharing to support economically disadvantaged individuals, financial inclusion, developmental and social goals, and active participation of the poor (Obaidullah 2008b). Therefore, there is clear synergy in integrating these approaches while adapting microfinance products and services to meet Islamic principles. Unlike conventional microfinance, Islamic microfinance also addresses the religious and cultural sensitivities of Muslim clients, enhancing its acceptability and effectiveness.

However, several aspects of microfinance require modification to achieve Shariah compliance. The prohibition of *riba* constitutes the fundamental principle of Islamic finance. Under no circumstances is *riba* permissible, as it is strictly forbidden in Islamic law. Two principal forms of *riba* are identified: credit *riba* (*riba al-nasi'ah*) and surplus *riba* (*riba al-fadl*) (al-Zuhayli 2006). *Riba al-nasi'ah* arises from deferred interest, occurring when settlement of a debt—whether monetary or in goods—is delayed. In contrast, *riba al-fadl* refers to an unlawful excess in the exchange of two counter-values among six canonically prohibited commodities: gold, silver, wheat, barley, salt, and dry dates. *Riba* also manifests in cases of unequal or delayed delivery of the contracted goods.

To circumvent *riba*, profit-and-loss sharing (PLS) arrangements are regarded as an ideal mode of financing within Islamic finance (Abdul Rahman 2007). Fairness in profit and loss sharing operates on two levels: the capital provider is entitled to a return commensurate with the risk and effort involved, and this reward is governed by the actual performance of the project for which the funds are supplied. Profit-sharing is permissible in Islam because the ratio of profit distribution is mutually agreed upon and not predetermined, in contrast to interest-based lending.

Early literature on Islamic banking and finance (IBF) emphasized that partnership contracts, rooted in the principles of *al-mudarabah* and *al-musharakah*, should constitute the core characteristic of Islamic banking operations. Scholars such as Qureshi (1945), Uzair (1955), and Siddiqi (1983a) proposed applying PLS schemes specifically to eliminate *riba* from banking transactions (Saeed 1999).

Furthermore, the principles of *al-musharakah* and *al-mudarabah* can be applied across various business sectors. Capital can be invested in commercial, industrial, or agricultural enterprises under these frameworks, allowing multiple investors to participate jointly in a partnership. So, the conceptualization of interest-free banking must regard such partnership-based structures as foundational, serving as the cornerstone for a comprehensive system of Islamic banking without interest (Siddiqi 1985, 104–105).

2.4.3 Theoretical Proposal of "Agricultural Product and Loss Sharing" (aPLS), as an Islamic Microfinance for Agriculture

The concept of "joint liability" in microfinance bears notable similarity to the Islamic finance contracts of *al-mudarabah* and *al-musharakah*, which have been widely applied across various sectors. In terminological terms, al-mudarabah is defined as a contract between two parties, in which one party (*rabb al-mal*) provides capital in the form of money, while the second party (*mudharib*) employs that capital in trade or business. The resulting profit is then divided according to a pre-agreed ratio (Hailani and Sanep 2009). The essence of this partnership lies in collaboration between parties with complementary resources: one possessing financial capital but lacking managerial skill, and the other possessing expertise and experience but lacking capital.

In contrast, *al-musharakah* refers to a joint enterprise in which all partners contribute capital and share both profits and losses arising from the venture. The term derives from *shirkat al-amwal*, which denotes a partnership involving two or more parties contributing some portion of their capital to a common enterprise (Usmani 1999). Therefore, while *al-mudarabah* can be understood as a profit-sharing agreement, *al-musharakah* represents a broader joint venture encompassing both profit and loss sharing.

In the context of structuring Islamic microfinance for the agricultural sector specifically, Islam provides alternative contracts akin to *al-mudarabah* and *al-musharakah*, but tailored exclusively for agriculture: namely, *al-muzara'ah* and *al-musaqah.* These contracts are generally defined as agreements between a landowner and a farmer, in which both parties share the agricultural produce in proportions agreed upon in advance, depending on the contribution of each party (Hailani and Sanep 2009). Typically, one partner provides labour and manages the agricultural project, while the other supplies the capital in the form of land. The relationship is inherently based on trust, with the landowner relying heavily on the farmer's competence and honesty in managing cultivation and harvesting.

Specifically, *al-muzara'ah* is associated with the cultivation of general crops, whereas *al-musaqah* pertains to orchard management and preservation. Both contracts embody a form of agricultural partnership or product-and-loss sharing, whereby land and labour are treated as capital commodities that generate value but are simultaneously exposed to risk of loss or damage. So, land and labour can be conceptualized as a form of capital, drawing a parallel to the contracts of *al-mudarabah* and *al-musharakah*.

Many scholars have interpreted *al-muzara'ah* and *al-musaqah* as partnerships in profit, analogous to *al-mudarabah*. In *al-mudarabah*, capital generates profit, which underpins the concept of profit-and-loss sharing (PLS) widely recognized in Islamic economic thought. However, *al-muzara'ah* and *al-musaqah* have distinct origins in classical agricultural practice, where participation was linked to output rather than monetary profit. In this sense, the land itself functions as capital, producing the agricultural output that is shared between the parties. Sarker (1999) categorizes output-sharing contracts into two primary principles: *al-muzara'ah* and *al-musaqah*. This distinction is further reinforced by Khan (1995), who emphasizes that the critical difference between these contracts and *al-mudarabah* lies in the fact that the share pertains to the actual agricultural output rather than the profit derived from it.

2.4.4 Combination of aPLS and *al-Ujrah* for Developing Agricultural Land

The *al-muzara'ah* and *al-musaqah* financing arrangements—collectively referred to as agricultural Profit-and-Loss Sharing (aPLS) contracts—can be initiated through various forms of partnership that integrate land, physical inputs, and labour. Fundamentally, these contracts may stipulate that land and other non-labour factors of production are contributed by one party, while the labour required for cultivation is supplied by the other. Alternatively, the arrangement may involve only the land being provided by one party, with all remaining inputs, including labour, being furnished by the counterparty. Another permissible configuration of *al-muzara'ah* is one in which both land and labour originate from a single contracting party, whereas the remaining factors of production are supplied by the second party.

In the context of modern agricultural practice, a further variation has emerged in the form of a tripartite *al-muzara'ah* structure, whereby three distinct parties participate in the venture: the first contributes the land, the second supplies the physical inputs, and the third provides the labour. This configuration reflects the adaptability of classical Islamic agricultural contracts to contemporary production realities, enabling a more flexible and inclusive model of resource mobilization for agricultural development.

The following are examples of combinations of aPLS and *al-ujrah* for developing agricultural land aPLS and *al-ujrah* (fee or commission) labour:

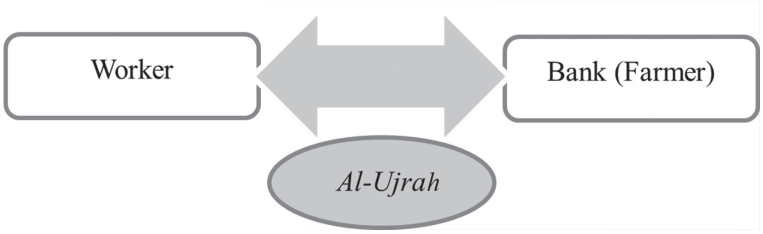

Figure 2.4 An example of the *al-Ujrah* Structure

Procedures:

1. In this arrangement, the bank assumes the role of the farmer and engages agricultural labourers through an *al-ujrah* (wage-based) contract.
2. *al-Ujrah* refers to a compensation mechanism—either in the form of wages or service fees—provided in exchange for work performed on behalf of another party.
3. Under this contract, the workers contribute their labour and expertise, and the bank remunerates them according to the terms mutually agreed upon.

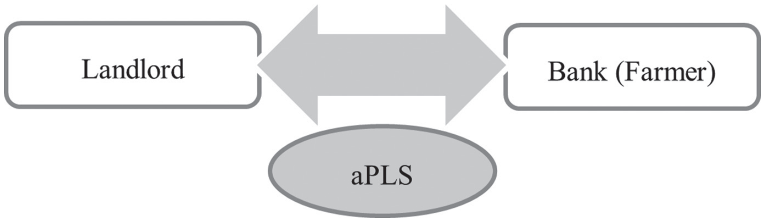

Figure 2.5 A Proposed Scheme of aPLS between Farmer and Landlord

Procedures:

1. Under this principle, the contract may specify that the land and other physical factors of production—such as tools, seeds, and livestock—are provided by the landowner, while the farmer contributes labour.
2. Alternatively, the arrangement may stipulate that only the land is supplied by the landowner, whereas all other inputs, including labour, are furnished by the farmer.

3. A further variation of the aPLS structure allows for the land and seeds to be provided by the landowner, while the remaining factors of production—such as tools and livestock—are supplied by the farmer.

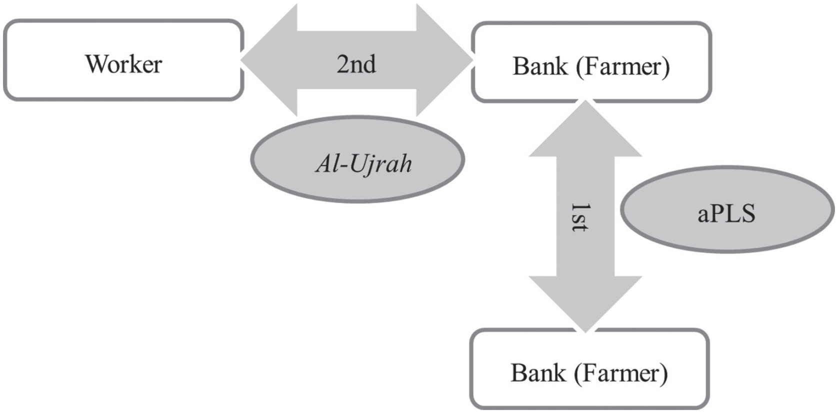

Figure 2.6 A Combination of aPLS and *al-Ujrah* for Developing Agricultural Land

Procedures:

1. In the initial contract, the bank assumes the role of a farmer and enters into an agreement with the landowner for the development of the agricultural land, applying the aPLS principle as previously outlined. This arrangement, however, is conceptual rather than literal, as a bank cannot realistically undertake farming activities on its own.
2. So, in the subsequent transaction, the bank engages agricultural workers under an *al-ujrah* contract to undertake the management and harvesting of the land. The bank remunerates these workers with wages in accordance with the agreed terms.
3. Within this scheme, if the farmer lacks the capacity to harvest the land independently, he may also establish an additional contractual relationship with other labourers based on the *al-ujrah* arrangement.

2.4.5 Conclusion

Drawing from the issues outlined earlier, it becomes evident that farmers do not, in fact, require large sums of capital to sustain their cultivation activities. Rather, what they critically need is targeted financial assistance accompanied by motivational support to secure their livelihoods. Such support can be effectively realised through agricultural partnerships structured under an aPLS-based Islamic microfinance scheme.

In practical terms, Islamic banks should channel a meaningful portion of their resources toward socially significant sectors such as agriculture, thereby establishing a robust Islamic agricultural financing system capable of facilitating sustainable land development. Through adopting "production and loss sharing" mechanisms rooted in the classical contracts of *muzara'ah* and *musaqah*, Islamic banks are well-positioned to meet the fixed and working capital requirements of small and medium-scale farmers who are otherwise excluded from conventional financing due to insufficient collateral. In fact, well-supervised agricultural partnership financing often has the potential to generate returns that exceed those of many conventional financing methods.

Ultimately, it becomes clear that the proposed aPLS scheme cannot operate independently if it remains confined within the parameters of traditional *fiqh* applications. For contemporary implementation, the integration of aPLS contracts with the *ujrah* principle is essential. This combination ensures the necessary flexibility to develop a comprehensive and operational Islamic agricultural financing model.

Furthermore, the foundational principles of *muzara'ah* and *musaqah* reconceptualize land and labour as productive assets—commodities with inherent value and corresponding exposure to risk and damage. Thus, land and labour together function as forms of capital, bearing strong conceptual resemblance to *mudarabah* and *musharakah*. From this perspective, these contracts represent a model of "agricultural production and loss sharing (aPLS)," as they involve sharing output rather than distributing profit.

More broadly, any Islamic financial product that receives approval should avoid reducing its focus solely to profit maximization. Instead, such products must embody a sense of moral purpose and social responsibility—particularly toward the development of farmers and, more generally, in safeguarding global food security. To advance this agenda, further empirical research is needed to refine the issues discussed, outline concrete operational steps through multi-stakeholder collaboration, and ultimately develop a coherent framework governing partnerships between landowners and farmers from the standpoint of Islamic economics.

Accordingly, the application of *muzara'ah*, *musaqah*, or a suitably adapted aPLS structure remains highly relevant. With appropriate adjustments and technical refinements by financial experts, these principles can be transformed into practical and implementable instruments of Islamic microfinance for the agricultural sector.

2.5 Conclusion To Chapter 2

This chapter has traversed the intricate landscape where Islamic economics, agricultural development, and the lived realities of Malaysian farmers converge. It began by establishing the profound doctrinal and historical significance of agriculture within the Islamic economic perspective—a system that champions human welfare, justice, and the ethical utilization of resources over mere profit maximization. From the agrarian foundations of Medina to the Prophetic injunctions against idle land and in favour of partnership contracts like *al-muzara'ah*, the Islamic tradition provides a robust moral and practical framework for revitalizing the agricultural sector.

However, as the analysis has demonstrated, a significant chasm exists between these theoretical ideals and the contemporary challenges facing the agricultural sector, particularly in Malaysia. Smallholder farmers, the backbone of rural agriculture, are ensnared in a complex web of constraints: severe capital shortages, a heavy reliance on informal and often exploitative credit, exposure to production and market risks, and structural issues such as land fragmentation and the limitations of one-off government subsidies. The conventional, interest-based financial model has proven to be a poor fit for the long-gestation, high-risk nature of agriculture, often exacerbating the vulnerability of farmers rather than alleviating it.

By filling a critical gap, the instruments of Islamic finance emerge not merely as an alternative but as a morally and economically superior solution. This chapter has argued that the principles of risk-sharing, equity, and partnership inherent in Islamic finance are uniquely suited to address the sector's fundamental problems. The research delved into the specific contracts of *al-muzara'ah* (crop sharing) and *al-musaqah* (irrigation sharing), distinguishing them from the more trade-oriented *mudarabah* and *musharakah* and conceptualizing them under the innovative framework of Agricultural Product and Loss Sharing (aPLS). This aPLS model redefines land and labour as forms of capital, with the returns shared in the form of agricultural output, thereby creating a natural alignment of interests between the financier and the farmer.

The empirical case study of Malaysian farmers provided a crucial reality check, grounding the theoretical discussion in the socio-economic context of its intended beneficiaries. The findings were revealing: a strong latent demand for Shariah-compliant finance, a high willingness among farmers to engage in partnership contracts, and a clear identification of the non-cash nature of their livelihoods—a factor often overlooked by conventional financial institutions. The study also highlighted the important role that institutions like Agrobank can play, provided they evolve from their current reliance on debt-based Islamic products to embrace true partnership-based financing.

Furthermore, the chapter extended the discussion to the micro-level, proposing an Islamic microfinance model built on the aPLS framework. By integrating the classical contracts of *muzara'ah* and *musaqah* with principles like *al-ujrah* (wage), the proposed schemes offer a scalable, flexible, and Shariah-compliant mechanism to channel capital to the smallest of farmers, thereby preventing land abandonment and promoting sustainable cultivation cycles.

In the final analysis, the revitalization of agriculture through Islamic finance is not a mere technical exercise in product development. It is a multifaceted endeavour that demands a synergistic approach. It requires:

1. Institutional Courage: For Islamic financial institutions to move beyond the comfort of mark-up financing and champion the risk-sharing models that form

the core of Islamic banking philosophy.

2. Regulatory Support: For policymakers and regulators to create an enabling environment with clear guidelines, supportive legal frameworks, and incentives for Islamic agricultural finance.
3. Stakeholder Collaboration: A concerted effort involving government agencies (like the Department of Agriculture), financial institutions, academic researchers, and local community leaders to design and implement solutions that are both economically viable and socially inclusive.
4. Farmer-Centric Design: A fundamental shift in how financiers perceive value, moving beyond pure cash-flow analysis to recognize and incorporate the non-cash elements and subsistence realities of farmers' lives.

The journey towards a resilient, equitable, and Islamically-grounded agricultural economy is undoubtedly complex. Yet, as this chapter has sought to demonstrate, the blueprint lies in the harmonious fusion of timeless Islamic principles with innovative financial structuring. By bridging the gap between the moral economy of Islam and the practical needs of modern farmers, Malaysia—and other Muslim-majority nations—can not only enhance food security and rural development but also fulfil a deeper objective: the revival of a Sunnah and the realization of an economic system that is truly in the service of humanity. The potential is immense; the need is urgent; and the path forward, while requiring diligent effort, is clearly illuminated by the principles of faith, fairness, and shared prosperity.

Chapter 3: Islamic Financial Instruments for Rural Transformation: Jurisprudential and Practical Models

3.1 Introduction

The global discourse on Islamic economics and finance has, for decades, been predominantly dominated by the mechanics of commercial banking, *sukuk* (Islamic bonds), and sophisticated high-finance instruments tailored for urban and corporate landscapes. This prevailing focus has inadvertently created a significant void, leaving the agricultural sector—a primary source of livelihood for a substantial portion of the Muslim world's rural population—largely underserved and theoretically neglected. This chapter seeks to rectify this imbalance by embarking on a comprehensive exploration of classical and contemporary Islamic financial instruments, arguing for their potent applicability as catalysts for sustainable and equitable rural transformation. It posits that the ethical and participatory principles embedded within Islamic finance offer a viable and morally grounded alternative to conventional systems, which often perpetuate cycles of debt and dependency among the rural poor.

The chapter begins by delving into the rich jurisprudential heritage of Islamic agricultural partnerships, such as *muzara'ah* (sharecropping) and *musaqah* (orchard maintenance). It illuminates the philosophical core of these models: the principle that reward must be intrinsically linked to productive contribution and assumed risk. This foundation transforms the traditional, often adversarial, landlord-tenant relationship into a collaborative venture based on shared destiny and mutual benefit. The discussion navigates the nuanced spectrum of classical legal opinions from the Hanafi, Maliki, Shafi'i, and Hanbali schools, demonstrating how their historical debates on issues like uncertainty (*gharar*) and the classification of land as capital continue to inform and validate modern practice. The inherent flexibility in capital and input structures within these partnerships is highlighted as a key strength, allowing for adaptation to diverse local contexts and resource availability.

Building upon this classical foundation, the chapter expands its scope to incorporate the powerful institution of *waqf* (Islamic endowment) as a dynamic vehicle for socio-economic development. It critically examines the management models of Cash Waqf, tracing its conceptual, legal, and historical foundations from the Ottoman Empire to its contemporary applications in Malaysia. Through detailed case studies of Perbadanan Wakaf Selangor (PWS) and Waqaf Annur Corporation Berhad (WANCorp), the chapter illustrates how endowed capital can be professionally managed to fund healthcare, education, microenterprises, and public infrastructure, thereby empowering communities from the ground up. This section highlights the critical importance of institutional governance, transparency, and innovative fund mobilization in revitalizing the role of Waqf.

Further extending the social finance perspective, this chapter introduces a powerful synthesis of Islamic charitable instruments through the Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) model. It presents a compelling framework for empowering farming communities by moving beyond consumptive aid to productive and creative distribution. The discussion outlines how ZISWAF funds can be strategically managed through Shariah-compliant contracts like *muzara'ah*, *musaqah*, *mukhabarah*, and *ijarah* to provide farmers with essential capital, land, tools, and training. This approach not only alleviates immediate poverty but also builds long-term economic resilience and food security, transforming *mustahiq* (beneficiaries) into *muzakki* (contributors).

Finally, the chapter addresses the critical financing gap faced by microenterprises, which are the lifeblood of rural economies. It proposes an innovative Holding Company-Waqf Model as a structural solution. This model leverages the perpetual nature of Cash Waqf to create a sustainable funding pool, disbursed through profit-and-loss sharing (*musharakah*) contracts. By eliminating the need for collateral and interest, this model provides a holistic financing ecosystem that integrates capital provision with business guidance and monitoring, thereby fostering entrepreneurship and reducing the vulnerability of the smallest economic actors.

In essence, this chapter weaves together the threads of classical partnership jurisprudence, the social empowerment potential of Waqf, the holistic force of ZISWAF, and innovative micro-financing structures. It presents a unified argument: that the Islamic finance tradition, with its emphasis on risk-sharing, equity, and social justice, holds the blueprint for a transformative and resilient rural economic system. By bridging classical wisdom with contemporary institutional models, this chapter provides a robust scholarly and practical contribution to the pursuit of genuine, community-embedded development in the Muslim world and beyond.

3.1.1 Bridging the Gap in Islamic Agricultural Economics

The discourse on Islamic economics has predominantly centred on commercial banking and high-finance instruments, creating a significant void in addressing the agricultural sector (Muhammad Hakimi 2011). This sector remains the primary livelihood for rural populations across the Muslim world. This chapter explores classical Islamic partnership models specifically designed for agricultural development (Haque 1984). These instruments present a viable alternative to conventional systems, transforming the traditional landlord-tenant relationship into a collaborative partnership based on shared risk and mutual benefit, thereby serving as a powerful catalyst for sustainable rural transformation.

3.1.2 Philosophical Foundations of Agricultural Partnerships

The core philosophy of these instruments is rooted in the principle that reward must be directly linked to productive contribution and assumed risk (al-Sadr 1983). This model establishes a framework where different factors of production are combined under a cooperative agreement. One partner contributes capital assets, primarily land, and often extends to inputs like seeds, irrigation systems, and machinery (al-Kasani 1968). The other partner provides the essential human capital: labour, skilled management, and daily operational oversight. The culmination is a pre-agreed proportional sharing of the actual physical output, whether grains, fruits, or other harvests, as stipulated in Section 1431 of the *Majalla al-Ahkam al-ʻAdliyya* (The Mejelle) (Bal, 2001).This intrinsic link ensures that the success of one party is inextricably tied to the other, fostering a relationship of mutual investment and collective responsibility.

3.1.3 Jurisprudential Legitimacy: A Spectrum of Classical Opinions

The legitimacy of these agricultural partnerships was a subject of intense debate among classical Islamic jurists, resulting in a rich diversity of legal opinions that continue to inform modern practice.

- **The Hanafi Perspective: From Restriction to Validation**
  The early Hanafi school, led by Imam Abu Hanifa, held a restrictive view. He argued that such partnerships involved excessive uncertainty (*gharar*) because the worker's remuneration was an unknown share of an uncertain future crop (al-Kasani 1968). He further contended that land, unlike monetary capital, is not liable to loss and thus cannot form the basis of a profit-sharing partnership, advocating instead for a fixed-rent lease (*ijarah*) (Nyazee 2002). However, his prominent disciples, Abu Yusuf and Al-Shaybani, broke with this view. They validated the partnerships through juristic preference (*istihsan*), analogizing land to capital in a commercial profit-sharing arrangement (*mudarabah*) and justifying it based on public need (*maslahah*) and established custom (*urf*) (Johansen 1988).
- **The Maliki and Shafi'i Perspectives: A Nuanced Middle Ground**
  The Maliki and Shafi'i schools adopted a cautious, middle-ground approach. They validated partnerships involving existing, fruit-bearing assets based on the historical precedent of the Prophet's agreement at Khaybar (Muslim 2000). However, they expressed reservations about agreements for cultivating barren land from scratch, citing the high degree of uncertainty (al-Shirazi 1959). Their primary concern was protecting the labourer from entering a contract where his wage was fundamentally unknown. They often reframed the permissible arrangements as a form of lease where the "rent" was a known fraction of the produce, thereby seeking to eliminate the element of *gharar* (Malik 1982).
- The Hanbali Perspective: Robust Validation and Economic Rationale
  The Hanbali school, particularly through Ahmad ibn Hanbal and the later scholarship of Ibn Taymiyyah, provided a robust and comprehensive validation. They firmly classified

these arrangements as legitimate partnerships between capital and labour (Ibn Qudāma, n.d.). Ibn Taymiyyah offered a sophisticated economic rationale, viewing land as a vital factor of production that, when combined with labour, generates value (Islahi 1988). He argued that the risk was not akin to gambling but was a shared commercial venture where both parties willingly forgo a fixed return (rent or wage) for a potentially higher, shared outcome.

3.1.4 Flexible Capital and Input Structures

A key strength of these partnership models lies in their flexible capital structure, which can be adapted to various local contexts and resource availabilities (al-Kasani 1968).

- **Land as Primary Capital:** The foundational asset is the land provided by the owning partner.
- **Input Arrangements:** The model accommodates several structures: the landowner provides all inputs (seeds, tools, animals) while the farmer contributes labour; the landowner provides only land, with the farmer supplying all other inputs; or a hybrid model where operational costs are shared between the partners in proportion to their agreed share of the final output. This flexibility makes the model inclusive and adaptable.

3.1.5 Contemporary Application for Rural Transformation

The practical application of these classical models holds immense potential for modern rural economies, offering a blueprint for equitable and resilient agricultural development (Al-Azhar al-Sharif 2010).

- **Built-in Resilience and Risk Mitigation**
  The partnership model inherently promotes resilience. The relationship is collaborative, not adversarial. It allows for the sharing of operational costs, reducing the farmer's initial financial burden (al-Dusuqi n.d.). Crucially, it features a built-in risk mitigation mechanism: in the event of crop failure, both parties share the loss—the farmer loses their labour investment, and the landowner loses the potential yield (al-Kasani 1968).
- **The Evolving Role of Islamic Financial Institutions**
  Islamic banks can transition from being mere lenders to active partners in agriculture (Sarker 1999). They can acquire and develop fallow land, entering directly into partnership agreements with farming cooperatives. Alternatively, they can provide financing for inputs within an existing partnership framework, with their return being a variable share of the harvest, thus transforming agricultural credit into a success-based investment.
- **The Enabling Role of Government and Policy**
  Governments and development agencies can leverage this model for effective policy implementation. This includes drafting supportive legal frameworks that recognize and

regulate these partnerships, offering state-owned land for such schemes, and promoting their use through agricultural cooperatives (Hussein Shehata 2009). This empowers the rural poor as stakeholders, de-risks investment, and channels ethical finance into the sector.

3.1.6 A Pathway to Sustainable and Equitable Development

The revival and sophisticated application of these classical Islamic partnership models is a practical necessary for achieving genuine rural transformation (al-Zuhayli 2011). By moving beyond fixed-interest debt and fixed-wage labour to a system of shared risk and reward, these models promote justice, entrepreneurship, and resilience (Ibn Taymiyyah in Islahi 1988). They provide a Shariah-compliant, ethically sound, and economically viable pathway to unlock the vast potential of the agricultural sector, ensuring sustainable and equitable development for rural communities.

3.2 The Management Model of Cash Waqf: Toward Socio-Economic Development of Muslims in Malaysia

Waqf, or religious endowment, from the perspective of Islamic law, refers to the dedication of a specific asset and its preservation for the benefit of the Muslim community, with any usage or disposition that falls outside its designated purpose being strictly prohibited (Kahf 2002). The institution of Waqf was established during the era of Prophet Muhammad (PBUH). The earliest recorded Waqf property is the Quba' Mosque in Medina, located approximately 400 kilometres north of Mecca, constructed upon the Prophet's arrival following the divine instruction from Allah (SWT) for him to migrate to the city.

Although the Qur'an does not explicitly mention Waqf, it emphatically highlights the principle of equitable wealth distribution. A hadith narrated by Abu Huraira (may Allah be pleased with him) reports Prophet Muhammad (PBUH) as saying: "When a person dies, all his deeds come to an end except for three: ongoing charity (*sadaqah jariyah*), beneficial knowledge, and a righteous child who supplicates for him."

Historically, Muslims have predominantly understood Waqf or endowment as being limited to immovable properties such as land and buildings. As a result, many individuals dedicated their lands and structures for the construction of mosques, cemeteries, and educational institutions. However, awareness regarding other permissible forms of Waqf—such as cash Waqf, agricultural tools, livestock, shares, gold, and equity instruments—remained limited.

The expansion of Waqf instruments today offers Muslims various avenues to contribute to the advancement of Islam. Whether wealthy, impoverished, or of moderate means, individuals can participate due to the flexibility embedded within modern Waqf structures. The collective contributions of Muslims can accumulate into substantial cash Waqf funds capable of driving societal development. When utilised as a foundation for microfinance, Waqf assets provide boundless benefits to underserved members of society—those excluded from formal capital markets, unable to navigate dominant economic forces, or without access to conventional financial opportunities.

In principle, the Islamic financial system places emphasis on social justice (*'adl*) and benevolence (*ihsan*), rather than perpetuating isolated commercial financing practices (Chowdhury et al. 2011). However, despite the growth of Islamic banking and finance, contemporary practice does not adequately reflect the holistic aspirations of Islamic economics. Islamic banking aims to establish a moral economic order grounded in authentic value systems, whereas Islamic economics seeks to advance institutional development that prioritizes social justice and human-centred economic progress (Asutay 2007). So, a clear divergence has emerged between the ideals of Islamic economics and the operational realities of Islamic banking and finance institutions.

For example, Islamic principles promote profit-sharing arrangements in financial intermediation. Nonetheless, many Islamic banks continue to rely heavily on debt-based financing in pursuing profitability (Hudayati and Md Auzair 2009). In Malaysia, the proportion of profit-sharing financing remained minimal—between 0.3% and 0.7% between 2002 and 2005, as documented by Bank Negara Malaysia—whereas according to data from Bank Indonesia, the country demonstrated comparatively stronger adoption, ranging from 29% to 35.8% between 2004 and 2007.

Reflecting this divergence, the present paper seeks to demonstrate the applicability of Waqf—particularly within the Malaysian context—as a means of revitalising the prominence of endowment-based economic empowerment, echoing its remarkable success during the Ottoman Empire in the sixteenth century. Historical accounts reveal that Waqf, especially cash Waqf, was highly prevalent in Anatolia and the Empire's European provinces (Toraman et al. 2007). Empirical studies further highlight its significant role in supporting disadvantaged Muslim communities and addressing their social and socio-economic challenges (Harun et al. 2012; Ihsan 2011; Kahf 1992; 1999; Toraman et al. 2007).

However, the credibility of contemporary Waqf institutions remains a subject of concern due to widespread managerial and administrative deficiencies (Ihsan 2011). A survey conducted in Jakarta and West Java revealed low levels of public trust in existing Waqf institutions, attributed to the overwhelming responsibilities borne by Waqf management bodies responsible for large portfolios of endowed properties (Masyita 2005).

To mitigate potential mismanagement and unethical practices among *mutawalli*s, and to ensure proper evaluation of *nazir* performance, Waqf funds must be administered by a well-structured and professional entity. This concern resonates strongly in the Malaysian context, where numerous Waqf properties remain idle or underutilized (Hasan and Abdullah 2008). Therefore, institutional reforms and enhanced governance mechanisms are essential to ensure that Waqf institutions remain effective, credible, and relevant within contemporary socio-economic settings.

3.2.1 Waqf: Conceptual, Legal, and Historical Foundations

Waqf, as a religious endowment and a source of communal revenue, is governed by Islamic law with the objective of facilitating Islamic socio-economic development. Its practice dates to the time of Prophet Muhammad (PBUH). Waqf manifests in several forms, one of which is Cash Waqf.

Cash Waqf refers to a trust-based financial endowment in which a monetary fund is established for the purpose of assisting the needy for the sake of Allah (SWT). Funds entrusted to a *mutawalli* are either invested or converted into other forms of assets to generate returns, which are subsequently channelled towards various charitable and social undertakings (Chowdhury et al. 2011). Although such practices can be traced to early Mesopotamian, Greek, and Roman civilisations, cash Waqf achieved widespread prominence during the Ottoman Empire, particularly in Egypt. It played a significant role in that period by contributing to the financing of Islamic expansion into Europe (Cizakca et al. 2004).

The establishment of a Waqf requires the fulfilment of several conditions. The most fundamental requirement is that the endowed property must be physical in form or constitute assets of a permanent nature. The endowed property must also be donated on a perpetual basis. While some jurists permit temporary Waqf arrangements, these allowances typically apply only to family Waqf. Additionally, the Waqf founder must be legally competent and capable of undertaking such an action. Therefore, minors, persons of unsound mind, or those without ownership of assets are not eligible to establish a Waqf. Moreover, in accordance with both Shariah principles and the donor's intent, Waqf must be dedicated to charitable purposes. Finally, its beneficiaries, or *mawquf 'alayhi*, must be living and legitimate individuals or entities, as Waqf for the deceased is not permissible. The principal characteristics of Waqf assets include perpetuity, irrevocability, and inalienability (Osman 2012).

Perpetuity implies that the endowed asset must constitute fixed property that remains durable over time. So, donors receive continual spiritual reward from Allah (SWT) so long as the endowed asset continues to generate benefit. Irrevocability ensures that the donor cannot retract or reclaim the endowed property; it ceases to be available for any personal use and is fully dedicated to its Waqf purpose. Given that Waqf entails relinquishing private rights over the property in favour of divine ownership, the asset is considered to have been returned to Allah (SWT) for societal benefit. Furthermore, the endowed property cannot be sold, transferred, inherited, or otherwise disposed of. The principle of inalienability highlights the responsibility of the *mutawalli* to manage Waqf assets strictly in accordance with the donor's intentions so that the benefits continue to flow to the designated beneficiaries. Income derived from Waqf properties must therefore be utilised for communal welfare (Osman 2012).

In the eighth century, Imam Zufar issued the first approval for cash Waqf within the Islamic scholarly tradition. He stipulated that cash Waqf should be invested through *mudarabah* contracts and that the profits generated should be channelled to the poor as charitable assistance (Chowdhury et al. 2011). Mohsin (2013) identifies six prevailing types of cash Waqf schemes: Waqf share schemes, deposit-based cash Waqf schemes, compulsory cash Waqf schemes, corporate Waqf schemes, deposit product Waqf schemes, and cooperative Waqf schemes. However, not all these forms are practiced universally, as their implementation varies across different Muslim countries.

Islamic jurists hold divergent views regarding the permissibility of cash Waqf. Imam Zufar permits cash Waqf without restriction; the majority of Maliki scholars allow Waqf of cash and consumables, though some classify them as makruh. The Hanbali school traditionally rejects cash Waqf. Ibn Taymiyah, however, clarified that the rulings declaring cash Waqf invalid primarily stem from the views of al-Khiraqi and his followers, and he himself acknowledged the validity of cash as a Waqf asset (Tohirin 2010). Despite ongoing debates concerning its legality, cash Waqf continues to attract substantial contributions from Muslims due to its inherently flexible funding structure.

Recognition of cash Waqf is not a new phenomenon. Today, it is widely practiced in countries such as Egypt, Iraq, Syria, Iran, Turkey, India, Pakistan, Brunei, and Singapore (Hj. Mohammad 2006). In Malaysia, the Fatwa Committee of the National Council for Islamic Religious Affairs affirmed the legality of cash Waqf during its 77th meeting, held from 10 to 12 April 2007 under the Ninth Malaysia Plan. The Selangor Fatwa Committee further ruled that proceeds from Waqf Share Schemes may be utilised for the acquisition of fixed assets, while the benefits derived may be channelled towards assistance programmes and other expenditures deemed appropriate by the Selangor Islamic Religious Council.

3.2.2 Application of Cash Waqf

In accordance with one of the core principles of Waqf, namely perpetuity, endowed assets may neither be sold nor disposed of in any form. They must remain permanently preserved, and any new Waqf contributions are added to the existing pool, thereby ensuring that Waqf assets continually increase rather than diminish over time (Kahf 1999). Reducing the value of Waqf properties is impermissible, as it is unlawful to neglect, misuse, or allow endowed assets to remain idle. In the case of cash Waqf, the funds should be converted into fixed assets or invested, with the resulting income distributed to those in need. Thus, Waqf functions not merely as an asset but as a cumulative and perpetually expanding investment.

The fundamental purpose of Waqf is to enhance societal welfare and provide essential public goods for long-term and sustainable use. Its function extends far beyond strictly religious activities, encompassing sectors such as education, healthcare, social welfare, economic development—including business expansion—and other areas vital to communal well-being.

Cizakca et al. (2004) note that during the Ottoman Empire, cash Waqf played an important role by generating continuous income used for the acquisition of real estate, including houses and land. The rental income derived from these properties financed the operational expenditures of the Waqf. Educational services, which are presently financed through government budgets in Turkey, were historically funded by Waqf foundations established during the Ottoman period. When available funds proved insufficient, capital increases were implemented either through additional endowments or by adjusting prices, mirroring contemporary financial practices. Cash Waqf also served a social security function through the establishment of mutual aid funds under institutions known as *Orta Sandığı*.

In the religious domain, cash Waqf funds could be utilised to safeguard the rights of orphans, support mosque administration, finance burial services, assist new converts (*muallaf*), and more. These funds were also used to provide interest-free loans to those facing financial hardship. Additionally, cash Waqf contributed to the provision of food and clothing for the unemployed or individuals affected by calamities (Hanefah et al. 2009; Masruki and Shafii 2013). Hence, the benefits of Waqf are wide-ranging and not confined to narrowly defined objectives.

3.2.3 Implications of Cash Waqf for the Muslim Society

In a civilization where health services, education, and social welfare are effectively sustained through endowments and charitable contributions, Waqf can exert a profound influence on the survival and well-being of society. This was clearly demonstrated during the Ottoman Empire (Toraman et al. 2007). Waqf funds can also serve as a mechanism for alleviating poverty within Muslim communities (Sadeq 2002), an especially critical function given that numerous Muslim-majority countries—such as Indonesia and Bangladesh—continue to grapple with widespread poverty. According to data from Indonesia's Central Statistics Bureau in 2005, approximately 40 million Indonesians were living below the poverty line (Masyita 2005). Waqf thus represents a tool for narrowing socio-economic disparities within Muslim societies, particularly in the realm of education, which holds central importance in human development. Furthermore, it contributes to improving the overall socio-economic standing of the Ummah. Investments undertaken through Waqf funds additionally help to increase the permanent equity ownership of Muslims (Mahmood and Mohd Shafiai 2013).

The effective administration of cash Waqf and the corresponding enhancement of Muslims' socio-economic conditions indicate improvements in the operational efficiency of Malaysia's Islamic Religious Councils. Significant reforms have been introduced both to the constitution and administrative procedures compared to earlier practices, which in turn has strengthened public confidence in contemporary Waqf operations (Nahar and Yaacob 2011).

It is widely recognised that competent administrators equipped with adequate knowledge and sound managerial skills are essential for advancing Waqf institutions and improving their service to the Ummah. Nevertheless, numerous concerns have been raised by the public regarding the effectiveness of Waqf administration. Among the issues highlighted are a shortage of skilled personnel, limited expertise in database management systems, inadequate documentation practices, prolonged estate registration processes, and inconsistencies in Waqf rules and regulations (Harun et al. 2012). Although Malaysian Waqf institutions have recently adopted computerised systems to support Waqf management, standardization across institutions remains absent (Harun et al. 2012).

Yayla (2011) notes that during the Ottoman period, the *mutawalli*'s son would assume his father's role in managing the Waqf. In cases where a family had multiple sons, the individual selected would be chosen based on merit, with the decision made by the local Qadi. Nonetheless, the ideal scenario for contemporary Waqf institutions would be the recruitment of the most capable professionals to oversee their operations. Competent leadership enhances the quality of services provided to the public, consistent with the understanding that Waqf institutions form part of Islam's broader social responsibility framework. Yayla further observes that accounting records from the Ottoman Empire in 1826 reveal a strong integration between accounting practices and governmental administration.

Several countries offer exemplary models of efficient Waqf management. Singapore, for instance, administers its Waqf assets through the Wakaf Real Estate of Singapore (WAREES Investment Pte. Ltd.), which manages properties under Baitulmal and Waqf (Abdul Karim 2010). Similarly, Brunei utilises an e-government platform for the administration of its Waqf assets. In this context, the discussion will turn to two Malaysian Waqf institutions that have demonstrated strong administrative practices for comparative analysis.

The preceding discussion demonstrates that cash Waqf enables diverse segments of society to participate in and benefit from its outcomes, including impoverished groups that may sometimes fall outside the direct reach of governmental programmes. Cash Waqf also supports the fulfilment of religious obligations through various initiatives such as redistributing wealth from the affluent to the poor and generating employment opportunities. Its overarching aim is to enhance the socio-economic conditions of disadvantaged populations and society more broadly. Despite its significance, the implications of cash Waqf have not been extensively examined in previous literature, particularly within the modern Malaysian economic context and at the institutional level. Accordingly, this topic seeks to provide a concise discussion of the applications and socio-economic implications of cash Waqf management for Muslim communities in Malaysia.

3.2.4 Study Approach

To achieve the aims of this chapter, two Waqf institutions were selected as primary points of reference: Perbadanan Wakaf Selangor (PWS), representing a public Waqf authority, and Waqaf Annur Corporation Berhad (WANCorp), which operates as a private corporate Waqf entity. PWS was included due to its notable progress in developing and expanding cash Waqf mechanisms, supported through collaborations with partners such as Bank Muamalat (M)

Berhad. WANCorp, on the other hand, stands as one of Malaysia's most established corporate Waqf models, particularly recognised for its healthcare services, where patients are charged only minimal fees for treatment and medicines.

Given the exploratory orientation of this study, a qualitative information-gathering approach was adopted. Relevant organisational materials—including bulletins, magazines, and other archived documents—were reviewed to understand institutional practices and developmental trajectories. This was complemented with in-depth conversations with key officers: the Head of Department at Perbadanan Wakaf Selangor, as well as the Deputy Manager and several executives of Waqaf Annur Corporation Berhad. Engaging with the executives was essential, as they are directly responsible for operational, administrative, and accounting functions, and could provide critical insights into the practical realities of Waqf governance.

All conversations were recorded and transcribed to maintain accuracy and clarity of the information shared. The discussions centred on eliciting their views, experiences, and interpretations related to Waqf administration within their respective organisations. In addition, financial documents—such as annual audited reports and the most recent data on Waqf collection and distribution—were also examined to supplement and validate the qualitative insights.

3.2.5 Discussion

To guide the flow of analysis, the findings for this topic are structured into two interconnected sections, summarised below:

3.2.5.1 Perbadanan Wakaf Selangor

Prior to 1952, Waqf management in Selangor lacked formal structure, as Waqf was primarily regarded as an act of worship (*ibadah*), with the community entrusting its administration to local leaders. The establishment of the Islamic Religious Department of Selangor in 1952, under Section 5 of the Islamic Administration Enactment No. 3, 1952, marked the beginning of formalised Waqf management procedures. However, implementation at that time was relatively weak, and a significant number of Waqf properties had yet to be registered under the Department's name. In response to the need for standardisation, the Department introduced the Waqf Enactments (Selangor) No. 7, 1999, aiming to regulate Waqf management across the state. Under this system, the Department acted solely as trustee (*mutawalli*), and Waqf administration was managed through the Unit Waqf within the Baitulmal Department.

Following the remobilisation of the Selangor Islamic Religious Council (SIRC) in 2005, it was decided that the Waqf unit be transferred to SIRC while remaining administratively within the Baitulmal section. A significant milestone occurred on October 30, 2009, when His Royal Highness Sultan Sharafuddin Idris Shah Al Haj Ibni Almarhum Sultan Salahuddin

Abdul Aziz Shah of Selangor decreed that the Council should establish its own Waqf entity to enhance operational efficiency and management effectiveness. So, Perbadanan Wakaf Selangor (PWS) was formally launched on February 3, 2011, following a multi-year process of establishment initiated in 2009. The creation of PWS falls under Section 8 of the Selangor Islamic Regulation Enactment 2003, with the institution's mandate being to encourage, facilitate, promote, and develop Waqf properties owned by the Council.

PWS is overseen by His Royal Highness the Sultan of Selangor and chaired by Dato' Ramli Bin Mahmud, while the operational management is led by Chief Executive Officer, Tuan Abu Bakar Bin Yang. Despite having operated for a relatively short period, significant improvements have been observed in its activities over the years. To promote its Waqf products, PWS has conducted extensive outreach through talks at mosques and organisations and by engaging with both public- and private-sector stakeholders. Additional promotional channels include print and radio media. These initiatives aim to raise public awareness, encourage community contributions of money or assets, and channel resources towards assisting the needy in Selangor, while also providing spiritual rewards to contributors.

Among its initiatives, the Selangor Waqf Shares programme, launched in 2002, allows participants to donate as little as RM10 per share, which is maintained in a dedicated Waqf account prior to investment. Profits generated from these investments are directed towards the welfare of the Ummah. Contributions to this programme are also tax-deductible, with allowances of 7% for individuals and 10% for corporate entities. Collections have shown steady growth, beginning with RM374,975 in 2005, increasing to RM4,004,452 in 2012, and reaching RM6,251,011 by June 2013. Collection levels tend to rise further during special events or designated periods. In addition to the share Waqf, PWS has developed other programs, including the Infaq Scheme, Waqf Corporate Networks, Gold Waqf, and Waqf Online, all of which significantly contribute to the overall cash Waqf programme.

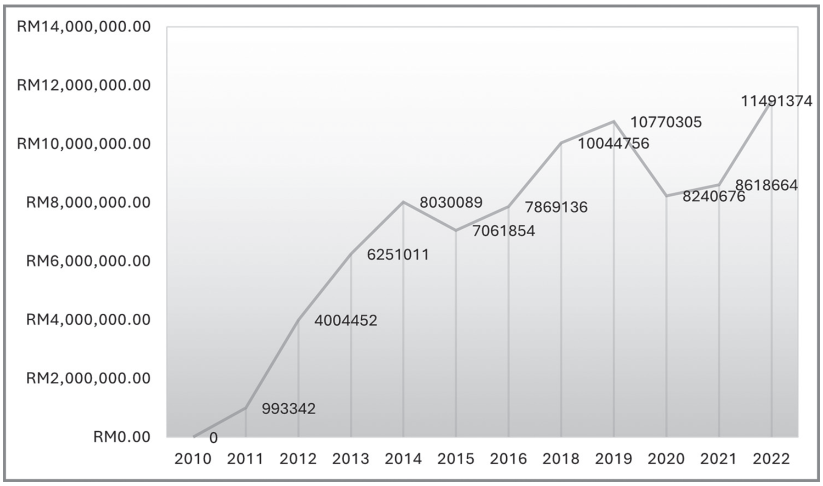

Figure 3.1 The Increasing Collection of Selangor Waqf Shares

As illustrated in Figure 3.1, the collection for waqf shares demonstrated a significant upward trend, growing from RM993,342 in 2011 to a record high of RM11,491,374 in 2022. The collection gained strong momentum after 2015, consistently surpassing the RM7 million mark and breaking the RM10 million threshold for the first time in 2018. Despite a slight dip in 2020 and 2021, the programme not only recovered but achieved its highest collection in 2022, underscoring the successful integration and contribution of the various new Waqf programmes in driving this remarkable growth.

From the total contributions received, Perbadanan Wakaf Selangor allocates 30% of Waqf benefits for *fi sabilillah* purposes, while the remaining 70% is reinvested to support ongoing development activities. Investments in assets such as land and buildings serve to increase Muslim equity ownership in Malaysia, as the acquired properties are registered under the Selangor Islamic Religious Council. These assets are utilised to generate income for the institution, and the proceeds are distributed according to a fixed ratio of 30:70.

Disbursements for *fi sabilillah* purposes are made on a quarterly basis to ensure the timely delivery of support. Given the relative novelty of the system, a substantial portion of the funds is currently directed toward the development of Waqf properties, including mosques, schools, and madrasahs. Perbadanan Wakaf Selangor staff closely monitor the progress of each construction project, particularly during contractor progress claims, to ensure that development objectives are met. In the future, the institution plans to expand the allocation of funds to provide direct assistance to the poor throughout Selangor.

Beyond income from asset rentals, Perbadanan Wakaf Selangor has initiated additional projects aimed at enhancing the socio-economic status of Muslims in the state. Notably, the institution recently acquired a mobile clinic, which is scheduled for launch in the near future. Purchased in August of the previous year, the mobile clinic will provide healthcare services to communities across Selangor, further demonstrating the institution's commitment to both religious and social welfare objectives.

3.2.5.2 Waqaf Annur Corporation Berhad

Waqaf Annur Corporation Berhad is a public company established by guarantee without share capital. Its primary purpose is to manage shares of the Johor Corporation (JCorp) Group that have been endowed as Waqf by its subsidiaries, including Kulim (M) Berhad, KPJ Healthcare Berhad, and Al-'Aqar Healthcare REIT. In addition, the corporation serves as *mutawalli* for assets and securities donated by the public for Waqf purposes.

Operations commenced on October 25, 2000, under the name Pengurusan Klinik Waqaf An-Nur Berhad, with the principal objective of overseeing Waqf clinics and dialysis centres managed by KPJ Healthcare Berhad under the Johor Corporation umbrella. On July 19, 2005, the company adopted the name Kumpulan Waqaf Annur Berhad, and subsequently, on May 18, 2009, it was renamed Waqaf Annur Corporation Berhad to reflect its broader scope and enhanced aspirations.

As a private Waqf institution, Waqaf Annur Corporation Berhad has established a notable record of service across Malaysia, despite its base in Johor. The institution functions under the recognition by the Johor Islamic Religious Council as the receiver, manager, and administrator of Waqf properties. It also acts as *mawquf ilayhi* for various securities belonging specifically to the JCorp Group as well as the public. Appointed as a special *nazir* by the Johor Islamic Religious Council, Waqaf Annur Corporation Berhad focuses primarily on share Waqf, while leaving cash Waqf largely under the direct management of the Council to prevent overlapping roles.

Several programs have been introduced by Waqaf Annur Corporation Berhad within the economic sector to assist Muslims lacking access to conventional bank financing. These initiatives include the Business Fund Waqf, Community Waqf, Mutawwif Fund, and corporate and private share ownership schemes. The Business Fund Waqf, launched on May 5, 2007, utilised an initial cash Waqf of RM14,000 together with proceeds from an existing Waqf fund of RM200,000. Its objective is to provide interest-free microfinancing based on the *qard hasan* principle, thereby supporting individuals who wish to start or expand small businesses. This approach promotes Islamic values within entrepreneurship and contributes to the broader development of the Muslim economy, aligning with the institution's slogan, "Waqf is Business," as well as JCorp's motto, "Jihad Business." According to Tuan Haji Nazaruddin Bin Ali, Deputy Manager of Waqaf Annur Corporation Berhad, all corporate activities of the institution are guided by the principle of Waqf integrated with business practices.

Applicants for financing are required to pay a nominal registration fee of RM1, without any collateral or third-party guarantee. Repayments are structured as instalments over an average period of two years, with a grace period available for recipients facing temporary financial difficulties. The fund is fully administered and monitored by Waqaf Annur Corporation Berhad, with support from volunteers within JCorp Berhad, including Imams and Muazzins collectively known as *ikhwan muamalat*, who assist in assessing applicant performance.

Three types of loans are offered, ranging from RM500 to RM7,000, with specific conditions for eligibility and subsequent funding. For example, Ayamas Corner is provided as a business model for recipients, alongside other financing initiatives as outlined in Table 3.1. Between 2007 and August 31, 2013, a total of 532 applications were received, of which 272 were approved, amounting to RM471,700 in financing. As of August 31, 2013, RM319,385 had been collected from instalment repayments, representing 84% of the expected total of RM379,830.

Table 3.1 Business fund Waqf financing

No.	Type of Business	Total Receiver	Total Fund (RM)
1	Food and Beverages	81	188,000.00
2	Sewing and Clothing Shop	9	26,800.00
3	Cafeteria	4	19,000.00
4	Beauty Salon	8	21,900.00
5	Workshop	5	15,000.00
6	Welding / Grill	3	9,000.00
7	Child Care Center	2	6,000.00
8	Grocery Store	3	9,000.00
9	Printing and Advertising	3	8,000.00
10	School Transportation	3	9,000.00
11	Others	18	71,900.00
12	Ayamas Corner	133	88,100.00
Total		272	471,700.00

Table 3.2 Collection of Repayment for Business fund Waqf

Year	Total Receiver	Outstanding Receiver	Total Loan (RM)	Total Collection by Schedule (RM)	Actual Total Collection (RM)
2007	1	-	10,000.00	10,000.00	10,000.00
2008	65	2	166,000.00	166,000.00	96,387.00
2009	62	2	94,950.00	94,950.00	98,040.00
2010	90	8	62,150.00	62,150.00	74,661.00
2011	39	3	103,300.00	41,020.00	35,037.00
2012	6	2	11,800.00	3,250.00	2,930.00
August 2013	9	-	23,500.00	2,460.00	2,330.00
Total	272	17	471,700.00	379,830.00	319,385.00

Table 3.2 presents a detailed summary of collections and disbursements by Waqaf Annur Corporation Berhad from 2007 until August 31, 2013. From an initial fund of RM214,000, the institution has successfully generated RM471,700 in financing on a revolving basis. In alignment with the principles of *qard hasan*, no interest or additional fees are imposed on borrowers, thereby facilitating access to business capital and operational support without financial burden.

The Community Waqf initiative is designed to consolidate small businesses within a single shop lot, enabling collective operations under one roof. Waqaf Annur Corporation Berhad provides fully equipped facilities and premises and appoints a leader from among the business operators to manage marketing, administration, and financial matters. The institution further extends advisory support to ensure effective management of the businesses. A pioneering example of this scheme is a sewing workshop established in Bukit Dahlia, Pasir

Gudang, comprising six students under the supervision of one instructor. The building housing this workshop was acquired by Waqaf Annur Corporation Berhad at a cost of RM977,000.

Both the Business Fund Waqf and Community Waqf projects are closely monitored by the institution. Experts are engaged to guide beneficiaries until they achieve business competence and are able to support other members of the community. While the projects are initially fully administered by Waqaf Annur Corporation Berhad, they are eventually transferred back to their respective "Organization Business Amal" (OBA) for ongoing management, reflecting the institution's integration within the broader corporate social responsibility framework of JCorp, led by OBA.

The Mutawwif Fund, launched in 2006, aims to support *mutawwif* in conducting Umrah and Hajj trips organized by Tiram Travel Sdn. Bhd., a JCorp subsidiary. Under this initiative, Waqaf Annur Corporation Berhad provides interest-free loans of RM3,000 to applicants, including JCorp staff, religious executives, and members of the public. By the end of 2013, the institution expected to have 180 qualified *mutawwif* supported through this fund.

In addition to financial support initiatives, Waqaf Annur Corporation Berhad has invested in infrastructure and social services, including the construction of mosques, hospitals, dialysis centres, clinics, and mobile health units across Malaysia. These facilities serve both Muslim and non-Muslim communities, reaching more than 860,000 patients. The institution also provides educational support to academically gifted students from underprivileged families, with 3,410 participants involved as of August 31, 2013, covering primary, secondary, and tertiary education levels. Personal development programs are also conducted for Muslim teachers in Chinese schools. Supplementary initiatives include the provision of prayer mats, copies of the Al-Qur'an, Yaasin, and other essentials to facilitate religious observances.

Investment returns generated by Waqaf Annur Corporation Berhad are allocated as follows: 70% for reinvestment and human resource development, 25% for *fi sabilillah* purposes, and 5% directly to the Johor Islamic Religious Council. The institution actively promotes continuous charitable contributions across its departments and subsidiaries, drawing inspiration from models such as the Awqaf Minor and Activities Foundation (AMAF) in Dubai. For instance, within the first three months of its operations in June 2013, AMAF collected RM900, which was subsequently channelled to the Johor Islamic Religious Council through its subsidiary, Capaian Aspirasi Sdn. Bhd., a certified *amil* for Share Waqf Johor.

Overall, the programs and initiatives of Waqaf Annur Corporation Berhad demonstrate a comprehensive approach to enhancing the socio-economic well-being of Muslims in Malaysia, integrating financial support, education, health, and social welfare within the framework of Waqf principles.

3.2.6 Comparison between Both Institutions

From the discussion above, it is evident that Perbadanan Wakaf Selangor demonstrates a more established and structured approach as a cash Waqf institution compared to Waqaf Annur Corporation Berhad. This can be attributed to Perbadanan Wakaf Selangor's proven effectiveness in managing cash Waqf programs, particularly in terms of fund mobilization and systematic distribution. The institution has employed multiple channels to support and promote its activities, ensuring broad community engagement and contribution. In contrast, Waqaf Annur Corporation Berhad has only recently initiated its cash Waqf program, having previously concentrated on its share Waqf initiatives. The continual introduction of various Waqf products by both institutions reflects a proactive effort to increase awareness and participation among Muslims regarding the significance of Waqf.

In terms of human resources, Waqaf Annur Corporation Berhad relies on a combination of its thirty-one staff and indirect support from personnel drawn from Johor Corporation to implement its activities across different states of Malaysia. On the other hand, Perbadanan Wakaf Selangor, with forty-one staff members, manages Waqf operations across all nine districts in Selangor, assigning two to three employees per district. These employees are responsible for planning and executing localized activities, ensuring that Waqf information and updates effectively reach the communities.

Moreover, Waqaf Annur Corporation Berhad has adopted an advanced strategy by providing financial support to small businesses among Muslims in Johor to improve their economic standing. This approach represents a potential model that Perbadanan Wakaf Selangor could consider for supporting entrepreneurial initiatives within Selangor, and addressing a critical socio-economic challenge, as many Muslims continue to experience lower overall income levels relative to other ethnic groups in Malaysia.

Other Waqf institutions, particularly those administered under local Islamic Religious Councils, may benefit from adopting the strategies exemplified by Waqaf Annur Corporation Berhad and Perbadanan Wakaf Selangor. This includes appointing specialized personnel and multidisciplinary teams to enhance operational efficiency, generate innovative ideas, and ultimately strengthen the management and impact of Waqf initiatives across the broader Muslim community.

3.2.7 Conclusion

Waqf, as a powerful instrument of charitable endowment, has firmly established its significance within Muslim societies and continues to evolve, demonstrating the potential for an increasingly important role in the future. Observations from the collections of both Perbadanan Wakaf Selangor and Waqaf Annur Corporation Berhad indicate that awareness and trust among Muslims toward these institutions have grown steadily over time. This highlights the strategic importance for Waqf institutions to emphasize that Waqf represents a form of *ibadah* (worship) for Muslims. The impact of Waqf can be further amplified if the public perceives that these institutions operate with a high degree of efficiency, accountability, and integrity.

With a growing number of countries revitalizing their cash Waqf programs, it is anticipated that such initiatives will expand globally and potentially contribute to reducing poverty levels among Muslim populations worldwide. The adoption of contemporary technologies, particularly in database management, is essential for enhancing operational performance, expediting administrative processes, and increasing the overall efficiency of Waqf management. Innovative practices may be employed, recognizing that Waqf institutions serve as custodians of Muslim endowments. Efficiently generated Waqf revenues have the potential to establish a model for the most effective Muslim endowment system globally.

Perbadanan Wakaf Selangor, as a relatively new body for managing Waqf funds, has demonstrated a commendable approach to the collection and distribution of Waqf resources, placing significant emphasis on facilities accessible to the public. In parallel, Waqaf Annur Corporation Berhad, as an exemplary corporate Waqf institution, has tangibly benefited Malaysian society, particularly individuals in Johor, through its structured business financing programs. Historical experiences from countries such as Egypt, Saudi Arabia, Turkey, and the United Arab Emirates further substantiate the role of Waqf in supporting national development. Similarly, prestigious global universities, including Harvard and Oxford, have successfully expanded through endowment-based funding mechanisms.

It is important to note that this study focuses exclusively on two Waqf institutions, which naturally limits the generalizability of the findings and conclusions. Such limitations are understandable, given that formalized Waqf management structures are still in their nascent stages in many regions. For future research, comparative analyses are encouraged, either between Waqf institutions in different countries or between Muslim and non-Muslim endowment mechanisms, with a particular emphasis on their role as vehicles for socio-economic development.

3.3 Empowering the Peripheral Ummah through Waqf Mechanism Model

In economics, the concept of the periphery originates from geographical economic theory, which suggests that affluent regions tend to cluster together (Baldwin and Wyplosz 2012). These prosperous areas form the economic core, while rural and less developed regions are dispersed around the core and referred to as the periphery.

Most economic activities and resources are concentrated within the core, which typically exhibits higher income levels and lower unemployment rates. In contrast, peripheral areas experience limited economic activity, resulting in lower incomes and higher unemployment. This disparity contributes to economic inequality between the core and the periphery. Baldwin and Wyplosz (2012) highlight that such disparities may impede economic integration between regions.

Although originally applied to regional economic disparities, the core–periphery concept can be extended to understand community integration into broader market systems.

Communities that remain disconnected from the market are often trapped in cycles of poverty, malnutrition, limited education, inadequate healthcare, and substandard housing. This creates a self-perpetuating cycle, where poverty is transmitted across generations.

This issue is not confined to any single nation; both developing and developed countries face challenges in integrating peripheral populations. However, in developing economies, the problem is exacerbated due to limited fiscal capacity, as government interventions are largely funded through taxation. Low tax collection constrains the resources available for social programs. The Social Exclusion Knowledge Network (SEKN) Report (2008) recommends targeted, means-tested interventions, such as cash transfers, to improve household income and assets. Yet, such policies have inherent limitations, including low transfer amounts, information asymmetry between policymakers and recipients, restrictive eligibility rules, improper resource distribution, administrative fraud, leakages due to complex processes, delayed or incorrect payments, perverse incentives, insufficient funding, and inadequate impact on inequality.

Therefore, governmental policies alone are insufficient to eradicate poverty and social exclusion. Successful interventions require supportive infrastructure, coordinated efforts, and active engagement from broader society. According to the SEKN Report (2008), large-scale social movements and formal civil society organizations can be powerful catalysts for social reform, emphasizing the importance of collaboration between the government and the community.

In this context, the present paper proposes Waqf as a mechanism to address social exclusion and integrate peripheral communities (the Ummah) into the market system. Using a descriptive-analytical approach, the study explores the advantages of Waqf, particularly its capacity to involve both the public and the government collaboratively. Importantly, waqf funds remain independent of government veto, belonging instead to the community, which enhances transparency, democratic governance, and autonomous decision-making. In this framework, both the government and society can act as trustees of the Waqf fund, ensuring equitable and accountable fund management.

The remainder of this paper is structured as follows. First, we review the relevant literature and introduce the concept of Waqf, followed by an elaboration of the proposed Waqf mechanism. Finally, the paper concludes with discussions on policy design, implementation, evaluation, and actionable recommendations.

3.3.1 Concept of Social Exclusion

The concept of social exclusion first emerged in Europe, where it was used within policy discourses addressing populations living in “deprived areas” characterized by inadequate facilities and marginal living conditions. Since then, the term has gained widespread currency across various social science disciplines, including sociology, educational psychology, economics, and political studies. Silver (1994) articulates three perspectives for interpreting social exclusion: solidarity, specialization, and monopoly.

Within the solidarity perspective, social exclusion is understood as the breakdown of the social bond that connects individuals to the broader society. Under this perspective, groups such as the poor, the unemployed, and minority communities are viewed as socially excluded. The specialization perspective, in contrast, frames exclusion as a form of discrimination that occurs across social and economic domains, wherein individuals are legally segmented and constrained from moving beyond these demarcated boundaries. Finally, from the monopoly perspective, certain groups consolidate power and establish monopolies in the social and economic spheres, thereby preventing others from accessing vital resources through processes of "social closure."

Saith (2007) further differentiates the notion of social exclusion based on varying stages of economic development. According to Saith, the meaning of social exclusion diverges between developing and developed economies. In contexts lacking a welfare state and a formal labour market, the term often becomes synonymous with poverty. Conversely, in developed countries, social exclusion refers to the inability of individuals to participate in the normal activities of society. To address this conceptual divergence, Saith (2007) proposes two approaches: first, defining exclusion through predetermined criteria such as political rights or basic welfare entitlements; and second, identifying potentially excluded groups and specifying the dimensions through which exclusion occurs.

A substantial body of literature posits that social exclusion is inherently multi-dimensional (Bhalla and Lapeyre 1997; De Haan 1999; Saith 2007; Sen 2000), as it encompasses various forms of relational deprivation and intersecting types of exclusion. So, understanding social exclusion requires an inter-sectoral approach that evaluates existing social institutions and the processes that shape access to opportunities and resources. Broadly, social exclusion may be interpreted as a condition of marginalization and deprivation. It reflects situations in which certain segments of society are overlooked in governmental economic decision-making, resulting in their receiving disproportionately fewer benefits from public policies compared to other groups (Mohd Fauzi 2006). In many discussions, social exclusion is therefore regarded as a contemporary manifestation of poverty (Siti Hajar 2009).

3.3.2 Incidence of Social Exclusion

As discussed earlier, social exclusion is not a phenomenon confined solely to developing economies. Within Europe, approximately 120 million individuals across the European Union are identified as being at risk of poverty or social exclusion, with children and those aged 65 and above constituting the most vulnerable groups. In response, the European Parliament launched a continent-wide initiative in 2010 aimed at combating poverty and social exclusion, focusing on raising public awareness, forging new partnerships, generating collective momentum, and securing political commitment to address the issue (European Commission 2011).

In contrast, in countries such as India, social exclusion is deeply entrenched within longstanding social structures, where divisions based on caste, tribe, and gender have historically confined entire communities to persistent disadvantage (World Bank 2011).

Malaysia presents a different track. The incidence of poverty has declined substantially over the decades: in 1970, 49.3% of the Malaysian population lived in poverty, whereas by 2009, the figure had fallen to just 3.8%. A similar improvement is observable in income inequality, as indicated by a more favourable Gini coefficient (The Economic Planning Unit 2010). However, data from the Department of Social Welfare Malaysia reveals an upward trend in the number of welfare aid recipients, rising from 221,602 cases in 2008 to 473,928 cases in 2011.

This apparent contradiction supports the contention that social exclusion represents a new and distinct dimension of poverty—one that persists even amid economic growth. Despite its significance, scholarly work on social exclusion in the Malaysian context remains limited. This chapter, therefore, seeks to examine the issue more closely and to propose a Waqf-based mechanism as a potential solution for addressing social exclusion.

3.3.3 Causes of Social Exclusion

There are multiple underlying causes that contribute to social exclusion. Because it is often linked to income deprivation, factors that depress income levels are likewise regarded as drivers of social exclusion. Parodi and Sciulli (2012) contend that economic downturns heighten unemployment rates, particularly when governments implement fiscal austerity measures to contain rising public debt. Such policies disproportionately affect vulnerable groups, thereby intensifying inequality, poverty, and social exclusion. Economic crises also disrupt labour markets; in contexts where labour systems are made more flexible with minimal worker protection, downturns tend to suppress wages and increase unemployment, which in turn deepens poverty.

Beyond economic determinants, social factors also play a significant role in shaping social exclusion. These include limited access to quality education, healthcare services, adequate housing, and other necessities. In certain contexts, gender can also function as a barrier that marginalizes individuals from mainstream social and economic life.

In essence, the dynamics of social exclusion can be conceptualized as shown in Figure 3.2, which illustrates the interconnected pathways between its causes and consequences. Low income contributes to poverty, and poverty subsequently restricts individuals' access to economic, social, and political opportunities. Over time, this limited access gradually pushes affected groups to the margins of society, culminating in their exclusion from participation in the broader market system.

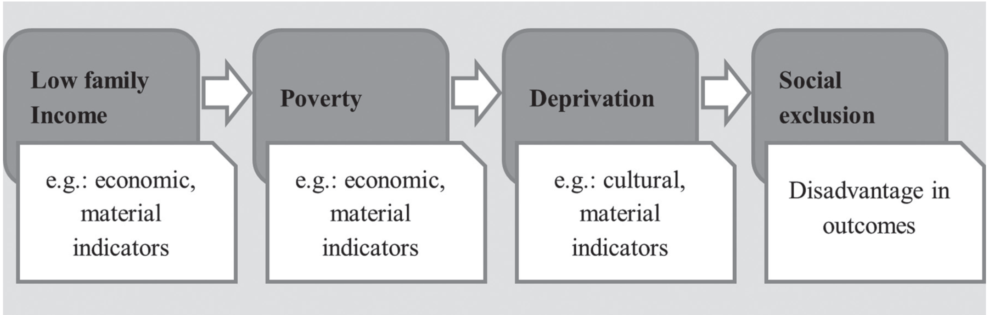

Figure 3.2 Cause and Outcomes of Social Exclusion Inter-relationship
Sources: Bynner (2000)

Reflecting the diversity of its underlying causes, UNDP (2006) identifies eight categories of social exclusion. While economic deprivation—such as poverty, unemployment, or homelessness—remains the most prominent source, exclusion may also stem from family structure, identity markers, age, criminal background, limited education, health conditions, and physical disability.

More broadly, indicators of social exclusion can be grouped into several domains or thematic areas. These include material or resource deprivation, economic participation, access to education, health and overall wellbeing, social engagement, political participation, living environment, access to essential services, and personal safety (Scutella et al. 2009). In addition, Saunders (2008) introduces the notion of *disengagement* as another key indicator capturing the extent to which individuals withdraw—or are pushed away—from societal institutions and systems.

3.3.4 The Consequences of Social Exclusion

The consequences of social exclusion are structural in nature and operate across multiple sectors. Moreover, these consequences tend to reinforce and intensify the very factors that produced exclusion in the first place. As such, the effects frequently appear repetitive, as they unfold in a spiral and vicious cycle. For example, social exclusion may initially arise due to poverty, but in subsequent stages, it further deepens and entrenches poverty. The major consequences are as follows:

a) Health and Education
   Social exclusion limits the peripheral Ummah's access to adequate healthcare and quality education. This condition is particularly pronounced in remote and rural areas where infrastructure is underdeveloped, and public services are scarce. The situation reflects

the earlier discussion on the periphery within geographical economics. Poor access to healthcare impairs children's physical wellbeing, which in turn affects their educational performance and contributes to higher school dropout rates.

b) Income Inequality
With limited educational attainment, members of the peripheral Ummah tend to earn significantly lower incomes than others. Weak or poorly targeted redistributive policies further aggravate disparities in land and asset ownership, as well as access to external credit. The combined effect is a severe constraint on the economic resources available to these communities.

c) Poverty
As a result, these groups remain below the poverty line. Poverty becomes cyclical and self-perpetuating, as one generation of poor households gives rise to another. Their persistent poverty restricts access to improved healthcare and education, thus reproducing the original conditions of deprivation.

d) Productivity
With inadequate economic resources, individuals in these communities face obstacles in producing goods and services or engaging in productive economic activity. Their capacity for innovation is severely restricted, and existing productivity may even decline as they become increasingly uncompetitive. So, they remain trapped in poverty, preventing meaningful progress in eradicating the problem.

e) Violence and Insecurity
Poverty also exposes individuals to heightened levels of insecurity. In order to survive, some may resort to begging, while others may become involved in criminal activities. Thus, areas with high concentrations of poor households or significant income disparities tend to experience higher crime rates.

f) Subjective Wellbeing
Over time, persistent social exclusion results in individuals being wholly marginalized across social, political, and economic spheres. Their voices go unheard, their interests receive little attention, and their lives are overlooked by the broader community.

In light of these realities, Islam emphasises the avoidance of harm and consistently encourages believers to seek improvements in their worldly and spiritual wellbeing. Muslims are taught to supplicate for protection from laziness, poverty, overwhelming debt, and oppression. Within this moral and ethical framework, we propose a Waqf-based mechanism to support the peripheral Ummah and facilitate their integration into the market system. In this regard, Suhaimi and Rahman (2014) demonstrate that endowment fund schemes can play a significant role in economic development, drawing on evidence from Waqf practices in Penang, Malaysia. However, their study does not explicitly address the empowerment of the peripheral Ummah, which this paper seeks to foreground.

3.3.5 Waqf

Waqf originates from the Arabic term *waqf*, while classical Muslim jurists also employ the term *habs* to convey the same concept. Linguistically, both *waqf* and *habs* denote the acts of holding, confining, detaining, or restraining (Rahman 2009). In the terminology of *fiqh*, although scholars have presented multiple definitions, the one attributed to Abu Yusuf of the Hanafi School is widely adopted. As cited by Mohammad Tahir Sabit and Abdul Hamid (2006, 28), Waqf legally refers to "protecting something by preventing it from being the property of a third person". This definition reflects three essential characteristics of Waqf: (i) the asset is transferred from the donor for perpetual communal benefit, (ii) the transfer is irrevocable, and (iii) the donor's heirs have no right to reclaim private ownership over the asset.

The asset endowed must be sound, durable, and intended sincerely for the sake of Allah (SWT) to generate benefits for society. So, ownership shifts from a privately held asset to one held in trust by an institution responsible for distributing its benefits to the wider community (Mohamad Akram et al. 2008).

Once the declaration of Waqf is made, neither the donor, the donor's heirs, nor the trustees can revoke the endowment. This binding nature of Waqf renders physical delivery of the asset unnecessary because the act of endowment transfers the ownership from the donor to the ownership of Allah (SWT)—an ownership that is by nature irrevocable. The perpetuity requirement also implies that Waqf assets must remain intact and continuously generate benefit. For this reason, Waqf properties cannot be sold, mortgaged, assigned, or transferred, thereby distinguishing Waqf from other voluntary transfers such as Sadaqah, Zakat and *hibah*.

Although the term Waqf does not appear explicitly in the Qur'an and Sunnah, its legal basis is established through concepts such as Infaq, *sadaqah jariyah* and *habs*, which classical Islamic scholarship interprets as encompassing the meaning of Waqf. For instance, Allah (SWT) states in Surah Al-'Imran (3:92): "Never will you attain righteousness until you spend (in the way of Allah (SWT)) from that which you love. And whatever you spend—indeed, Allah (SWT) is Knowing of it." Ibn Kathir's exegesis links this verse to the famous hadith of Abu Talhah, who endowed his most cherished property solely for the sake of Allah (SWT), thereby illustrating the spirit and essence of Waqf.

3.3.5.1 Altruism and Waqf

As noted earlier, individuals undertake Waqf solely for the sake of Allah (SWT) and for the benefit of others. This sincere motivation reflects the principle of altruism. The term *altruism* derives from the Latin word *alter*, meaning "other," and refers to actions performed selflessly for the welfare of others. In essence, altruism represents "a concept of loving others as oneself, or a behaviour that promotes the survival chances of others at a cost to one's own, or self-sacrifice for the benefit of others" (Wan Sulaiman n.d.). In conventional economics, the role of altruism was largely overlooked in many theoretical formulations, with the analytical focus placed instead on individuality and self-interest as foundations for behaviour optimisation. However, as economic theory increasingly attempts to reflect real-world complexities—and as notions of cooperation, reciprocity, and trust gain prominence—altruism has become more explicitly incorporated into economic model construction rather than being confined to normative discussion.

In economic terms, the effects of altruism can be understood in two ways. Within Islamic economics literature, Waqf is often classified as a form of transfer payment: a voluntary transfer of income or wealth from a consumer to benefit others. Such a transfer reduces the donor's disposable income or wealth. Nevertheless, believers hold the conviction that any transfer made sincerely for the sake of Allah (SWT) will ultimately be rewarded. This belief is grounded in the notion of *barakah*, whereby the donor's original income is safeguarded and increased in the future (al-Qur'an 2:261; 14:7). So, *barakah* contributes to an increase in the donor's utility, either exogenously or endogenously. Moreover, the merit of this virtuous act continues to accrue to the donor even after death (Cizakca 1998).

In this sense, Waqf may also be conceptualised as a consumption good within the consumer's bundle of commodities. Under this formulation, expenditure on Waqf directly influences utility maximisation and thus allows the modelling of Waqf demand endogenously. As part of the consumption set, Waqf would be priced—at least at the level of its opportunity cost relative to other consumable goods. Collectively, the two perspectives help illuminate why individuals engage in Waqf and how its impacts can be analysed economically. Furthermore, Waqf embodies productive attributes: it represents fixed savings in that the endowed assets remain perpetually intact, and it resembles investment given that its benefits are intended to be enduring (Mohamad Akram et al. 2008). This characteristic of perpetuity positively influences a consumer's inclination to perform Waqf.

3.3.6 Waqf Mechanism

The Waqf mechanism is proposed as an instrument to dismantle the structural barriers that distance the peripheral Ummah from the mainstream community. Simultaneously, this mechanism must possess the capacity to generate opportunities that enhance the capabilities of the Ummah. Figure 3.3 illustrates this process of social integration, depicting how capability building serves as the pathway through which marginalised groups can be progressively incorporated into the broader societal and economic system.

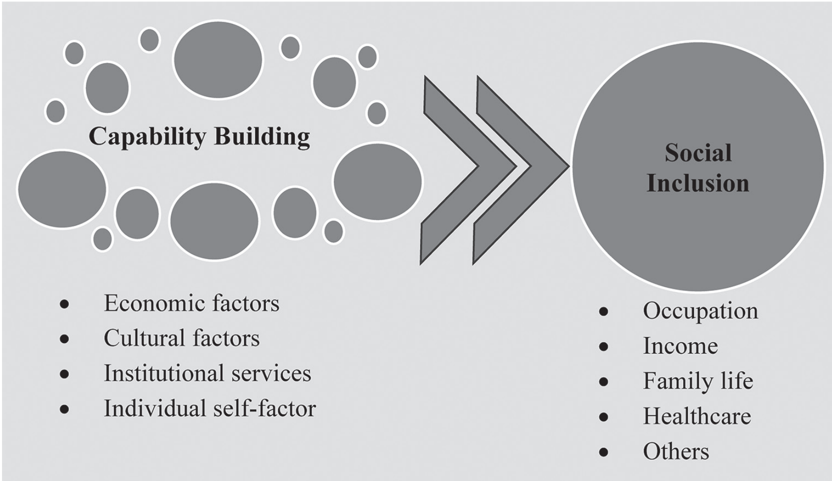

Figure 3.3 Capability building process toward social inclusion
Sources: Modified from Bynner (2000)

The process of integrating the peripheral Ummah into the mainstream society encompasses multiple dimensions of human life—economic, cultural, institutional, and personal. Improvements across these domains reflect a collective enhancement in overall quality of life. Rahman (2009) argues that genuine economic development must be holistic, engaging all facets of human existence rather than prioritising economic indicators alone. This position suggests the need for a comprehensive policy reorientation in which conventional, government-led programmes are reconceptualised into joint government–community initiatives, facilitated through the Waqf mechanism.

The Waqf mechanism offers several strategic advantages. It is capable of:

• Promoting autonomy
• Promoting democratic participation
• Promoting transparency

Given the irrevocable, perpetual, and inalienable nature of Waqf assets, neither the government nor the community possesses unilateral influence over decision-making processes. Both entities serve collectively as trustees on behalf of the Ummah, bearing shared responsibility for effective management and continuous oversight. These trustees are subject to stringent controls designed to prevent mismanagement and embezzlement (Cizakca 1998). Within such a system, democratic practices can be exercised more broadly. At the same time, efficiency is strengthened through accountability mechanisms whereby trustees are answerable for their decisions and actions. Activities and financial statements must therefore be publicly disclosed and subject to communal auditing.

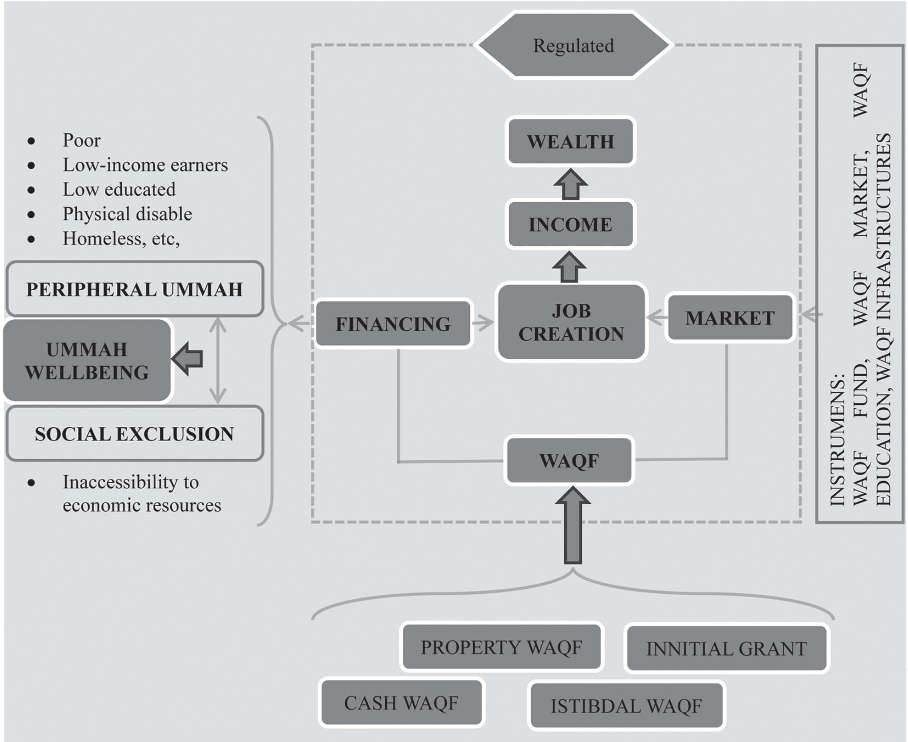

Figure 3.4 Waqf Mechanism

Figure 3.4 illustrates the proposed mechanism. The board of trustees is entrusted with strategic planning, monitoring, and regulating the implementation of the Waqf mechanism. To manage day-to-day operational functions, a dedicated Waqf foundation is established, initially financed through government grants. This foundation collects Waqf contributions in both movable and immovable forms, such as cash and land. To convert idle or unproductive Waqf assets into more valuable and beneficial ones, the principle of *istibdal* is applied. Through this principle, Waqf assets and funds can be relocated to any area deemed beneficial.

The collected Waqf resources are distributed across four core programmes, as follows:

First, a Waqf fund is established to function as a financial institution. This institutional model mobilises Waqf deposits and provides financing to those who are socially excluded. The rationale is to supply these communities with the necessary financial capital to engage in productive and income-generating activities. Al-Dajani and Marlow (2013) propose home-based entrepreneurship as a means of empowering subordinated groups, whereas Haneef et al. (2015) advocate Waqf-based microfinance for project financing. Such activities must operate under Shariah compliance and are overseen by the board of trustees, ensuring that principles of good governance, transparency, and risk management are upheld.

Second, a Waqf market is developed to improve market accessibility for the peripheral Ummah. Market closure is prohibited, yet healthy competition is encouraged. Given that many peripheral businesses begin on a small scale, their production may initially be cost-inefficient. The Waqf market thus facilitates collective production, enabling multiple small producers to supply similar goods together. Once production reaches economies of scale, these businesses can compete with larger external competitors. The market is designed to enhance supply capacity in ways that catalyse corresponding demand.

Third, Waqf-funded education initiatives are introduced to enhance self-confidence. Conventional education systems concentrate primarily on scientific knowledge, technical skills, nutritional support, and material assistance. To avoid duplicating these functions, Waqf education focuses instead on personality development and character formation—critical prerequisites for marginalised groups to sustain livelihoods and function competitively in a broader economic environment. Extended deprivation typically generates profound inferiority complexes, rendering standard classroom approaches inadequate. More personalised methods, such as counselling and motivational therapy, prove far more effective.

Finally, part of the Waqf resources is allocated to infrastructure development. Geographical isolation and inadequate infrastructure frequently contribute to social exclusion, limiting access to markets and essential services. Additionally, substandard housing conditions further entrench exclusion. Thus, Waqf infrastructure programmes pursue two key objectives: providing essential amenities to peripheral communities and relocating them to areas with greater market connectivity.

These four core programmes are coordinated by the Waqf foundation to enhance the overall wellbeing of the Ummah. Each programme complements the others, forming a comprehensive system of empowerment. As they require substantial Waqf contributions, it is critical that existing policies acknowledge the urgent needs of the peripheral Ummah. The programmes must be insulated from potentially restrictive policies such as taxes on Waqf funds, Waqf land, or transfer fees.

Through this mechanism, the empowerment of the Ummah is progressively achieved, ensuring equitable rights and access to market systems for all community members. Over time, these programmes generate employment opportunities and raise incomes among peripheral communities. Increased income then stimulates further investment, enabling wealth accumulation. As this cycle continues, the peripheral Ummah transitions into the mainstream, enjoying improved economic and social wellbeing.

3.3.7 Conclusion

The condition of the peripheral Ummah, or socially excluded groups, is not an issue confined solely to developing nations; rather, it represents a global challenge. Failure to address this phenomenon risks entrenching new cycles of entrenched deprivation, potentially generating fresh waves of spiral and vicious poverty. This study advances the proposition that a Waqf-based mechanism can serve as an effective instrument for mitigating the problem. Within this mechanism, four interrelated programmes are proposed, each reinforcing the others and collectively requiring substantial Waqf resources. Nevertheless, the effectiveness of the mechanism ultimately hinges on the extent to which the mainstream policy system acknowledges the urgency of confronting social exclusion and supports the implementation of such initiatives.

3.4 Islamic Agricultural Economic Financing Model Based on Zakat, Infaq, Alms and Waqf in Empowering the Farming Community

The development of the agricultural sector is closely reflected in the condition of its farmers. The stronger and more resilient the farmers' agricultural enterprises, the greater their contribution to national agricultural output and the more likely they are to encourage wider public participation in the sector. However, insufficient financing, inadequate support systems, limited access to facilities, agricultural and irrigation equipment, as well as constraints in land ownership, remain significant obstacles that impede farmers from enhancing and expanding their agricultural activities.

This phenomenon is illustrated in a study by Shafiai and Moi (2015), which demonstrates that farmers continue to face substantial financial limitations in both their daily sustenance and the cultivation of their land. Of the 138 respondents surveyed, 82% relied heavily on their agricultural produce for household consumption, while only 25 respondents did not use their produce directly because they sold it as a source of income. These findings reveal that the majority of farmers experience financial hardship affecting both daily consumption and agricultural operations, thereby reinforcing a negative cycle that hinders further agricultural development. Existing scholarly work predominantly explores Islamic banking or Islamic financing—both of which operate as loan-based mechanisms—as potential solutions. Yet these instruments are often inaccessible to *mustahiq* farmers, who typically do not meet the eligibility criteria. This study, however, positions Islamic social finance—particularly Zakat, Infaq, Sadaqah, and Waqf (ZISWAF)—as a viable alternative. Recognising farmers' inability to repay loans, the present analysis focuses instead on the empowerment of *mustahiq* farmers, distinguishing it from previous loan-oriented approaches.

The study investigates the potential of productive ZISWAF management through Shariah-sanctioned contractual mechanisms to empower the *mustahiq* farming community and strengthen its contribution to the agricultural sector. Its primary objective is to demonstrate that ZISWAF offers an alternative solution to the persistent challenges faced by farmers, while also serving as an instrument capable of revitalising and developing idle Waqf land. Two primary dimensions are emphasised: first, the distribution of productive ZISWAF to address the financial constraints of *mustahiq* farmers without imposing the burden of *riba* or loan repayment; and second, the administration of ZISWAF assets for advancing agricultural development.

Fundamentally, Islamic social finance is designed to confer benefits upon the *mustahiq*. Farmers who receive productive ZISWAF resources are expected to utilise and cultivate them productively to elevate their economic standing and sustain output over time. This stands in contrast to conventional financing instruments, which *mustahiq* farmers may avoid or may not qualify for due to their interest-bearing nature and their emphasis on monetary gain rather than social upliftment.

3.4.1. Zakat, Infaq, Sadaqah, and Waqf (ZISWAF)

Zakat refers to the obligatory giving of a portion of one's wealth under specific conditions, as mandated by Allah (SWT), to those entitled to receive it in accordance with Shariah law (Rasjid 1994). Within the agricultural context, this obligation manifests as agricultural Zakat, encompassing wealth derived from livestock, crops, and marine products. Allah (SWT) commands in the Qur'an:

> *"O you who have believed, spend from the good things which you have earned and from that which We have produced for you from the earth. And do not aim toward the defective therefrom; spending [from that] while you would not take it [yourself] except with closed eyes. And know that Allah is Free of need and Praiseworthy."* Al-Baqarah (2:267).

The term *infaq* denotes the voluntary expenditure of property or resources bestowed by Allah (SWT) for the benefit of others, seeking His pleasure. Conceptually, Infaq represents a social practice of distributing wealth to the needy within society (Arfawie 2005). The Qur'an categorises Infaq into two forms: obligatory (*fard*) and voluntary (*nafl*). Allah (SWT) states:

> *"Who believe in the unseen, establish prayer, and spend out of what We have provided for them."* Al-Baqarah (2:3).

Scholars interpret this verse to indicate that obligatory Infaq comprises expenditures from income or property that are not subject to Zakat, with the most significant example being the financial responsibility of a husband toward his wife, children, and dependents (*nafkah*). In contrast, *nafl infaq* confers reward for the giver when performed, but no consequences arise if it is not given. The Qur'an illustrates the reward for charitable giving through a parable:

> *"The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills. And Allah is all-Encompassing and Knowing."* Al-Baqarah (2:261).

Alms (*sadaqah*) encompass voluntary charitable acts without a prescribed minimum or proportion, intended to gain Allah's pleasure (Ruzian, Zakaria, and Halim 2015). According to Sabiq et al. (1990), almsgiving is broadly defined to include both donations of material goods and acts of benevolence, such as a simple gesture or smile. The obligation to give alms is embedded within Islamic law, as illustrated by Allah's words:

> *"No good is there in much of their private conversation, except for those who enjoin almsgiving or that which is right or conciliation between people. And whoever does that seeking means to the approval of Allah, then We are going to give him a great reward."* An-Nisa (4:114).

Furthermore, a hadith narrated by Anas bin Malik (RA) in Sahih al-Bukhari (No. 2320) affirms the ongoing reward for charitable acts:

> *"There is none amongst the Muslims who plants a tree or sows seeds, and then a bird, or a person or an animal eats from it, but is regarded as a charitable gift for him."*

Within agriculture, farmers seeking Allah's pleasure gain continuous reward when their crops are utilized by others, and the income derived from such crops is likewise blessed. Waqf, by contrast, involves the irrevocable transfer of ownership of a property, with its benefits directed toward religious, social, or community purposes, under the management of a *nazir* (guardian of the Waqf) (Rahman, Mansoer, and Muchtar 1986). Once a property is endowed as Waqf, it ceases to belong to the original owner or even to the guardian; rather, it is considered the property of Allah (SWT) and, by extension, the broader community (Sudarsono 2012). The Qur'an highlights this principle:

> *"Never will you attain the good [reward] until you spend [in the way of Allah] from that which you love. And whatever you spend—indeed, Allah knows of it."* Al-'Imran (3:92).

Muslims are thus encouraged to endow Waqf property they cherish for the benefit of society. As long as the Waqf property continues to be used, Allah's reward flows to the donor even after death. In the agricultural sector, Waqf is particularly significant, especially regarding agricultural land, as systematic and well-planned Waqf initiatives can enhance food security and create opportunities for domestic and international distribution.

The distinctions among Zakat, Infaq, Sadaqah, and Waqf can be summarised as follows. Firstly, Sadaqah has a broader meaning and is not restricted to material contributions, whereas Zakat, Infaq, and Waqf must follow specific methodologies. Secondly, Zakat entails a pre-determined amount based on the donor's assets, whereas Infaq, Sadaqah, and Waqf can be performed at any time and in varying amounts. Thirdly, Zakat defines both the recipients and the obligors, while Infaq and Sadaqah may be given to any individual. Finally, Zakat constitutes a mandatory obligation, whereas Waqf, Infaq, and Sadaqah are encouraged as recommended practices (*sunnah*) (Uyun 2015).

3.4.2 Economic Empowerment of Farmers' Communities

Community empowerment seeks to develop the potential of individuals and groups by providing support, motivation, and awareness of their inherent capabilities for growth and improvement. In the agricultural context, empowering farmers entails enhancing their economic conditions, enabling them to escape poverty while simultaneously increasing food production from existing agricultural activities. Farmers represent a critical component for sustaining resilience within the agricultural sector, as highlighted by Firdaus et al. (2014).

In paddy cultivation, government interventions have been observed to play a significant role in retaining farmers and ensuring the continuity of paddy production, thereby fostering a competitive agricultural industry (Abdullah and Arshad 2011). Moreover, studies by Mohammad et al. (2007), Kollurmath et al. (2010), Molua (2010), and Tey et al. (2010) indicate that governmental support through price regulation, subsidies, and the provision of research, fertilizers, and technological advancements contributes positively to food production and enhances farmers' incomes. Beyond financial and technical assistance, farmers require access to improved inputs such as finance, advanced agrochemical products, diversified seed varieties, and modern technologies to remain competitive in evolving market conditions. In this regard, governments and donors continue to play an important role in facilitating agricultural development (Harvey et al. 2018).

Alpízar et al. (2020) emphasize the necessity for a concrete policy framework to guide donors and policy implementers in addressing food insecurity, which affects approximately 32% of smallholder families. Effective policy measures should prioritize farmer education, secure land tenure, women's empowerment in agriculture, transfer of knowledge to younger generations, and emergency food support during natural disasters.

In the context of ZISWAF (Zakat, Infaq, Sadaqah, and Waqf) funds, innovative distribution methods are categorized into four distinct forms (Mufraini 2006):

Table 3.3 ZISWAF System

Distribution Type	Description	Example
Traditional Consumptive Distribution	ZISWAF is provided directly to the *mustahiq* for immediate use.	Zakat al-Fitr for daily needs; Zakat al-Mal to victims of natural disasters.
Creative Consumptive Distribution	ZISWAF is transformed into alternative forms of goods to meet beneficiary needs.	School supplies, scholarships, or other educational aids.
Traditional Productive Distribution	ZISWAF is given in the form of productive assets to help beneficiaries start businesses.	Livestock, such as goats or cows, to generate employment.
Creative Productive Distribution	ZISWAF is provided as capital to develop social projects or enhance operational capacity.	Capital for social projects or improving small-scale farmers' long-term productivity.

The implementation of these four distribution mechanisms is fundamental to improving the socio-economic conditions of the community while fostering a society that is devout, harmonious, and peaceful. Public awareness campaigns are essential to encourage adoption of the ZISWAF system, particularly in contrast to conventional financing mechanisms, which remain more widely recognized. Additionally, effective fund management and the strategic allocation of resources to consumer-oriented programs are crucial to the success of ZISWAF initiatives (Mufraini 2006).

3.4.3 ZISWAF Catalyst for Sustainable Farming Communities

ZISWAF plays a critical role in empowering the agricultural economy, providing substantial benefits to both the community and the nation, particularly in ensuring food security. Rofiq (2010) emphasizes that although ZISWAF funds are often distributed for consumptive purposes, a significant portion should also be allocated as investments that enable recipients to initiate productive activities and enhance their economic conditions over time. Anwer (1995) highlights the need for both short-term and long-term planning for community economic development, noting that the costs associated with such planning may be prohibitive. His study further demonstrates that Zakat and Waqf have the potential to serve as long-term investments, positively influencing the living standards of economically disadvantaged groups. Similarly, Kahf (1999) recommends extending the benefits of Zakat to address the root causes of poverty, particularly low productivity and underdeveloped economic conditions. Over the long term, ZISWAF can be utilized to provide tools for productivity, capital, training, and employment, thereby simultaneously supporting immediate consumption and enhancing economic productivity (Suprayitno 2005). So, Zakat should be recognized as a vital economic instrument for poverty eradication (Kuran 2002).

A study conducted by the Islamic Development Bank (IsDB) in 2004, based in Jeddah, Saudi Arabia, sought to evaluate whether Zakat funds were sufficient to meet the needs of the poor across 24 sampled countries. The study concluded that in countries with low per capita income and high poverty levels, the total Zakat collection was inadequate to fulfil the basic needs of the poor. This finding highlights the necessity of improving both the efficiency and innovation of Zakat fund management. Assistance provided should extend beyond consumptive income support to include productive interventions that enhance the economic capacity of beneficiaries, enabling them to escape poverty and potentially become Zakat contributors themselves (Ibrahim 2008).

In Indonesia, Dompet Dhuafa, the country's largest amil Zakat organization, exemplifies the use of ZISWAF funds in economic development programs rather than direct cash transfers. ZISWAF is channelled into entrepreneurial initiatives across agriculture, livestock, and marine fisheries, encompassing capital provision, skill development, training, and guidance. Such programs aim to create a business-oriented community capable of accessing capital, mitigating risks, managing enterprises effectively, and controlling economic assets.

According to Pailis, Burhan, and Ashar (2016), the *maqasid al-Shariah*—comprising religious understanding, knowledge, and family welfare—significantly influences the effectiveness of productive Zakat empowerment for *mustahiq*. By participating in empowerment programs administered by Zakat managers (*amil*), *mustahiq* receive assistance in the form of capital for business or investment purposes. This approach ensures that the support is impactful, enabling beneficiaries to improve their livelihoods and, in turn, become productive members of society capable of contributing Zakat themselves.

Empirical evidence indicates that the agricultural sector in Nigeria faces numerous challenges, including insufficient financing, low farm productivity, farmers' illiteracy, inadequate modern agricultural machinery, and poor transportation and communication infrastructure (Anthony 2010; Awe 2013; Ogunbado and Ahmed 2015). In Kano State, conventional banking solutions for agricultural financing are often unsuitable due to high interest rates, leading many Muslim farmers to avoid such options for religious reasons, which subsequently results in declining agricultural productivity. Researchers have proposed alternative Islamic financial instruments, such as Salam financing, to support agricultural activities while adhering to Shariah principles (Mohammed, Ogunbado, and Aziz 2016).

Ahmed (2007) highlights that while Waqf is traditionally associated with charity, it possesses broad objectives for community welfare, including religious services, socio-economic assistance, education, scholarships, and research in scientific fields such as astronomy and medicine. Historical examples also include the Waqf of wheat for seed purposes and Waqf-based loans for those in need of funding. From an economic perspective, Jalil (2008) proposes that Waqf contracts could mobilize public funds for infrastructure projects, particularly in education and research, where rising costs and limited funding constrain development. Similar principles can be applied to agricultural infrastructure development. Cizakca (1998) further notes that the Waqf system can provide essential social services without imposing financial burdens on the government.

3.4.4 Results and Discussion

ZISWAF constitutes a fundamental economic resource for the Islamic State. Its effective and systematic administration is crucial for enhancing the potential of ZISWAF as a mechanism for the development of the farming community. Maximizing the utility of ZISWAF funds is essential for improving both the quality and capabilities of individual farmers. In the context of Malaysia, the collection, distribution, and management of Zakat are overseen by the Majlis Agama Islam Negeri (MAIN). MAIN is tasked with assessing the eligibility of recipients and determining the most suitable form of assistance tailored to each beneficiary's circumstances, ensuring that the support provided is utilized optimally to achieve the intended developmental outcomes.

3.4.4.1 Optimizing the Potential of ZISWAF

Generally, the distribution of ZISWAF to Zakat recipients is guided by specific criteria, including the eight *asnaf* categories, the relative needs of the recipients, and their geographical locations. The allocation of ZISWAF to farmers has the potential to stimulate the agricultural economy and thus enhance food security. However, an important consideration is whether the mere provision of ZISWAF, absent a structured development plan, can effectively foster the economic growth of the farming community. The overarching objective of ZISWAF extends beyond immediate assistance; it seeks to alleviate poverty while enabling recipients to achieve sufficient economic capacity to become Zakat payers themselves, thereby ensuring that ZISWAF funds are utilized in a meaningful and sustainable manner.

The productive allocation of ZISWAF requires careful deliberation, balancing consumptive and productive disbursements within a systematic framework. While consumptive distribution remains necessary to meet the immediate needs of recipients, not all collected ZISWAF funds are expended in this manner. Funds can also be allocated as productive investments, such as providing capital or resources to *mustahiq* to enhance their entrepreneurial capacities and economic prospects. The returns from such productive allocations are measured more in terms of social impact—poverty reduction and socioeconomic development—rather than purely financial gain. Effective implementation of productive ZISWAF necessitates meticulous planning and management. This includes the development of beneficiary profiles to assess qualifications, skills, and the status of enterprises being supported.

To optimize the potential of ZISWAF management, the funds should be administered through a dual approach. First, a portion of the funds is designated for consumptive purposes, addressing the essential needs of the needy, including food, shelter, education, and other necessities. Second, a portion is allocated productively, supporting weaker enterprises with equipment, financing, or other resources, and is coupled with the establishment of measurable targets for the economic performance of the *mustahiq* in return for the productive investment of ZISWAF funds.

3.4.4.2 Productive ZISWAF Management

For poor individuals who are physically able to work, young, and free from disabilities, it is recommended that Zakat assistance be provided in the form of capital or training rather than mere monetary aid. This approach ensures that recipients can productively utilize the support to improve their economic circumstances. The management of Zakat in Islam has long-standing foundations, rooted in the practices of Prophet Muhammad (PBUH) and his companions. Historical precedents demonstrate the effectiveness of productive Zakat management; for example, during the caliphate of Umar Ibn Khattab, Zakat was provided to a persistent *mustahiq* in the form of three camels, with the expectation that this support would enable the individual to become self-sufficient and eventually a Zakat contributor. Indeed, in subsequent years, this individual transitioned from seeking assistance to paying Zakat, validating the caliph's approach.

Effective management of productive ZISWAF requires four core functions: planning, organizing, implementation, and oversight. Planning involves careful assessment of the root causes of poverty, including lack of working capital and employment opportunities, to design interventions that foster sustainable economic growth. Productive ZISWAF is allocated to recipients who can generate long-term benefits and gradually reduce their economic dependence on external aid. To qualify for productive ZISWAF, recipients must satisfy three criteria: they must possess a viable productive endeavour or expertise (such as in farming), be willing to accept mentorship from a companion or supervisor and commit to submitting periodic progress reports (Yusuf 2015). This model of Zakat distribution promotes economic stability for the *mustahiq*s by encouraging them to develop continuous income-generating activities through the assets provided, ensuring that the support is not consumed immediately but reinvested to sustain their livelihoods (Toriquddin 2015).

As illustrated in Figure 3.5, the management of ZISWAF funds involves two main activities: collection and distribution. Fund collection can be achieved through multiple channels, including direct engagement with Zakat payers, social media campaigns, organized gatherings, and digital banking platforms. The distribution of ZISWAF funds encompasses both productive and consumptive programs. Productive programs include educational scholarships, training and mentoring, provision of facilities and infrastructure, and capital for income-generating activities. Concurrently, consumption programs address immediate needs, such as the provision of groceries or cash, to ensure that the essential requirements of recipients are met while supporting longer-term economic empowerment.

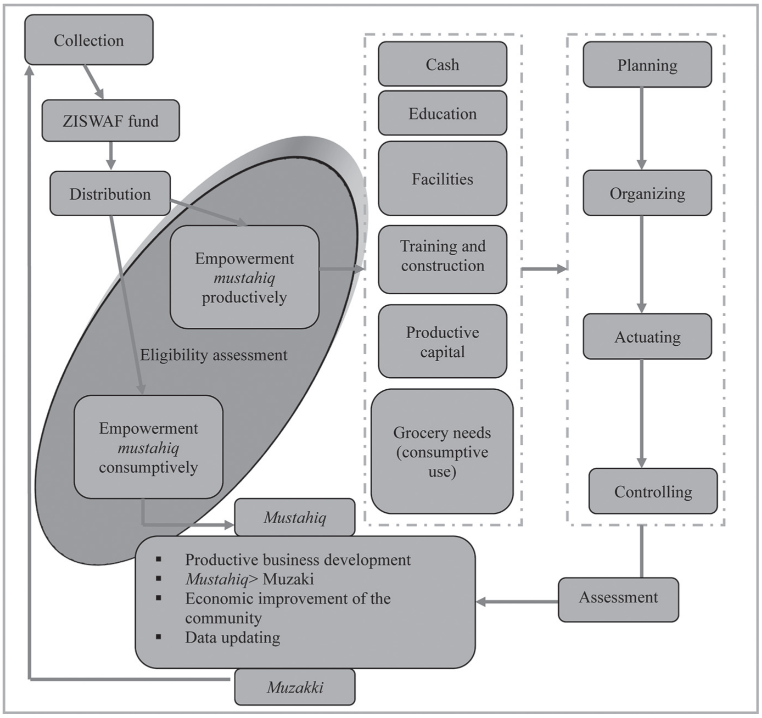

Figure 3.5 ZISWAF Management Model

3.4.4.3 Productive ZISWAF Management Methods

In the planning phase, a comprehensive action plan must be developed to implement a productive assistance program effectively. At the initial stage of providing venture capital to farmers, it is essential to conduct thorough field surveys and engage in program socialization with the intended recipients to ensure that all parties share a common understanding and alignment regarding the objectives and procedures of the program.

Following planning, the organizing phase involves systematic data collection on all eligible *mustahiq*. This includes identifying productive ZISWAF assets that are available or suitable to be utilized within the framework of the productive assistance program. Contributions from Waqf donors and Zakat payers are also incorporated into these initiatives. The data collected is subsequently used to prepare a detailed proposal to the Zakat agency, which will guide the allocation of productive ZISWAF funds in accordance with the agricultural expertise and specific needs of the recipients.

During the actuating phase, the responsibilities and tasks of all parties are formalized through a contractual agreement among the Waqf donor, the Zakat agency, and the selected productive ZISWAF recipients. The agreement specifies the conditions of assistance, including its duration, the type of support provided, the method of revenue allocation, and the distribution of benefits to the wider community. The implementation process includes the disbursement of capital, provision of agricultural tools, and preparation of land to facilitate productive activities effectively.

Finally, the controlling phase emphasizes continuous monitoring and evaluation carried out by the Zakat agency to assess the progress and outcomes of the initiatives undertaken by the *mustahiq*. Recipients are required to submit periodic reports detailing the development and performance of their enterprises. Concurrently, Zakat agency officials conduct field visits and surveys to verify the proper utilization of resources and prevent potential inefficiencies or failures. The monitoring and evaluation process should encompass the assessment of business development, identification of challenges encountered, and determination of success indicators, with the ultimate objective of facilitating the transition of recipients from *mustahiq* to *muzakki* status.

3.4.5 The Basic Framework of Agricultural Product and ZISWAF

This research examines the various forms of productive ZISWAF management as recommended by previous Islamic scholars, which are illustrated in the four schemes presented in Figure 3.6. The first scheme involves the provision of land, agricultural tools, seeds, and livestock by the Zakat agency, while the farmers are responsible for carrying out the agricultural activities. In this scheme, the Zakat agency provides the necessary start-up resources for agriculture, whereas the farmers contribute labour. This approach enables the acquisition of essential agricultural inputs such as seeds, fertilizers, pesticides, irrigation systems, storage facilities, and marketing support for agricultural commodities. The Zakat agency may utilize Waqf land, allocating it to capable farmers to be cultivated productively. In this arrangement, the Zakat agency acts as the custodian of the Waqf land, establishing a cooperative relationship with the farmers.

The second scheme differs in that the Zakat agency provides the land, but the farmers supply the agricultural tools, seeds, livestock, and carry out the farming activities themselves. This scheme is particularly suitable for farmers who possess the necessary equipment but lack access to or cannot afford land for cultivation. The third scheme involves the Zakat agency providing agricultural tools, seeds, and livestock, while the farmers supply the land and perform the agricultural work. In the fourth scheme, the Zakat agency contributes only agricultural tools, as the farmers already own land, seeds, and livestock and are responsible for the cultivation activities.

Productive assistance in the form of agricultural tools, seeds, and livestock aims to enhance efficiency and improve agricultural operations, while land assistance often entails high and limited costs. Through such mechanisms, Waqf property can be utilized productively to generate economic value. As noted by Kahf (2003), Waqf property attains economic significance when employed for productive purposes.

In terms of classification, productive Waqf can be divided into two types: productive Waqf in the form of money and productive Waqf in the form of immovable property, with land being categorized under the latter (Mifedwil 2008). The management of productive Waqf for agricultural land requires the establishment of contracts that facilitate the development of Waqf property while simultaneously enhancing the economic capacity of farmers, in accordance with the principles and scope of Islamic Waqf law. This ensures that Waqf assets are not wasted and that farmers' efforts are successful. Among the contracts applicable to productive agricultural Waqf are *musaqah*, *muzara'ah*, *mukhabarah*, and *ijarah*.

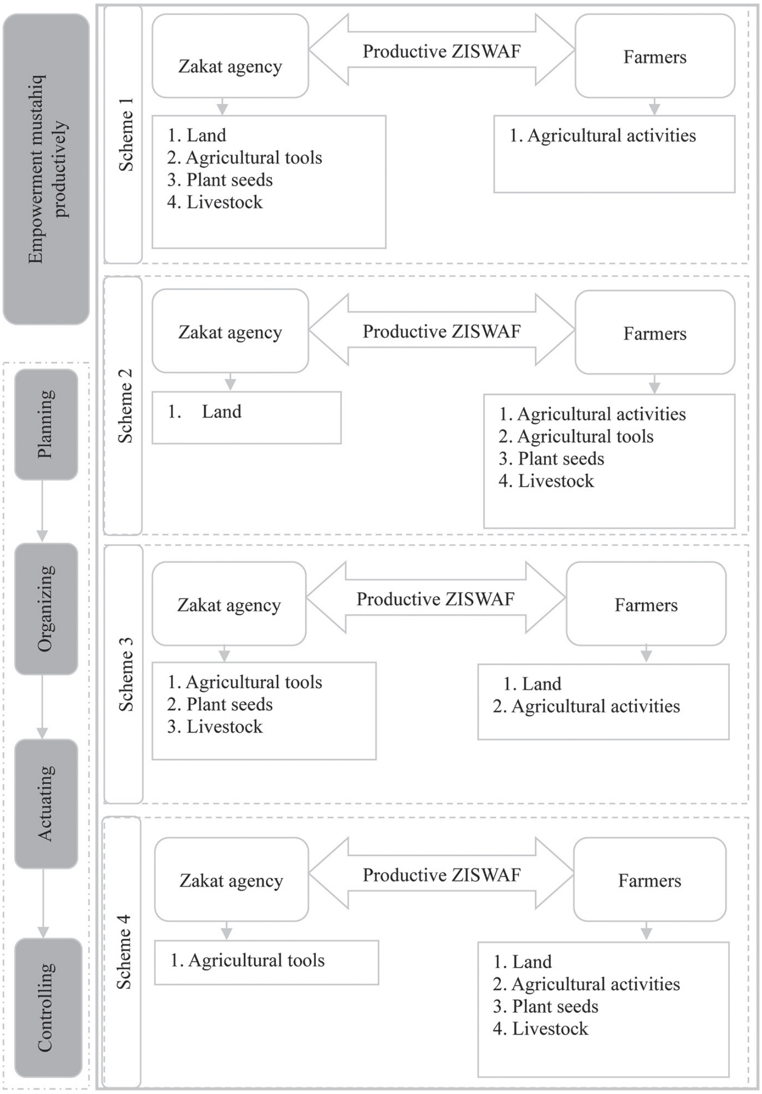

Figure 3.6 The Basic Framework of Agricultural Product and ZISWAF

3.4.5.1 *Musaqah* Contract

Hamid (2012) defines *musaqah* as a contractual arrangement in which an uncultivated tree is handed over to a party responsible for watering and caring for it until its fruit matures, with the payment being derived from a portion of the harvested produce. According to the majority of scholars, *musaqah* consists of five essential pillars (Al-Zuhaili 1999), which include: the contracting parties, the source of labour or object of the *musaqah*, the fruit to be obtained, the labour to be performed, and the formal offer and acceptance (*ijab* and *qabul*).

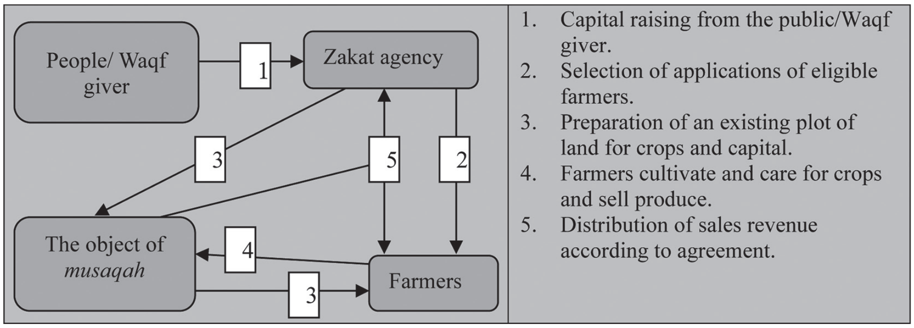

Figure 3.7 Operating module of *Musaqah*

3.4.5.2 *Muzara'ah* Contract

According to Al-Qaradhawi (2016), *muzara'ah* is a contractual arrangement in which a landowner provides agricultural tools, seeds, and livestock to individuals who wish to cultivate the land, under the condition that the landowner receives a pre-determined portion of the produce—commonly one-half, one-third, or another mutually agreed fraction. Scholars identify several essential elements of the *muzara'ah* contract (Al-Zuhaili 1999), which include: the landowner, the farmer, the object of the *muzara'ah*, and the formal offer and acceptance (*ijab* and *qabul*).

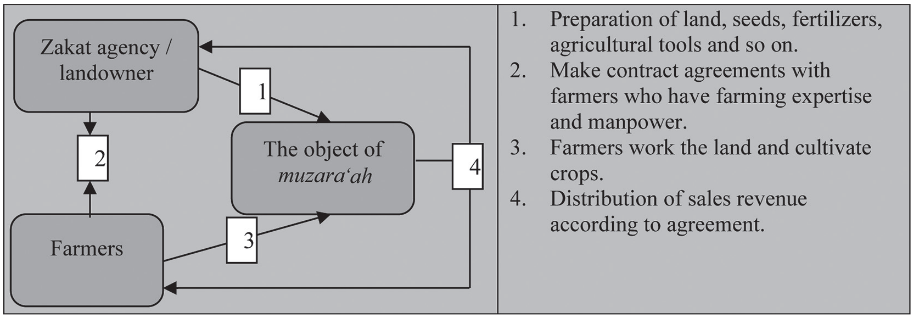

Figure 3.8 Operating module of *Muzara'ah*

3.4.5.3 *Mukhabarah* Contract

According to Rasjid (1994), *mukhabarah* refers to a contractual arrangement in which a landowner entrusts agricultural land—such as paddy or crop fields—to farmers for cultivation, with the understanding that the landowner will receive a pre-agreed portion of the harvest, typically one-half, one-third, or one-fourth, while the farmer provides the necessary tools, seeds, and livestock for cultivation. Most scholars who permit the *mukhabarah* contract identify several essential pillars that must be fulfilled for the contract to be considered valid (Al-Zuhaili 1999), namely: the landowner, the cultivating farmer, the object of *mukhabarah*, and the formal offer and acceptance (*ijab* and *qabul*).

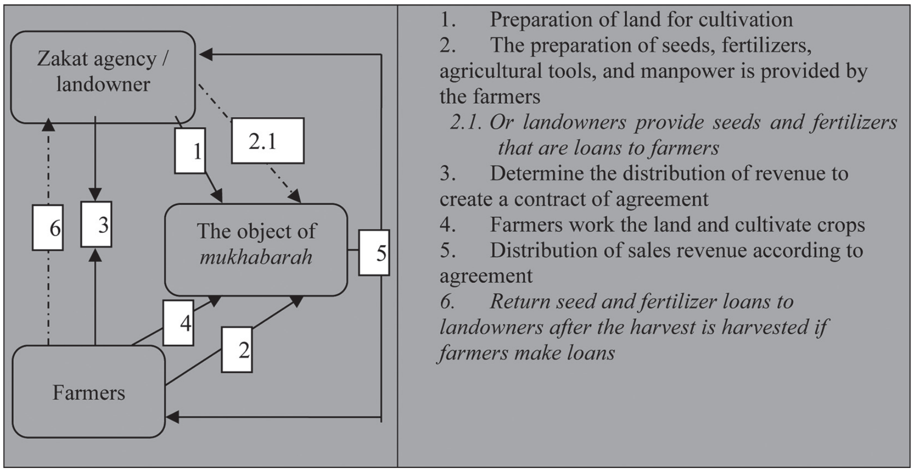

Figure 3.9 Operating module of *Mukhabarah*

3.4.5.4 *Ijarah* Contract

al-Kasani (1998) defines *ijarah* as a contract involving rent or wages, conceptualized as a sale and purchase agreement of usufruct rights with corresponding remuneration. In this arrangement, the payment of wages or rent corresponds to the benefits derived from the leased asset. Applied to agriculture, this means that agricultural land can be leased to farmers, who, in turn, provide rental payment in exchange for the usufruct rights of the land. Most scholars identify four essential pillars for a valid *ijarah* contract (Al-Zuhaili 1999), namely: the landlord, the tenant, the formal offer and acceptance (*ijab* and *qabul*), the object of *ijarah* (the usufruct or benefits), and the remuneration (*ujrah*), which may be in the form of rent or wages.

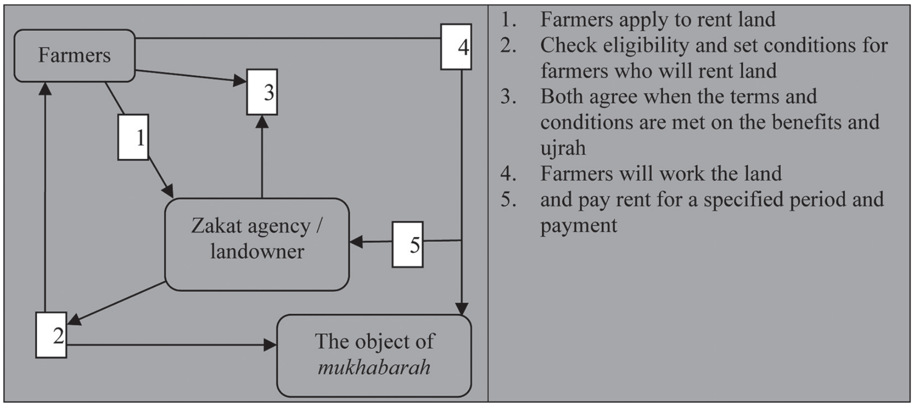

Figure 3.10 Operating module of *Ijarah*

3.4.6 Conclusion

The development of Islamic agricultural economics can be effectively achieved through the management of ZISWAF distribution, both in consumptive and productive forms. The findings of this research indicate that consumptive ZISWAF distribution provides essential support to *mustahiq* farmers by addressing their immediate needs. Nevertheless, to foster the sustainable economic development of *mustahiq* farmers, emphasis must also be placed on the productive utilization of ZISWAF funds. Productive ZISWAF management can be operationalized through the implementation of Shariah-compliant contracts, including *musaqah*, *muzara'ah*, *mukhabarah*, and *ijarah*. The study further demonstrates that the application of these contracts facilitates the proper stewardship of ZISWAF assets, encompassing land, buildings, gardens, and other productive resources.

Through a well-planned and systematic approach to ZISWAF distribution, the agricultural economy within the Muslim community can be significantly enhanced. This is achieved through cooperative enterprise programs and support mechanisms guided by Shariah contracts. Such an approach generates a cascading effect, wherein the economic standing of the *mustahiq* farming community improves, the agricultural sector becomes more resilient and robust, and the social welfare system strengthens reciprocal relationships between the affluent and the economically disadvantaged. The resulting economic growth has a direct positive impact on the accumulation and sustainability of ZISWAF funds.

So, the effective administration of ZISWAF requires meticulous planning, the development of human resources, and the implementation of structured strategies through a cohesive organizational framework. The management of ZISWAF via social institutions must therefore be enhanced and sustained to ensure continuity, efficiency, and scalability. By doing so, institutions that oversee ZISWAF assets can establish a new perspective of collaboration, particularly with agricultural sector entities, thereby evolving into competitive and effective institutions capable of making a significant impact at local, regional, and global levels.

For future research, it is recommended to explore areas such as *mustahiq* farmer community surveys, mapping networks of ZISWAF institutions alongside agricultural sector organizations, and assessing the extent of institutional cooperation to support the advancement of Islamic economic development programs.

3.5 Developing a Holding Company-Waqf Model for SMEs Micro Funding

Small and medium-sized enterprises (SMEs) have long been recognised as vital engines of economic resilience across nations, primarily because they stimulate domestic demand through diversified industrial activities, including job creation, innovation, and market competition. As noted by Hailey (1991), SMEs are indispensable not only because of their core economic role in income generation but also due to their wider social function in poverty alleviation and their political relevance in facilitating wealth redistribution. Microenterprises account for more than 65% of active businesses in many regions, particularly in Asia, and this proportion continues to rise as single-operator agricultural activities are increasingly classified as microenterprises.

Generally, a microbusiness is defined as an enterprise employing fewer than ten workers. Micro enterprises represent the second-largest share of the business population, accounting for approximately 20%, while small and medium-sized enterprises together account for less than 10% of total employment (OECD 2018). So, when aggregate employment is calculated, SMEs collectively account for as much as 70% of job creation in OECD countries (OECD 2017).

Despite their significant presence and crucial contribution to national and regional economies, SMEs consistently confront a wide range of structural and financial barriers. A substantial body of empirical research has demonstrated that SMEs across diverse economic contexts frequently encounter challenges in securing external financing (Ganbold 2008; Machmud and Huda 2011; Punyasvatsut 2011; Stephanou and Rodgriguez 2008; Ung and Hay 2011). These challenges typically include limited asset structures for collateral, information asymmetries, concerns over business profitability and growth prospects, insufficient or non-existent financial track records, high costs associated with external financing, and the cumbersome and often inadequate procedures governing loan approvals. These persistent limitations further complicate the process of assessing SME creditworthiness, as many enterprises are unable to meet the stringent requirements imposed by formal microfinance institutions.

Governments in numerous countries have attempted to address these issues through the provision of financial support schemes, soft loan programmes, and targeted development initiatives. However, these efforts have frequently yielded mixed results, as the broader economic impact of such interventions has often been limited. Several studies highlight that obstacles such as information gaps, lack of managerial capacity, and uneven access to technology continue to hinder the effective utilisation of financial support. In particular, technological and infrastructural constraints in many developing and emerging economies have restricted the ability of microenterprises to engage fully with available financial services or digital finance mechanisms. As emphasised by earlier scholars, slow and uneven information technology adoption can significantly impede financial accessibility, thereby perpetuating structural financing barriers.

Recognising these persistent challenges, both conventional and Islamic microfinance institutions (MFIs) have attempted to provide more accessible financing channels for microenterprises. Conventional MFIs have played a notable role in advancing financial inclusion; however, they are often criticised for the ethical implications of commercialisation, particularly concerning high interest rates and aggressive collection practices (Ahmad et al. 2020; Amsi et al. 2017; Boatright 2014; Hudon and Sandberg 2013; Olaoye et al. 2019). In markets with limited competition, these institutions may impose substantially higher interest charges, raising concerns over fairness and sustainability (Baquero, Hamadi and Heinen 2018).

Islamic microfinance has emerged as a complementary alternative, designed to accommodate the financing needs of economically vulnerable communities while adhering to Shariah principles (Karim, Tarazi, and Reille 2008). Although Islamic and conventional MFIs may share similarities in the use of equity or debt-based instruments, the operationalisation of these mechanisms differs significantly due to the prohibition of *riba* and the requirement for halal business practices (Muhammad 2012; Obaidullah 2008). Nevertheless, Islamic microfinance models in several contexts have also been criticised for high operational costs, particularly when *Murabahah*-based financing or administrative fees resemble interest-like structures (Muhammad 2012).

Existing financing models in both conventional and Islamic microfinance tend to focus broadly on SMEs, with relatively less emphasis on the unique structural needs of microenterprises. Much of the literature has concentrated on identifying barriers or proposing financing frameworks that rely on formal institutions or government intervention. In recent years, studies have increasingly explored Waqf-based financing as a potential source of microenterprise capital, recognising its historical role as a community-oriented instrument capable of enhancing socio-economic welfare.

Building on these insights, this chapter proposes an alternative conceptual model to strengthen microenterprises' ability to access external financial resources. The model introduced—referred to here as the Holding Company–Waqf Model—integrates contemporary organisational structures with the traditional principles of Waqf to create a more sustainable, ethical, and accessible funding mechanism. While originally conceptualised in a specific national setting, the model is presented in this book as a universal framework with potential applicability across diverse socio-economic environments. It is intended to contribute to ongoing efforts to enhance the viability, resilience, and long-term development of microenterprises globally.

3.5.1 Difficulties in Accessing External Finance

Financial inclusion remains a central determinant of SME expansion and resilience. The ability of SMEs to access and manage external finance is widely regarded as one of the most critical factors shaping their capacity for development, growth, and long-term sustainability. This importance is reflected in the extensive volume of scholarly work devoted to examining the financing constraints faced by micro and small enterprises globally. The challenge of accessing external finance has become a pervasive issue across both developing and emerging economies. For instance, Mead and Liedholm (1998) identified several persistent obstacles faced by SMEs in developing countries, including limited market access, inadequate information flows, insufficient financing opportunities, and weak governmental support systems.

Similarly, Swierczek and Ha (2003), in their study of SMEs in Vietnam, found that local enterprises continued to struggle with constraints related to capital availability, technological capabilities, and equipment quality. Numerous other studies have documented that SMEs often encounter barriers to external funding due to collateral limitations, legal and regulatory conditions, high transaction costs, documentation requirements, financial track record deficiencies, business characteristics, and the complexity of financing procedures and available options (Aris 2006; Duasa and Thaker 2017; Hashim 1999; SME Masterplan 2012–2020; Thaker et al. 2013). Small enterprises are also frequently categorised as high-risk investments, typically associated with long-term and uncertain returns, further discouraging external financiers.

In addition to these structural challenges, factors such as insufficient cash flow stability and low business attractiveness have been increasingly recognised as significant deterrents to external financing (Block, Colombo, and Cumming 2018). Schiffer and Weder (2001), drawing on a global survey involving over 70 countries and more than 10,000 business executives, reported that smaller firms tend to exhibit higher growth rates than medium-sized or large firms, yet paradoxically continue to face more severe financing barriers. A subsequent World Bank survey (2002–2003) further confirmed that large firms have considerably better access to bank credit, whereas smaller firms must rely predominantly on internal funds and retained earnings to sustain operations and pursue growth.

Similar patterns are evident in different regional contexts. Sharma and Gounder (2012), for example, found that SMEs across Pacific economies struggle to secure finance from the formal financial sector due to limited track records, insufficient "acceptable" collateral, and minimal financial contributions to initial loan requirements. In many countries, such challenges remain widespread, with capital frequently cited as one of the most significant impediments to SME development.

The broader literature reinforces these observations. Studies consistently show that SMEs in developing economies face restricted access to formal financial institutions owing to a range of structural and operational barriers (Ardic et al. 2011; Hartungi 2007; OECD 2009; Olawale and Garwe 2010). In response to formal financing constraints, many SMEs resort to informal financing sources, despite the higher costs and risks associated with such alternatives. In numerous cases, formal financial support mechanisms—such as government grants and soft loan schemes—reach only a small fraction of eligible SMEs, while large segments of the SME population remain financially underserved.

Technical constraints such as insufficient collateral, incomplete or weak documentation, and inadequate financial records often hinder SMEs from meeting lending criteria established by banks and other financial institutions. Non-technical barriers such as limited access to information, low financial literacy, and geographical or infrastructural limitations exacerbate these challenges. So, SMEs are often compelled to maintain operations with minimal reliance on external credit, drawing instead on internal funds and informal financing networks.

Collectively, the global literature reveals a recurrent set of obstacles that prevent SMEs and microenterprises from accessing formal finance. These challenges can be broadly classified into the following categories:

a) Inadequate asset structure or collateral.
b) Information asymmetry between lenders and borrowers.
c) Issues related to business profitability, growth intentions, and perceived growth opportunities.
d) Insufficient or non-existent financial track records.
e) High costs associated with external financing.
f) Complex, rigid, and inadequate financing procedures
g) Characteristics specific to microenterprise business models that heighten perceptions of risk.

3.5.2 The Necessity of a Proxy Model

A substantial body of literature has shown that microenterprises face persistent structural barriers when attempting to obtain external financing. Previous studies highlight several recurring factors that hinder access to formal finance: (i) inadequate asset structures and the absence of acceptable collateral, (ii) information asymmetries between lenders and borrowers, (iii) concerns about business profitability, growth intentions, and long-term opportunity prospects, and (iv) the lack of a reliable financial track record. These constraints have been repeatedly documented across developing and emerging economies, suggesting that they reflect systemic/global patterns rather than isolated national phenomena.

Within this context, numerous studies have pointed to the potential of cash Waqf as an alternative and viable source of financing capable of supporting both short- and long-term economic empowerment, particularly through contributions to human capital development. Cash Waqf, owing to its endowment-based and socially oriented nature, offers a distinctive mechanism for financing microenterprises without exposing them to the burdens typically associated with conventional lending instruments.

Given these structural challenges, there is a strong need to revitalise financing models through mechanisms that minimise collateral requirements, avoid interest-based charges, promote profit-and-loss sharing, reduce transaction costs, and offer accessible, ethically grounded financial services. Existing financing programmes in many countries have had only a limited impact on the sustained growth of microenterprises, often due to restrictive eligibility criteria, insufficient outreach, or rigid operational frameworks. These shortcomings reinforce the urgency of designing and implementing new, more inclusive financing models capable of strengthening microenterprise development at scale.

In response to these longstanding constraints, the Holding Company–Waqf Model has been proposed as an alternative approach aimed at overcoming or mitigating the major financing obstacles faced by microenterprises. This model conceptualises a collaborative contractual arrangement between cash Waqf management institutions and microenterprises, structured to provide both financial support and institutional supervision. Under this model, the financing relationship is based on profit-sharing rather than collateral or interest, eliminating the need for third-party intermediaries and shifting the partnership towards shared risk and shared value creation.

The Holding Company–Waqf Model provides several strategic advantages. First, the elimination of collateral and interest requirements reduces entry barriers for micro-entrepreneurs. Second, by instituting joint risk-sharing arrangements, both parties are incentivised to invest in improving productivity and generating value-added products. Third, the integrated oversight provided by cash Waqf management institutions extends beyond financing to include business guidance, financial literacy development, and capacity-building initiatives. Through these supervisory and developmental functions, Waqf institutions help protect capital, enhance operational efficiency, and promote sustainable revenue generation.

Overall, the holding company–Waqf structure strengthens microenterprises' capabilities and motivation to expand their operations. By leveraging the ethical, social, and financial potential of Waqf, this model offers a holistic mechanism for addressing long-standing financing challenges, thereby enhancing the viability and upward mobility of microenterprises across diverse economic settings.

3.5.3 The Commencement of Waqf, Cash Waqf, and its Characteristics

Within the Islamic socio-economic framework, Waqf represents one of the most enduring and influential institutions dedicated to sustainable social welfare. It refers to the voluntary and irrevocable dedication of an asset—whether movable or immovable—for purposes that generate long-term communal benefit. Once endowed, the asset is preserved in perpetuity, while its usufruct and income are channelled to designated beneficiaries. In contemporary practice, Waqf can be established through a wide spectrum of assets, including real estate, equipment, movable property, and increasingly, liquid financial resources such as cash and shares. Historically, cash Waqf has been mobilised to support the construction and maintenance of public institutions, including schools, orphanages, and hospitals (Sadeq 2002).

Beyond these traditional functions, many scholars argue that cash Waqf possesses additional advantages in modern contexts, particularly its capacity to mobilise broader donor participation and expand the pool of available resources. Compared to Zakat, which is bound by strict beneficiary categories, Waqf offers greater versatility in the allocation of funds. Waqf resources may be utilised for a wide range of welfare services that benefit both Muslims and non-Muslims, and in some cases, may even extend to other living beings (Mohsin 2013; Aziz et al. 2013). This flexibility enables Waqf to serve as a significant catalyst for the development of social and public infrastructure.

Waqf institutions also play a crucial role in transforming endowed assets into forms of *productive Waqf*—that is, Waqf that generates continuous income while preserving the original capital. Through contracts such as *mudarabah*, Waqf assets can be invested productively, provided that the principal remains intact. The resulting returns are typically channelled towards charitable and social objectives. Empirical studies indicate that well-managed productive Waqf can positively and significantly enhance the income levels and consumption patterns of surrounding communities (Seprillina et al. 2020). Similarly, the successful implementation of productive Waqf initiatives has been shown to support broader socio-economic needs, contributing to improvements in community welfare (Qurrata et al. 2019).

Given its inherent potential, attracting greater participation in cash Waqf remains an important priority. Research suggests that religious literacy and effective dissemination of information are critical in shaping positive perceptions of cash Waqf and encouraging contributions among Muslims (Qurrata et al. 2020). When appropriately managed and communicated, cash Waqf holds the capacity to emerge as one of the most transformative instruments within the Islamic social finance ecosystem.

3.5.4 The Existing Model of Cash Waqf

Across the globe, scholars have proposed a wide range of cash Waqf models, each offering unique strengths and contributing differently to socio-economic development. These models vary in structure, operational mechanisms, and intended impact, reflecting the diverse contexts in which Waqf institutions operate. The subsequent section provides a detailed examination of these models and explains their functional dynamics within contemporary economic settings.

Table 3.4 Cash Waqf-Based Financing Models

Model Name and Proponent(s)	Main Objective	Key Mechanism / Features
1. Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) Thaker et al. (2013, 2016) and Duasa (2017)	To enhance financial access for microenterprises in Malaysia.	- Uses cash Waqf resources as the primary funding pool. - A participatory contract between Waqf institutions and microenterprises. - **No collateral, interest, or cost-based charges.** - Requires a thorough screening process for viability.
2. Integrated Waqf-based Islamic Microfinance (IWIM) Pramanik et al. (2015)	To provide affordable financing, strengthen human resource development, and enhance income security for low-income groups.	- Waqf funds are used to **reduce capital costs** for microfinance. - Requires complementary *takaful* (Islamic insurance) to mitigate risks. - Implementation of human resource development programs.
3. Deposit Cash Waqf Scheme Abdel Mohsin (2013)	To generate essential goods and services for society through cash Waqf.	- Donors deposit funds into a designated bank account. - A partner bank invests the funds based on a contract. - Returns are channelled to the Waqf institution for distribution to beneficiaries.

4. Waqf-based Social Micro Ventura Fund (WSMVF) Hamber and Haneef (2017)	To enhance Waqf development in Singapore.	- Funds are pooled from three streams: Baitul Maal, corporate entities, and the community. - Emphasis on investing in the **real (non-financial) sector**. - Profits are allocated to: administrative fees, strengthening the Waqf endowment, and reinvestment.
5. Cooperative-Waqf Model Pitchay et al. (2018)	To address challenges in Waqf fund mobilization.	- Integrates cooperative principles with cash Waqf. - Provides convenient donation channels (e.g., **automatic salary deductions**). - Aims to encourage broader donor participation.

3.5.4.1 The Integrated Cash Waqf Micro Enterprise Investment Model (ICWE-I)

Thaker et al. (2013, 2016) and Duasa (2017) introduced the ICWME-I model as a mechanism to enhance financial access for microenterprises in Malaysia. The model enables financing by utilising cash Waqf resources as the primary funding pool. It also requires a participatory contractual arrangement between Islamic non-governmental bodies—especially Waqf institutions—and the targeted micro-enterprise beneficiaries. Under this arrangement, microenterprises are neither obliged to provide collateral nor subjected to interest or cost-based charges. Nevertheless, Waqf institutions retain the responsibility of conducting a thorough screening process to ensure that applicant microenterprises are viable and aligned with their institutional objectives.

3.5.4.2 Integrated Waqf-based Islamic Microfinance (IWIM)

Pramanik et al. (2015) examined this model to advance affordable financing, strengthen human resource development, and enhance income security for low-income groups. Within this framework, Waqf managers may deploy Waqf funds to reduce capital costs, thereby supporting the expansion of Islamic microfinance initiatives. The IWIM structure also requires complementary takaful protection to mitigate the risks associated with project financing and the implementation of human resource development programmes.

3.5.4.3. Deposit Cash Waqf Scheme

Abdel Mohsin (2013) made an important contribution by proposing a scheme designed to generate essential goods and services for society through cash Waqf mobilisation. Under this model, donors deposit funds as cash Waqf into a designated bank account managed by the Waqf institution. The partnering bank is then entrusted with investing these funds in accordance with the contractual terms agreed upon with the Waqf institution. The returns generated from these investments are subsequently channelled back to the Waqf institution, which then distributes the proceeds to the intended beneficiaries.

3.5.4.4 Waqf-based Social Micro Ventura Fund (WSMVF)

Hamber and Haneef (2017) introduced a Waqf–venture integration model aimed at enhancing Waqf development in Singapore. In this framework, donor contributions are categorised into three streams: *Baitul Maal*, corporate entities, and the wider community. After deducting operational and administrative expenses, the pooled funds are transformed into an investable Waqf asset. Notably, the model emphasises investments in the *real (non-financial) sector*, aligning with socially productive economic activities. The profits generated are allocated across three areas: first, to cover administrative fees; second, and most importantly, to strengthen the WSMVF endowment; and third, to support further reinvestment across other sectors. While the operational structure of this model is generally sound, the authors highlight that the WSMVF framework requires certain modifications to accommodate a broader set of strategic alternatives.

3.5.4.5 Cooperative-Waqf model

Pitchay et al. (2018) proposed a cooperative–Waqf model to address challenges in fund mobilisation faced by Waqf institutions. This model facilitates donor participation by providing multiple convenient channels for cash Waqf contributions, including mechanisms such as automatic salary deductions. By integrating cooperative principles with cash Waqf, the model enhances the capacity to develop and mobilise Waqf assets effectively. Furthermore, this approach has the potential to encourage broader participation among donors, thereby strengthening the overall impact of Waqf-based development initiatives.

3.5.5 Cash Waqf and Financing Model

The diversification of Waqf resources into contemporary forms of wealth, such as cash, has been shown to enhance both the flexibility of Waqf institutions and public participation (Sulaiman and Zakari 2015). Haneef et al. (2014) emphasise that the limitations faced by micro-entrepreneurs—particularly the lack of access to finance and business training—necessitate institutional support to unlock their potential and establish viable enterprises. Under such circumstances, directing cash Waqf towards micro-enterprise financing represents a promising avenue for addressing these gaps.

A growing body of literature has advocated for the application of cash Waqf in micro-enterprise development (Diniyya 2019; Duasa and Thaker 2017; Tanjung 2018; Thaker et al. 2016). These studies collectively argue that effective mobilisation of cash Waqf can serve as a sustainable source of funding for micro-entrepreneurs, providing sufficient capital to support business growth and development. For instance, Diniyya (2019) proposed an integrated Waqf-based microfinance framework, termed Baitul Mal wa Tamwil, which enables Waqf funds to be utilised for multiple purposes including capital cost reduction, project financing, human resource development, and mitigating household-level financial risks.

Other innovative approaches include Tanjung's (2018) Waqf–Venture Capital Syariah

(WVCS) model, which combines social finance through Waqf with venture capital principles to support commercial activities. This model has been implemented in certain countries and operates based on cash Waqf deployment, profit-and-loss sharing, and venture capital investment strategies.

Drawing on these insights, the potential for integrating cash Waqf with micro-enterprise development is increasingly recognised. While previous models share common features, this study proposes a novel Holding Company–Waqf Model, which establishes a contractual partnership between cash Waqf management institutions and microenterprises. This model operationalises a *musharakah* (partnership) contract, allowing both parties to share risks and profits while promoting productive, sustainable microenterprise growth.

3.5.6 The Waqf-Holding Company Model for Micro-Enterprise Financing

Despite the development of various cash Waqf models proposed by scholars to revitalise micro-enterprise financing, existing models have proven insufficient in meeting the comprehensive financial needs of microenterprises. To address these gaps, this study proposes the Holding Company–Waqf Model, which integrates cash Waqf mechanisms with micro-enterprise operations to facilitate accessible, productive, and sustainable financing. Previous research confirms the market viability of such models, while the broader literature on cash Waqf highlights its potential in supporting both business financing and human capital development.

As illustrated in Figure 3.11, the proposed Holding Company–Waqf Model functions as an alternative to conventional micro-enterprise financing systems. The model operates through several interconnected stages:

1. Fund Mobilisation: The model begins with the mobilisation of funds from donors (*wakif*), which may include individuals from the public as well as private sector entities contributing through corporate social responsibility (CSR) initiatives. Donations can take the form of direct cash contributions or the purchase of Waqf certificates. The model does not impose a minimum donation amount, allowing broad participation and flexibility.
2. Fund Management: The collected funds are channelled to the Waqf management board (*nazir*), who serves as the custodian and manager (*mutawalli*) of the Waqf assets. The *nazir* is supported by trained volunteers familiar with the operational context of recipient microenterprises. Together, the *nazir* and volunteers make critical decisions regarding the allocation and utilisation of funds.
3. Financing via *Musharakah* Contracts: The *nazir* provides financial support to microenterprises through a *musharakah* partnership contract, in which profits are shared according to mutually agreed terms and losses are proportionate to capital contributions. This arrangement is suitable for both business operations and

project-specific financing, ensuring alignment with Islamic financial principles.

4. Profit Utilisation: Profits generated by microenterprises are returned to the *nazir*, who reinvests the proceeds into business units managed by the Waqf institution. The resulting returns are then distributed across three primary channels:
   - Beneficiaries who are economically unproductive (*mawquf 'alayhi*)
   - Operational and administrative costs of the Waqf management institution
   - Reinvestment into additional micro-enterprise funding initiatives
5. Sustainability and Circular Funding: Microenterprises that achieve growth are encouraged to contribute back to the Waqf fund, creating a cyclical model of resource mobilisation. Importantly, the model operates without requiring collateral, interest payments, or excessive documentation, reducing barriers to entry for micro-entrepreneurs.
6. Monitoring and Evaluation: To ensure the efficacy and sustainability of the model, the *nazir*, in collaboration with volunteers, conducts ongoing post-financing monitoring. This includes assessing business performance, ensuring revenue generation, and providing guidance to microenterprises to maintain financial discipline and operational growth.

Through this integrated framework, the Holding Company–Waqf Model not only expands access to financing for microenterprises but also promotes shared risk and value creation. By linking Waqf resources directly to enterprise development, it offers a holistic approach to financial inclusion, human capital development, and long-term socio-economic impact.

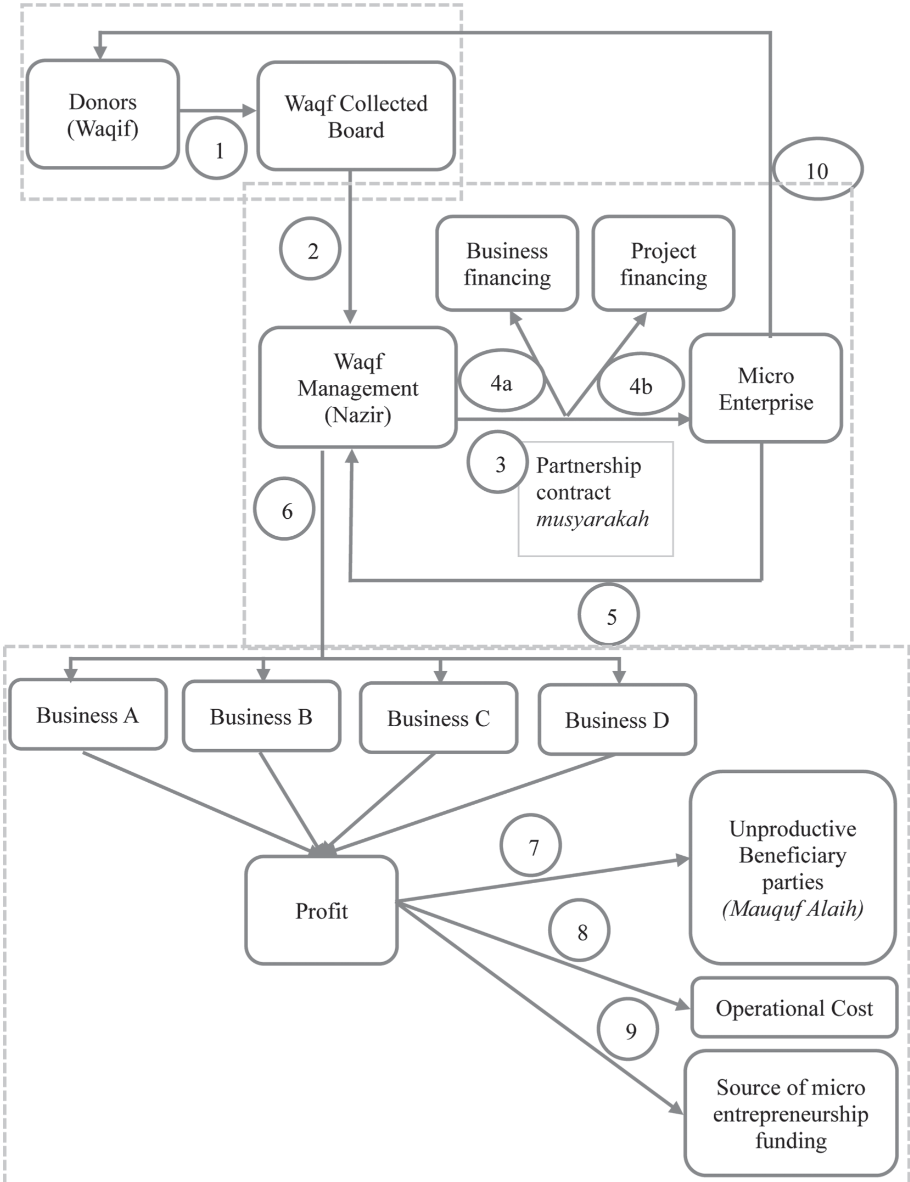

Figure 3.11 Conceptual Framework of a Holding Company-Waqf Model

The Holding Company–Waqf Model has demonstrated considerable potential in integrating cash Waqf resources with micro-enterprise development. Given the important role of microenterprises in driving economic growth and the capacity of cash Waqf to provide accessible financing, this model has the potential to generate a substantial impact on both microenterprises and the broader economy. By adopting this approach, microenterprises can operate with greater independence from traditional banking systems and government interventions.

The model proposed in this study is both innovative and novel, offering Waqf institutions a structured mechanism to introduce public-facing initiatives that support microenterprises. Beyond providing financial assistance, the model encourages the expansion of business operations, thereby enhancing the public image and market competitiveness of microenterprises. As these enterprises grow, they contribute to society by creating employment opportunities, increasing production capacity, and stimulating local economic activity.

Importantly, the benefits of this model extend beyond economic growth. By facilitating income generation for under-resourced micro-entrepreneurs, the model contributes to poverty alleviation and broader social welfare outcomes. In this way, the Holding Company–Waqf Model serves as a comprehensive tool for promoting both financial inclusion and sustainable socio-economic development.

3.5.7 Conclusion

In conclusion, microenterprises—although representing the largest segment of small and medium-sized enterprises—often encounter substantial barriers when accessing external financing from both private and public sources. Operating in a high-risk segment of the market, these enterprises are frequently subject to stringent lending conditions, which limit their ability to secure necessary capital and increase their dependence on internal resources. Such constraints can hinder their growth and jeopardise their long-term viability.

To address these challenges, the present study proposes the Holding Company–Waqf Model as an innovative solution. By integrating cash Waqf resources with micro-enterprise financing, this model aims to alleviate financial constraints, support sustainable enterprise development, and enhance the broader economic contribution of microenterprises. Through its implementation, microenterprises can achieve greater financial independence, operational growth, and social impact, ultimately fostering inclusive and resilient economic development.

3.6 Conclusion To Chapter 3

This chapter has successfully navigated a comprehensive exploration of Islamic financial instruments, demonstrating their viability and transformative potential as engines for sustainable rural development. By tracing the journey from the philosophical and jurisprudential foundations of classical agricultural partnerships to the contemporary applications of Cash Waqf, the ZISWAF model, and innovative micro-financing structures, the chapter provides a robust blueprint for equitable and inclusive development.

The analysis highlights that Islamic finance is not merely a historical relic but a sophisticated, relevant toolkit capable of addressing the systemic challenges faced by rural communities. Its strength lies in the holistic integration of ethical principles, classical contracts, and modern institutional mechanisms, offering a credible alternative to conventional, debt-heavy financing systems.

Case studies, including Perbadanan Wakaf Selangor and Waqaf Annur Corporation Berhad, provide tangible proof-of-concept, illustrating how visionary leadership and strategic management can revitalize Waqf institutions to generate broad socio-economic impact. Additionally, the synthesis of ZISWAF initiatives and the proposed Holding Company–Waqf Model contribute significant scholarly value by offering actionable frameworks for channelling Islamic social finance into productive, community-empowering ventures.

The chapter emphasizes that the full potential of these models can only be realized through coordinated and collaborative efforts, highlighting several key principles:

1. An Ecosystem Approach is Essential: These models thrive within supportive ecosystems that include robust regulatory frameworks, standardized legal contracts, and capacity-building for institutional managers.
2. A Cultural Shift is Paramount: Scaling these initiatives requires a collective embrace of partnership-based entrepreneurship, moving away from risk-aversion toward shared prosperity.
3. Impact-Oriented Performance Metrics: Success should be evaluated through tangible socio-economic outcomes—such as improved household incomes, enterprise growth, and the sustainable transition of beneficiaries from recipients to contributors—rather than solely through financial disbursement figures.

The chapter also identifies compelling avenues for future research:

- Empirical Impact Studies: Longitudinal studies to quantitatively assess the long-term effects of Cash Waqf and ZISWAF projects on poverty reduction, agricultural productivity, and community resilience.
- Cross-Country Comparative Analysis: Comparative studies across different Muslim-majority countries to identify transferable best practices in implementing these models.
- Digitalization and Fintech Integration: Exploration of blockchain, smart contracts, and digital platforms to enhance transparency, reduce administrative costs, and expand the reach of micro-financing models.
- Behavioural Islamic Finance Research: Examination of socio-psychological factors influencing the adoption of partnership-based contracts among financial institutions and rural communities, to inform effective educational and awareness programs.

In conclusion, this chapter lays a solid intellectual and practical foundation for a new perspective in rural economic development. By providing a clear roadmap from theoretical principles to practical implementation and highlighting critical directions for further inquiry, it serves as a vital resource for scholars, practitioners, and policymakers alike. The path forward is clear: investing in supportive ecosystems, building institutional capacities, and fostering strategic collaborations are essential to translating the transformative potential of Islamic finance into tangible socio-economic benefits for rural communities worldwide.

Chapter 4: Waqf, Zakat, and Social Finance for Rural Empowerment: Institutions, Innovation, and Inclusion

4.1 Introduction

This chapter presents a transformative vision for empowering rural communities by revitalizing and modernizing Islamic social finance instruments, particularly Waqf and Zakat. While these instruments possess a rich historical legacy of building social infrastructures within Islamic societies, their contemporary applications are often constrained by fragmented approaches, limited innovation, and a narrow focus on short-term consumptive assistance.

The chapter argues that the full potential of Waqf and Zakat for sustainable rural development can only be realized through strategic integration and a systems-oriented perspective. Rather than operating in silos, these instruments must be embedded within broader frameworks that address the root causes of systemic vulnerabilities. Two critical domains are emphasized for rural economies: (1) Food Supply Chains, which are frequently disrupted by exploitative intermediaries, and (2) Natural Capital, such as increasingly degraded mangrove forests that form the foundation of coastal and marine livelihoods.

Through several innovative conceptual models, the chapter proposes practical solutions:

- The Agrofood Waqf Institution and Waqf Vertical Integration (WVI) model are presented as an institutional framework to restructure food supply chains, enhance smallholder incomes, and ensure food availability and affordability.
- The integration of Islamic Social Finance Agricultural Contracts with Blockchain Technology offers a novel perspective for transparent governance, reliable crowdfunding, and efficient contract implementation, thereby reducing dependence on intermediaries.
- The “Blue Waqf” framework extends the scope of Islamic Social Finance to environmental conservation, proposing sustainable financing mechanisms for the preservation and restoration of “blue forests,” such as mangroves, which in turn support the livelihoods of coastal communities.

By synthesizing traditional Islamic principles with modern governance, technological innovation, and environmental ethics, this chapter aims to provide a coherent action plan. The objective is to demonstrate how Waqf and Zakat can function as patient, ethical capital to build a more inclusive, resilient, and regenerative rural economic ecosystem, while simultaneously aligning with the Sustainable Development Goals (SDGs) and the objectives of the Shariah, the system of Islamic moral and legal guidance (*maqasid al-Shariah*).

4.1.1 The Necessary for Rural Empowerment

The pursuit of balanced and equitable development remains a central challenge for many developing nations. While urban centres often become the epicentres of economic growth, attracting investment and talent, rural communities frequently face a starkly different reality. These areas, which are the bedrock of primary production—especially in agriculture and fisheries—are paradoxically characterized by persistent poverty, wealth inequality, and limited access to formal financial systems. This urban-rural divide is not merely a matter of infrastructure disparity; it is a fundamental issue of economic justice and social stability. The empowerment of rural populations is, therefore, not a subsidiary goal but a critical prerequisite for sustainable and inclusive national development.

In the Malaysian context, as in many other Muslim-majority countries, this challenge is further nuanced by the socio-economic composition of rural demographics, which are predominantly Bumiputera. Despite decades of affirmative action and governmental policies aimed at uplifting their economic standing, intra-community wealth and income disparities persist. The bottom 40% (B40) of households, a significant portion of whom reside in rural areas, continue to grapple with the vulnerabilities of low savings, high dependency on informal credit, and exposure to exploitative market practices. Conventional financial systems and redistribution mechanisms, such as taxation and state-led cash transfers, while beneficial, have shown limitations in achieving deep-rooted, sustainable empowerment. They often address the symptoms of poverty—a lack of immediate income—without curing the underlying disease: a lack of capital ownership, productive assets, and economic agency.

In a complex socio-economic landscape, the instruments of Islamic social finance (ISF)—primarily Zakat and Waqf—emerge not merely as religious obligations, but as potent, community-based frameworks for catalytic change. For centuries, these institutions served as the backbone of social welfare in the Islamic world, funding education, healthcare, and infrastructure, and ensuring a circulation of wealth that prevented its concentration in a few hands. Their potential for contemporary rural empowerment lies in their unique philosophical and operational principles. Zakat, as a mandatory wealth purification and redistribution mechanism, provides a predictable and perpetual flow of capital to the poorest segments of society. Waqf, with its principle of perpetuity (inalienability) and the dedication of assets for social benefit, offers a powerful model for creating sustainable, revenue-generating community assets.

However, the mere existence of these instruments is insufficient. Their transformative potential can only be unlocked through a holistic trinity of strategic enablers: Institutions, Innovation, and Inclusion. This chapter argues that the future of rural empowerment lies at the intersection of these three pillars, leveraging the timeless principles of Zakat and Waqf through modern governance, technology, and an expanded ethical scope.

4.1.2 The Institutional Pillar: From Charity to Sustainable Investment

The first pillar involves the transition of Zakat and Waqf management from rudimentary, charity-based distribution to sophisticated, professional institutional frameworks. This entails moving beyond the concept of Zakat as mere consumption support and Waqf as static, underutilized land. The institutional challenge is to design models where Zakat can be used for capacity-building and as seed capital, and where Waqf assets are developed productively. The goal is to create self-sustaining rural economic ecosystems where these funds are not just distributed, but strategically invested to generate lasting economic activity, employment, and community wealth. This requires robust governance, transparency, and a shift in mindset among managing bodies from being mere distributors to becoming developmental impact investors.

4.1.3 The Innovation Pillar: Leveraging Technology for Trust and Scale

The second pillar addresses the historical challenges that have often plagued ISF institutions: issues of transparency, accountability, and operational inefficiency. Here, technological innovation, particularly blockchain and smart contracts, presents a revolutionary opportunity. By providing an immutable, decentralised ledger for transactions, blockchain technology can build unparalleled public trust—a critical currency for philanthropic institutions. Smart contracts can automate complex Islamic agricultural finance contracts, ensuring timely payments to farmers and returns to investors based on pre-agreed, Shariah-compliant conditions. This disintermediation reduces costs, minimises human error and manipulation, and creates a seamless, trustworthy platform for crowdfunding Waqf and Zakat projects, thereby scaling their impact beyond traditional collection methods.

4.1.4 The Inclusion Pillar: Broadening the Horizon of Empowerment

The third pillar, inclusion, pushes the boundaries of what constitutes "rural empowerment." True inclusion means ensuring that no one is left behind, including the environment upon which rural livelihoods depend. It involves moving beyond a purely economic lens to embrace an ethic of social and environmental stewardship. This means designing financial products that are accessible to the most marginalised, including landless farmers and small-scale fishermen. Furthermore, it calls for the application of ISF principles to what is known as the "blue" and "green" economies. An inclusive model of rural empowerment is one that not only increases a farmer's income but also helps him rehabilitate the mangrove forests that protect his coastline and sustain his fishery, creating a virtuous cycle of economic and environmental sustainability.

This chapter will delve into this triad of empowerment. It will explore how robust institutional designs can repurpose traditional Islamic philanthropy for modern economic challenges. It will investigate how cutting-edge innovation can solve age-old problems of trust and efficiency. Finally, it will envision how a commitment to broad-based inclusion can ensure that rural empowerment is holistic, resilient, and aligned with the higher objectives of the Shariah (*maqasid al-Shariah*) and global sustainability goals. By synthesising these elements, this chapter aims to present a coherent framework for harnessing the immense, yet underutilised, power of Zakat and Waqf to build a more empowered, equitable, and sustainable future for rural communities.

4.2 Revolutionising the Food Supply Chain: Unleashing the Potential of Agrofood Waqf Institution Platform to Combat Middlemen Manipulation

One of the most persistent issues in the food supply chain concerns the dominance of middlemen who exploit their intermediary position to the detriment of farmers, small retailers, and consumers. This problem contributes to the rising cost of necessities, creating socio-economic pressures that require urgent intervention, as such dynamics have the potential to escalate into wider social instability and even pose risks to national security. The proliferation of multiple layers of intermediaries is a key factor driving price speculation in the food market, which in turn depresses producer-level prices while inflating consumer prices. When too many intermediaries are involved, agricultural producers are compelled to sell their outputs at significantly lower prices, whereas consumers are forced to pay substantially higher prices for the same goods.

The role of intermediaries in the food supply chain has been widely examined in various studies. Middlemen function as intermediaries between primary producers—such as farmers and fishermen—and final consumers. However, research consistently demonstrates that the presence of these intermediaries often results in reduced selling prices for producers and inflated prices for consumers. Middlemen maintain considerable control over market access and distribution channels, thereby limiting producers' ability to sell directly to consumers or to secure fairer market prices. Numerous studies highlight the detrimental consequences of middleman dominance, including increased consumer costs and declining producer profitability. Such concerns have been extensively documented, for instance, in Badar and Mustafa's (2018) *The Role of Middlemen in Agricultural Marketing: Myths and Reality*, Maisarah's (2022) report *90,000 Fishermen Oppressed, Middlemen Control Prices*, and the New Straits Times (2022) article *Govt Going After Middlemen, Cartels Responsible for Rise in Prices of Essential Goods*.

Lee et al. (2012) observe that intermediaries capture a substantial portion of the value chain's profit margin and may inhibit upscaling opportunities for small-scale farmers. Moreover, Abebe et al. (2016) note that farmers with limited resources tend to prefer relying on middlemen due to constraints in market access and logistical capability. While some scholars argue that intermediaries can address market imperfections in developing countries (Maertens and Barrett 2013), other studies show that producer–middleman collaborations often result in negative producer outcomes and broader adverse economic impacts (Ali and Peerlings 2011).

Against this backdrop, the present discussion explores the potential of Agrofood Waqf Institutions as mechanisms to mitigate the exploitative role of middlemen within the food supply chain. The incorporation of Waqf institutions into the management of food supply chains—particularly in relation to staple goods—could contribute to stabilising supply flows and preventing manipulative practices such as deliberate supply withholding or price inflation aimed at maximising intermediary profit. This proposition aligns with the foundational mandate of Waqf institutions as trustees of ZISWAF resources tasked with enhancing community socio-economic welfare, safeguarding access to essential goods (especially for asnaf groups), and protecting small and medium-scale farmers from exploitative market behaviour.

While the multiple layers of intermediaries in the food supply system may be reduced, their fundamental functions cannot be entirely discarded. It must be acknowledged that the intermediary role of matching supply with demand and facilitating distribution to consumers remains essential. However, these functions lose their societal value when intermediaries misuse their position to engage in extreme price speculation and manipulation for personal gain. Strategic collaboration between Waqf institutions and agrofood agencies presents a significant opportunity to address this issue and prevent further deterioration of the food supply ecosystem.

4.2.1 Why Do Middlemen Exist in the Food Supply Chain?

The presence of middlemen within the supply chain exerts a detrimental influence on the socio-economic development of communities; nevertheless, their role remains indispensable in addressing the inherent imperfections of the national supply chain system. Even in the most truncated supply chains—such as those involved in online purchasing—middlemen, or the platforms that effectively serve as their intermediaries, are required at several critical points. In such contexts, the functions performed by middlemen are essential for coordinating orders and supplies, providing warehousing for storage, facilitating transportation for delivery, and ultimately ensuring the linkage between sellers and buyers. The removal of middlemen is only feasible when transactions occur directly or face-to-face between buyers and sellers, yet such arrangements are generally confined to small-scale operations and geographically limited areas.

Fundamentally, the supply chain encompasses a series of activities extending from the point of production to the point of consumption, involving the transformation and transfer of goods from large quantities to smaller, household-appropriate amounts. A variety of functions occur between these two points. These include exchange activities (buying and selling), physical functions such as storage, packaging, and transportation, as well as financing, pricing, risk-bearing—particularly for perishable goods—and market access facilitation. Each of these functions must be performed by specific actors, collectively known as middlemen (Arshad 2020).

4.2.1.1 Middlemen in the Food Commodity Sector

The structural configuration of the agricultural supply chain for food commodities resembles the shape of an hourglass. At the lower end of the chain lies a vast base of primary producers, comprising farmers, livestock breeders, and fishermen. At the midpoint, however, the structure narrows significantly, represented by a relatively small number of wholesalers, each of whom controls a substantial share of the market. Moving upward, the chain expands again at the retail level, which consists of multiple categories such as supermarkets, hypermarkets, and small-scale retailers; notably, the number of small retailers exceeds that of wholesalers. At the uppermost level are the consumers, essentially representing the country's population, including society at large, households, and individual consumers.

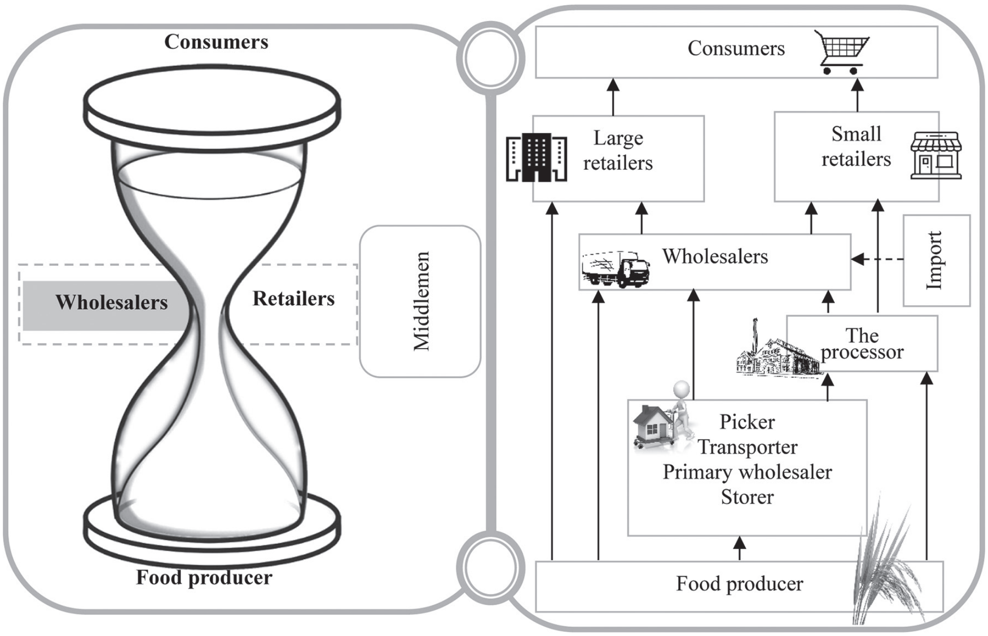

Figure 4.1 Conventional Food Supply Chain System

Figure 4.1 illustrates the conventional food supply chain system through which food commodities are marketed from producers to consumers. This structure generates multiple layers between the two ends of the chain, and each intermediary extracts its own profit margin. So, the system often results in overlapping functions, the proliferation of intermediaries, weak organisational coordination, the concentration of power and manipulation by wholesalers, opaque and non-transparent pricing practices, significant post-harvest losses, and limited access for producers to accurate market information.

Despite these drawbacks, the system continues to underpin the prevailing framework of the food supply chain. Within this structure, wholesalers constitute the most dominant tier because they possess extensive knowledge and information about actual market conditions. This informational advantage reinforces their power and dominance within the chain. Such dominance frequently leads to uncontrolled manipulation, exploitation of producers, and the ability to exert pressure on government authorities to meet their demands. Pricing strategies are likewise shaped by wholesalers, who are primarily driven by profit maximisation objectives.

Addressing the question of why middlemen persist in the food supply chain, it becomes clear that middlemen maintain their position by fostering producers' dependence on them. They often act as the main source of credit for food producers. Producers enter into agreements with middlemen, and as a condition of these arrangements, producers become obligated to sell their output to these intermediaries. This form of engagement has been entrenched for decades and remains widespread today, despite the availability of alternatives such as Agrobank, agricultural subsidies, and other forms of institutional assistance.

With their deep understanding of market dynamics and the operational range within the supply chain, middlemen also function as marketers for producers. They purchase goods directly from producers and either resell them to the next tier of wholesalers or process the goods themselves. As Arshad (2020) notes, although farmers are frequently exploited by middlemen, they continue to rely on them. Many farmers live in poverty and require loans to sustain their farming activities as their primary source of income. Geographic distance, lack of viable alternatives, and the absence of business networks all compel farmers to depend on middlemen to market their products.

A study by Abebe et al. (2016) further explains why both farmers and wholesalers choose to engage with middlemen (primary wholesalers). First, middlemen present an attractive option for secondary wholesalers because direct purchases from farmers often fail to guarantee a consistent supply, especially in environments where business transactions are socially embedded. Second, concerns about the quality of goods encourage both secondary wholesalers and farmers to prefer middlemen, who act as quality screeners. Third, both parties favour middlemen for their facilitating role in marketing agricultural produce. Farmers who channel their goods through middlemen are often those with limited resources. A fourth factor is the influence of social networks on business relationships, which strengthens the continuity of middlemen's roles.

According to Sudrajat et al. (2021), middlemen can be categorised into two types: large-scale and small-scale operators. Middlemen perform a strategic function for farmers in rural contexts. Their positive contributions are recognised by farmers, particularly as facilitators of agricultural sales, providers of agricultural inputs, and sources of cash loans. However, their role as lenders often becomes controversial due to the potential for negative impacts. Nevertheless, access to marketing channels remains vital for producers, and marketing risk is one of the key factors determining producers' loyalty to middlemen. The stronger the dependence, the more tightly producers become bound to these intermediaries.

Farmers and fishermen remain highly dependent on middlemen, especially for financial assistance needed to purchase agricultural inputs. Such financial support is provided in two main forms: first, loans intended for agricultural activities but often extended to cover personal expenses, such as school fees or vehicle deposits; and second, funds for purchasing household necessities. Middlemen are able to provide financial assistance at any time, even in emergencies. This entrenched dependence allows middlemen to exert control over producers by manipulating purchase prices and influencing prices along the supply chain (Suhaimee et al. 2015).

4.2.2 Middlemen Control Mechanism

A middleman may be defined as an individual who serves as an intermediary within a distribution or transactional chain, facilitating interactions between the parties involved. Middlemen specialise in carrying out the essential activities associated with the purchase and sale of goods or services as these move from producers to final consumers. Although they typically do not produce any goods themselves and may or may not add value to the products they handle, they possess extensive knowledge of market conditions and charge commissions or fees for the services they provide. So, middlemen function as dominant actors within the food supply chain, exercising significant control and negotiation power across various points in the chain. They exert influence over producers, market dynamics, stock availability, and pricing mechanisms, forming the basis of their capacity for manipulation within the system.

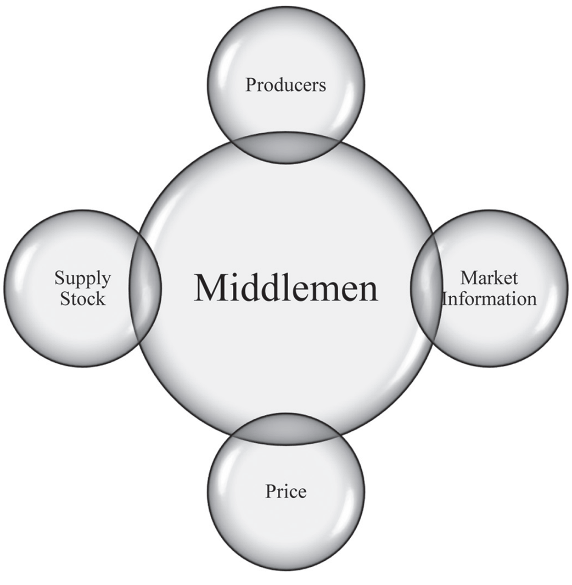

Figure 4.2 The Middlemen's Control Mechanism

4.2.2.1 Producers (Dependency)

Issues faced by producers encompass knowledge limitations, marketing and market access challenges, as well as financial constraints. Producers frequently struggle to secure funds for both initial and operational capital required to sustain their agricultural activities. Their financial difficulties include restricted access to credit, elevated interest rates for land-related financing, and, in some instances, the need to provide collateral as demanded by moneylenders. As a result, producers are often compelled to enter long-term sales contracts or sell their agricultural products at low prices to these financiers (Dardak 2015).

Despite government investment in infrastructure, support services, and facilities, small-scale producers remain unable to fully utilise these allocations. This limitation arises because middlemen exploit producers' weak bargaining power, a situation rooted in the dominant position of middlemen within the marketing system (Pokhrel and Thapa 2004). Furthermore, due to high transportation costs, farmers continue to prefer dealing with middlemen even though these intermediaries may exploit them and secure higher rents in the process (Fafchamps and Hill 2005; Merel et al. 2009).

4.2.2.2 Market Information (Fraud)

Middlemen exploit the information asymmetry between markets and farmers by manipulating marketing information to maximise their profit margins (Pokhrel and Thapa 2004). A study by Mitchell (2011) demonstrates that when middlemen possess more extensive market information than farmers, this imbalance creates opportunities for fraudulent practices against farmers and restricts their options regarding where to sell their products. Such conditions may also lead to the exploitation of prevailing market situations to the detriment of consumers. Furthermore, there is concern that this dynamic may drive farmers to migrate to other sectors in search of more sustainable income sources (Mohamed and Shafiai 2021).

Masters (2007; 2008) argues that when the role of middlemen in the supply chain becomes purely exploitative, their presence contributes to market inefficiency. This inefficiency arises because one source of their market power is rooted in superior knowledge of market conditions, particularly pricing across the supply chain (Mitchell 2011). Middlemen also tend to maintain a strong bargaining position due to their detailed understanding of supply and demand conditions both at the farm level and within the wider market (Neven et al. 2009).

4.2.2.3 Supply Stocks (Hoarding Activities)

The practice of withholding or hiding product stocks can significantly disrupt price stability. Such concealed goods are typically released only when market prices begin to rise; however, for perishable food items, this delay often results in spoilage or deterioration in quality (Novitasari and Setyawan 2019). Despite the compromised quality, consumers may still purchase these items due to shortages in market supply. This situation is further supported by Zahrah et al. (2021), who note that one of the contributing factors to reduced food availability in the market is the deliberate hoarding of food materials by irresponsible middlemen seeking to inflate market prices.

Although Malaysia is a major producer and exporter of palm oil, the country continues to experience periodic shortages of cooking oil, particularly during major festive seasons. These shortages have been attributed to several factors, including smuggling, increased consumer usage, and, most notably, stock-hiding practices by middlemen (Sundaram et al. 2019).

4.2.2.4 Price (Unfair Pricing)

The manipulative practices of middlemen have contributed to price fluctuations in agricultural products, directly affecting the income of small-scale farmers. While consumers are compelled to pay higher prices, farmers frequently receive disproportionately low returns. Moreover, when there is an oversupply of the same agricultural product at a given time, it creates further opportunities for middlemen to engage in price manipulation. Operating individually, farmers become especially vulnerable to such exploitation, resulting in diminished earnings (Dardak 2015).

The presence of unnecessary and excessive layers of middlemen within the supply chain compromises both efficiency and equity, ultimately exerting upward pressure on consumer prices. Such a multilayered structure also creates potential avenues for corrupt practices, thereby preventing consumers from accessing food at reasonable prices and hindering farmers from obtaining fair compensation for their produce (Rahman 2015).

4.2.3 Institutional Approach in the Food Supply Chain (Agrofood Waqf Institutions)

The institutional approach within the food supply chain encompasses a strategic framework that addresses the organization, management, and distribution of food from producers to consumers. Its primary objective is to ensure efficient food access, enhance the resilience of the food system, and promote long-term sustainability.

Several key institutional approaches are relevant within the context of the food supply chain:

1. Food safety: This approach prioritizes the safety and quality of food throughout production and distribution. Institutions are responsible for implementing policies and regulations that guarantee circulating food is safe for consumption and complies with *halalan tayyiban* (permissible and wholesome/good) standards.
2. Supply chain sovereignty: This approach emphasizes self-sufficiency and control over the production-to-consumption continuum. Institutions play a role in supporting producers, particularly small and medium-scale farmers, while promoting sustainable and equitable supply chain systems.
3. Accessibility and affordability: This approach focuses on ensuring that communities have reliable access to nutritious and reasonably priced food. Strategies may

include bridging the economic gap between farmers and distributors, expanding distribution infrastructure, and providing targeted support to economically vulnerable groups.

4. Innovation and technology: This approach leverages technological and innovative solutions to improve the efficiency of the food supply chain. The application of information and communication technologies can enhance coordination, reduce operational losses, and streamline the production and distribution processes.

In addition, ensuring that practices such as *maysir* (gambling), *riba* (interest), and *gharar* (excessive uncertainty) are avoided in the food supply chain requires strategies that prevent such elements from occurring at any stage of production, processing, distribution, or consumption. Practical measures in this regard include:

1. Selection of food sources: Prioritizing food sources that adhere to halal principles and avoiding products associated with prohibited practices, such as gambling or interest-based transactions. For instance, selecting meat from animals slaughtered according to halal procedures and sourcing ingredients from producers who comply with Islamic guidelines.
2. Transparency of information: Promoting transparency throughout the food supply chain by providing accurate and clear information regarding the origin, production processes, and composition of food products. This enables consumers to make informed choices consistent with their ethical and religious values.
3. Halal certification: Supporting or ensuring valid halal certification within the supply chain enhances consumer confidence that products are processed and distributed in accordance with Islamic principles, thereby avoiding prohibited practices.
4. Clear contract agreements: Reducing excessive uncertainty (*gharar*) in transactions by establishing clear, structured agreements between parties involved in the supply chain. These contracts should specify terms related to pricing, quantity, quality, and other critical aspects of the transaction.
5. Halal financing: Ensuring that financing mechanisms used in food supply chain operations comply with Islamic principles, avoiding *riba* or interest-based arrangements. Alternatives may include profit-based financing or other Shariah-compliant financial instruments.

In conclusion, agrofood Waqf institutions demonstrate significant potential to mitigate manipulation by middlemen within the food supply chain. These institutions can achieve this through the implementation of shorter supply chains, direct supervision, enhanced transparency and accountability, educational initiatives, awareness campaigns, and strategic knowledge sharing.

4.2.3.1 Market, Control, and Institutional Involvement of Agrofood Waqf

A middleman, or intermediary, facilitates interactions between two parties, typically in exchange for a commission or service fee. Some scholars suggest that producers and consumers should seek to bypass middlemen by engaging in direct transactions to avoid additional costs or commissions. However, evidence indicates that the role of middlemen cannot be entirely eliminated, as they perform essential functions that facilitate the smooth operation of the food supply chain. The challenges associated with middlemen largely stem from their manipulation, which arises from the concentration of power at various points along the chain. So, there is a pressing need to design future food supply chain systems that can mitigate such dominance.

Before developing such a model, it is critical to identify the key actors within the chain, as these players are responsible for maintaining traceability from upstream to downstream stages (Zahrah et al. 2021). A supply chain system comprises a coordinated set of practices that link manufacturers, suppliers, distributors, and consumers, aiming to achieve long-term efficiency and optimization across the chain (Gabler and Meindl 2007). Effective management, therefore, requires engaging all participants in the chain. Through an institutional approach, regulatory mechanisms can extend broadly to govern the actions of the community, including those involved in food production (Mohamed and Shafiai 2022).

Supply chain management encompasses coordination, collaboration, and the execution of multiple functions such as marketing, sales, production, product design, procurement, logistics, finance, and information technology within an institutional network (Blos et al. 2009). By leveraging the benefits of Waqf, an Agrofood Waqf Institution can be integrated into the chain to ensure that supply and operational activities contribute to socio-economic development while serving as a foundation for establishing a traceability system. Additionally, the Agrofood Waqf Institution aims to provide support to *asnaf* farmers, prioritize *halalan tayyiban* practices, and enhance the value of Waqf assets in accordance with trusteeship principles, thereby closing avenues for domination and manipulation within the supply chain.

Table 4.1 Coordination of Agrofood Waqf Institutions with the Department of Agriculture

Agrofood Waqf Institutions	Control	Agriculture Department
➢ **Zakat to meet the needs of life.** ➢ **Agricultural tools.** ➢ **Waqf agricultural land.** ➢ **Agricultural capital.** ➢ **Islamic contracts.**	Producer	➢ Agricultural subsidies and allowances. ➢ Courses, workshops, and expertise. ➢ Latest agricultural technology. ➢ Agricultural land.
➢ **Agricultural Waqf campaign.** ➢ **Waqf investment.**	Market Information	➢ Access to the latest information. ➢ Prevent information manipulation.
➢ **Agricultural produce documentation.** ➢ **Prevent product hiding.** ➢ ***Halalan toyyiban*.**	Supply Stock	➢ Storage, transportation, and delivery management. ➢ Correct supply and demand matching.

➢ **Prevent price manipulation in the chain.**	Price	➢ Clear, systematic, and reasonable pricing.
➢ **Minimize added value of supply.**	Price	➢ Pricing policy
➢ **Waqf for buildings, warehouses, places, and land.** ➢ **Equipment.**	Supply Stock	➢ Create a farmer's market. ➢ Buffer stocks. ➢ Import and export.
➢ **Blockchain Waqf.** ➢ **Creating a platform for Waqf projects.**	Market Information	➢ Agricultural information technology. ➢ Traceability system.
➢ **Connecting between Waqf giver and farmers.** ➢ **A healthy chain ecosystem.**	Producer	➢ Access to users directly.
Agrofood Waqf Institutions	**Market**	**Ministry of Agriculture**

4.2.3.2 Food Supply Chain System of Agrofood Waqf Institution

Referring to Table 4.1, coordination between the Agrofood Waqf Institution and the Ministry of Agriculture occurs through mechanisms of control and market regulation. In this context, control refers to a set of rules or procedures designed to manage, direct, and regulate behaviours within the food supply chain system, ensuring that it remains free from elements of domination or manipulation by any party. Markets, on the other hand, encompass the various systems, institutions, procedures, social relationships, and infrastructures through which buying and selling activities occur, including the exchange of goods and services. Collectively, these components contribute to a healthy and well-functioning supply chain ecosystem.

Such coordination is essential for maximizing the effectiveness of a regulated food supply chain. In Malaysia, Zakat, Infaq, Sadaqah, and Waqf assets are administered by the State Islamic Religious Council, which designates the Agrofood Waqf Institution as the sole trustee with authority to collect these assets within its respective states. Concurrently, the Department of Agriculture provides specialized expertise in research and development focused on agricultural activities, and state-level agricultural departments have been established to implement these functions locally.

In this study, interviews were conducted with the Terengganu Islamic Religion and Malay Customs Council (MAIDAM). Insights from these interviews revealed that collaboration with the agricultural sector is necessary to provide technical expertise and share relevant agricultural information.

Figure 4.3 illustrates a food supply chain system grounded in Waqf principles, designed to mitigate manipulation and the dominance of middlemen.

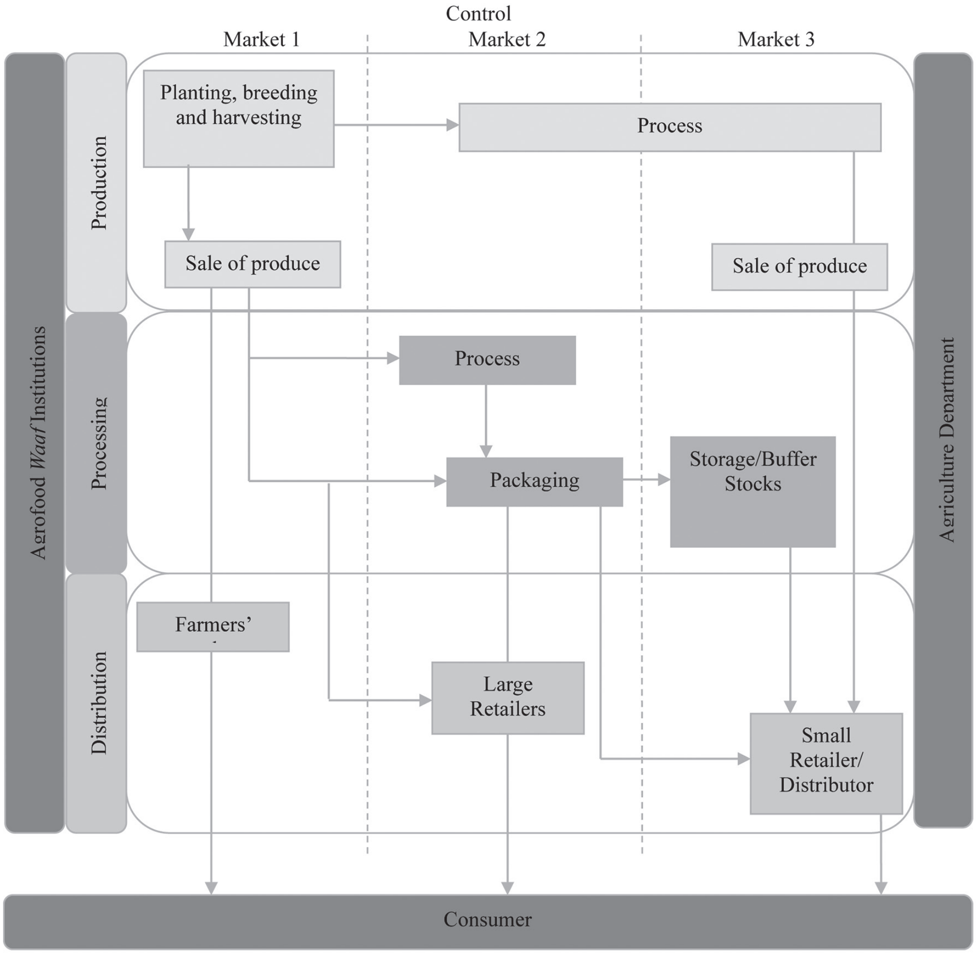

Figure 4.3 Mapping Food Supply Chain Activities of Agrofood Waqf Institutions

Market 1

Farmers, livestock breeders, and fishermen constitute the primary actors in the food supply chain, serving as the main producers and engaging in agricultural activities such as land preparation, planting, breeding, and fishing. Funds derived from Zakat, Infaq, Sadaqah, and particularly Waqf are allocated to empower small-scale farmers and *asnaf* beneficiaries. According to Mohamed and Shafiai (2021), these distributions can be applied either productively or consumptively to strengthen the capacity and livelihood of farmers.

All farming and harvesting activities should be meticulously documented by the producers, who serve as the initiators of the supply chain. Relevant records include the dates of planting, fertilization schedules, pest and disease management measures, harvested land areas, and other pertinent activities. Regular monitoring and regulation of these activities are necessary to prevent external actors from exploiting producers, thereby eliminating the producers' dependence on middlemen.

Producers who are capable of selling their produce directly to consumers are provided with access to markets such as farmers' markets, or they may process their products themselves and sell directly to retailers or wholesalers. Additionally, food producers may sell directly to large-scale retailers or processing facilities, which are identified or developed by the Department of Agriculture for items requiring further processing and packaging, typically involving large-scale and complex operations.

Market 2

In this context, the focus is on processing activities rather than intermediaries. Processing is a fundamental stage in the supply chain, encompassing activities that enhance the value, quality, and packaging of food products. Within this system, logistics play a crucial role in linking production with distribution and marketing networks. Typically, issues such as price manipulation, asymmetry of market information, and the dominance of middlemen arise at this stage. These challenges can be mitigated by maintaining comprehensive documentation of production activities through the Agrofood Waqf Institution, while the processing stage is overseen and regulated by the Department of Agriculture.

Once food items have been processed and appropriately packaged, they are subsequently distributed to large retailers, including supermarkets and major marketplaces, for sale to consumers. At this level, large retailers act as intermediaries or principal wholesalers, creating a simplified marketing channel in which the intermediary performs an essential and transparent function.

Market 3

When accurate market information is available and free from manipulation, and when unnecessary layers of middlemen with overlapping functions, dominant wholesalers, and cartels engaging in stock hoarding are eliminated, pricing can be determined transparently. Furthermore, market supply and demand can be monitored and assessed in real time. Any surplus supply can be exported to generate returns that help finance the purchase of imported food items.

Distributors must be officially registered and appointed by the Agrofood Waqf Institution. These distributors are responsible for delivering food products in bulk from processing facilities to small retailers located in remote areas or regions lacking logistical infrastructure. Small retailers play a crucial role in the food supply chain by facilitating access to products for end consumers, particularly in rural communities.

In summary, the Agrofood Waqf Institution demonstrates considerable potential to establish an efficient and well-regulated food supply chain system. Moreover, numerous studies indicate that Islamic social finance mechanisms, particularly Waqf, can serve as a viable alternative to conventional financing in enhancing the agricultural food commodity sector (Mohamed 2021). This innovative supply chain system encompasses all stages of planning, implementation, and operations from production to consumption in a controlled and coordinated manner. Such a system promotes more formal, orderly, and stable management, while simultaneously liberating producers from exploitation, enabling them to operate more openly. The effectiveness and transparency of this system can be further enhanced by applying blockchain technology, allowing all supply chain participants—including Waqf donors—to access real-time information and maintain full transparency.

4.2.4 Conclusion

The impact of middlemen on the food supply chain—whether positive or negative—depends largely on the orientation and objectives guiding their activities. Middlemen can play a constructive role in addressing market imperfections, which are pervasive in developing countries; this contribution is undeniable. However, such interventions may simultaneously conceal manipulation and domination, which undermine the integrity of the supply chain and generate negative consequences. Even when the external appearance of the supply chain suggests stability and normalcy, issues such as exploitation, stock hoarding, and price manipulation may still occur.

So, the dominance of middlemen represents a detrimental characteristic that must be addressed and mitigated within the food supply chain. The primary market influence exerted by middlemen should be more evenly distributed across the chain. The involvement of the Agrofood Waqf Institution provides a solution to this imbalance, as its core mission is the socio-economic development of the community, thereby ensuring that the benefits are shared more equitably. Addressing issues related to basic needs is particularly critical, as these form the foundation of a harmonious Islamic society. Moreover, the asnaf group largely comprises food-producing farmers, underscoring the importance of their empowerment.

The Agrofood Waqf Institution is proposed to operate through the integration of blockchain technology. Transparency and public trust—including the confidence of Waqf donors—serve as essential foundations for its successful implementation. Blockchain's smart contract capabilities facilitate formalized agreements with farmers and enable comprehensive documentation of food supply transfers from production to consumption. Additionally, blockchain provides substantial benefits to financial operations within Waqf institutions in the agricultural sector, significantly reducing the potential for information manipulation (Mohamed and Shafiai 2022).

4.3 Waqf Vertical Integration (WVI) Model: Food Security through Inclusive Agri-Food Systems

The 21st century, for all its technological marvels, grapples with a paradox of profound proportions: the coexistence of unprecedented agricultural productivity with persistent and severe food insecurity. Globally, hundreds of millions remain chronically hungry, a situation exacerbated by a confluence of factors including climate change, economic volatility, geopolitical conflicts, and inefficient food systems. The United Nations' Sustainable Development Goal (SDG) 2, "Zero Hunger," stands as a testament to the international community's recognition of this crisis, yet its achievement remains a daunting challenge. This challenge is not merely about producing more food, but about building resilient, equitable, and efficient systems that ensure food reaches the most vulnerable in a sustainable and affordable manner.

National landscapes mirror this global quandary. In Malaysia, a nation aspiring towards high-income status and shared prosperity under frameworks like *Wawasan Kemakmuran Bersama 2030* (Shared Prosperity Vision 2030), food security remains a critical pillar of socio-economic stability. Despite significant progress, vulnerabilities persist. These include a reliance on imported food staples, which exposes the nation to external supply shocks and price fluctuations, and the marginalization of smallholder farmers who struggle with access to capital, technology, and fair markets. Furthermore, low-income groups, particularly the *asnaf* (Zakat recipients), often face the brunt of food price inflation, threatening their nutritional well-being and economic mobility. In response, the Malaysian government has instituted important policies such as the Dasar Sekuriti Makanan Negara (2021–2025) and the Dasar Agromakanan Negara 2.0 (2021–2030), which collectively emphasize sustainable food access, the empowerment of local agri-food players, and the development of a robust, self-reliant food ecosystem.

At the heart of the food security challenge lies a deeply fragmented agri-food supply chain. The journey of food from farm to fork is often characterized by multiple intermediaries, a lack of coordination, and significant inefficiencies. This fragmentation leads to several critical failures:

- Post-Harvest Losses: Inadequate storage and transportation infrastructure result in substantial food wastage before products even reach the market.
- Price Disparity: A long chain of intermediaries can inflate the final price for consumers while depressing the farm-gate price received by producers, creating a lose-lose situation for both ends of the spectrum.
- Lack of Transparency: Opaque supply chains make it difficult to trace the origin of food, ensure its quality and halal integrity, and hold actors accountable for unethical practices.
- Exclusion of Smallholders: Small and medium-scale farmers often lack the bargaining power and market access to compete effectively, perpetuating a cycle of poverty and disempowerment.

These disconnects reveal that the problem is not solely one of production but, more critically, one of distribution and market structure. A transformative solution is required—one that can streamline this complex web into a cohesive, transparent, and equitable system.

Parallel to the discourse on food security is the vast, yet underleveraged, potential of Islamic social finance. Rooted in the principles of social justice, economic equity, and communal responsibility, instruments such as *zakat* (obligatory alms), *infaq* (voluntary spending), *sadaqah* (charity), and *waqf* (perpetual endowment)—collectively known as ZISWAF—represent a substantial and continuous flow of philanthropic capital. Historically, Waqf has been a cornerstone of Islamic civilization, funding universities, hospitals, and public utilities, demonstrating a powerful model for sustainable community development.

In the contemporary context, however, the application of Waqf has often been limited to traditional, sometimes fragmented, projects. Its potential as a catalytic tool for structuring large-scale, integrated, and commercially viable social enterprises remains largely untapped. Many Waqf-based initiatives in the food sector have been reactive, focusing on short-term food aid rather than proactive, long-term structural solutions that address the root causes of food insecurity. There exists a significant gap in strategically deploying Waqf assets to build self-sustaining ecosystems that can generate continuous social returns, empower communities, and create lasting impact.

4.3.1 Theoretical and Empirical Foundations for an Integrated Food Security Model

4.3.1.1 The Evolving Challenge of Global and National Food Security

Food security, defined by the consistent physical and economic access to sufficient, safe, and nutritious food, remains a pressing and complex global challenge. Contemporary research highlights that the core issue often lies not in food production alone, but in systemic inefficiencies within the agri-food supply chain. These inefficiencies lead to significant post-harvest losses, price volatility, and limited market access for small-scale producers, ultimately hindering equitable food distribution.

This challenge is acutely reflected in the Malaysian context, where national policies such as the Dasar Sekuriti Makanan Negara (2021–2025) and the *Dasar Agromakanan Negara 2.0* explicitly prioritize sustainable food access and resilient domestic food ecosystems. The need for structural interventions that can reconfigure the agri-food system to be more efficient, transparent, and inclusive is a central theme in these policy documents, establishing a clear mandate for innovative solutions.

4.3.1.2 The Transformative Potential of Islamic Social Finance and Waqf

Parallel to the discourse on food security is the exploration of Islamic social finance as a powerful vehicle for socio-economic development. Instruments like Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) represent a substantial pool of capital dedicated to social welfare. Modern scholarship advocates for a strategic shift from using these funds for short-term, consumptive aid towards deploying them for long-term, productive, and empowering projects.

Within this sphere, Waqf holds a unique promise due to its perpetual nature. Research highlights its potential to fund large-scale, sustainable development projects. As demonstrated by Al Hashmi (2022), Waqf can be an important financing tool for achieving the Sustainable

Development Goals (SDGs), capable of driving progress in critical sectors like food security, healthcare, and education by empowering communities and addressing systemic inequalities.

Further empirical evidence solidifies this potential. Majid and Sukmana (2023) designed a specific agricultural financing model based on cash Waqf, highlighting its role in providing low-cost funding and incorporating Islamic risk-sharing mechanisms such as *mudarabah-salam* and *ijarah*. Their model positions the *nazhir* (Waqf manager) as a central actor in building integrated value chains that connect farmers to reliable markets with fair pricing. Complementing this, Rashid et al. (2023) emphasize the role of Waqf in the food industry as a critical enabler for enhancing community welfare and ensuring access to halal food, directly aligning with broader quality-of-life objectives.

4.3.1.3 Addressing Supply Chain Inefficiencies: The Role of Vertical Integration

A significant body of research identifies supply chain fragmentation as a primary barrier to food security. The dominance of numerous intermediaries often results in exploitative practices, reduced profits for farmers, and higher prices for consumers. In response, vertical integration—the consolidation of multiple stages of the supply chain under a unified management system—has been recognized as a strategic tool to enhance efficiency and equity.

Studies across various agricultural contexts provide compelling support for this approach. Bojang and Emang (2024), in their empirical study on the cashew industry in The Gambia, demonstrated that reducing intermediaries and forming farmers' cooperatives within the value chain led directly to fairer pricing and improved food security outcomes. This finding is reinforced by Anand (2024) and Rout et al. (2023), whose research highlighted how insufficient market access and exploitative intermediaries hinder farmer welfare, implicitly advocating for innovative business models that shorten the supply chain.

Furthermore, the need for resilient agricultural systems is paramount. Elias et al. (2024) emphasized that sustainable and resilient supply chains are essential to withstand mounting climate pressures and market fluctuations, a goal that vertically integrated systems are better positioned to achieve through improved coordination and control.

4.3.1.4 Synthesizing the Gap: The Confluence of Waqf and Vertical Integration

A critical review of the literature reveals a significant, yet under-explored, intersection. While substantial research exists on the potential of Waqf as a social finance tool, and separately, on the benefits of vertical integration in agriculture, there is a conspicuous lack of models that systematically integrate these two powerful concepts. The existing Waqf-based initiatives often lack a robust operational framework for the entire agri-food supply chain, while vertical integration models frequently rely on conventional, profit-maximizing capital that may not prioritize social inclusion and empowerment.

This gap represents a critical missed opportunity. The perpetual nature of Waqf provides the patient, ethically grounded capital required for the long-term investments in infrastructure that vertical integration demands. Conversely, the efficiency, transparency, and empowerment generated by a vertically integrated system ensure that Waqf assets are not only preserved but are also utilized to generate maximum and sustainable social impact. It is at this nexus that the Waqf Vertical Integration (WVI) Model positions itself, proposing a synergistic framework designed to bridge this gap and offer a transformative pathway toward resilient and inclusive food security.

4.3.2 Conceptual Framework (Waqf Vertical Integration (WVI) Model-Stopwatch Design)

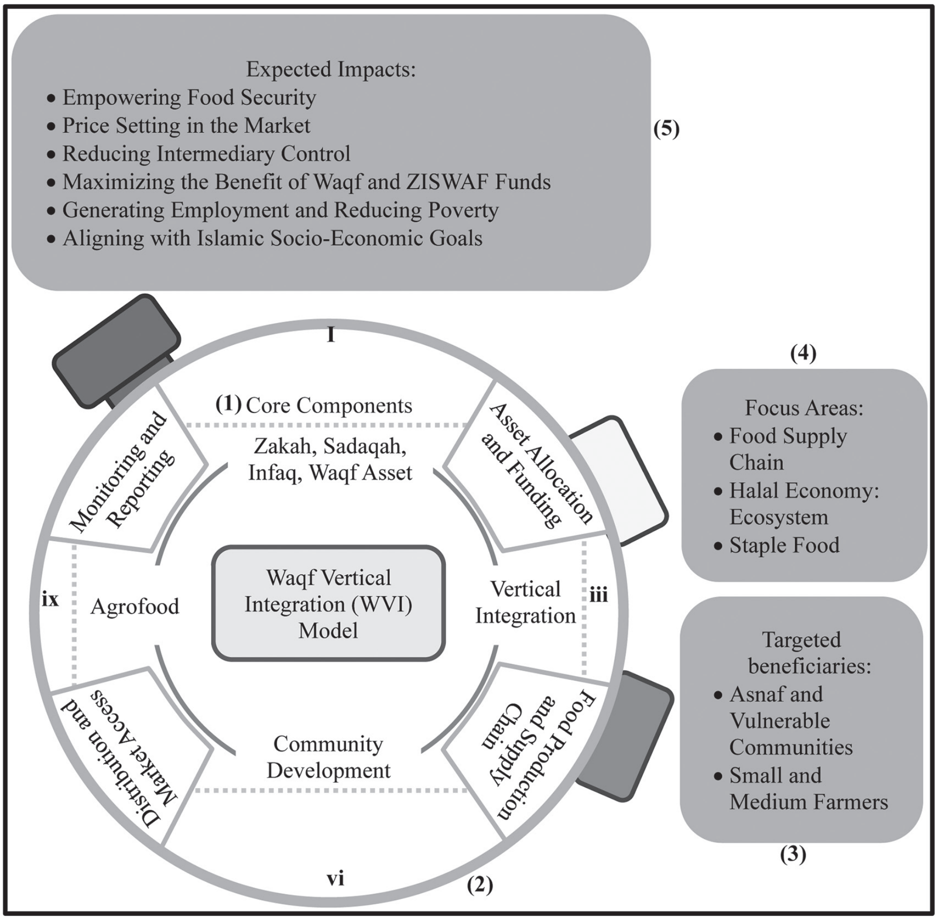

Figure 4.4 Waqf Vertical Integration (WVI) Model-Stopwatch Design

At the centre of the WVI Model lies its primary objective: enhancing food security through the strategic integration of Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) assets, alongside vertical integration within the food supply chain. This central focus represents the overarching goal of delivering a sustainable model that generates long-term benefits for the community.

a) Inner Circle (Core Components)

The model's core components comprise four fundamental elements that collectively ensure resilience and long-term sustainability:

- Zakat, Sadaqah, Infaq, and Waqf Assets (12 o'clock position): These philanthropic assets constitute the primary source of funding for projects designed to support and enhance food security initiatives.
- Vertical Integration (3 o'clock position): This element connects all stages of the food supply chain—from production to distribution—ensuring seamless coordination, efficiency, and operational continuity. It provides transparency, accountability, and traceability throughout the entire process, encompassing resource allocation, production, and the distribution of food.
- Community Development (6 o'clock position): This component emphasizes the empowerment of communities, particularly small-scale farmers, *asnaf* (eligible Zakat recipients), and other vulnerable groups. It seeks to improve social welfare, economic stability, and overall community well-being through targeted initiatives.
- Agrofood (9 o'clock position): This focuses on the management of the agrofood supply chain, promoting sustainable agricultural practices and fostering vertical integration. It ensures that every stage of food production and distribution is efficiently managed and fully transparent.

These core components are mutually reinforcing, establishing a robust foundation for the WVI Model. Once these elements are effectively interconnected, the subsequent operational and procedural layers of the model can be executed with greater efficiency and impact.

b) Circle Frame (Process Layers)

Each process layer within the WVI Model plays an important role in ensuring efficient and transparent management of the food supply chain. These layers include:

a) Asset Allocation and Funding (12 to 3 o'clock segment): At the initial stage, philanthropic assets such as Zakat, Sadaqah, Infaq, and Waqf are specifically allocated to support food security initiatives. The funds are directed toward projects that promote sustainable food access, with an emphasis on transparency in allocation and the efficient utilization of resources.

b) Food Production and Supply (3 to 6 o'clock segment): Waqf-derived resources are employed to facilitate food production and supply through vertical integration. This entails comprehensive management of agricultural processes, including collaboration with small-scale farmers, cooperatives, and local agricultural entities, to ensure sustainable production and distribution of food.

c) Distribution and Market Access (6 to 9 o'clock segment): The model improves direct market access by reducing dependence on intermediaries. This promotes a more efficient distribution system, ensuring that local communities and vulnerable groups, such as *asnaf*, benefit from equitable market opportunities.

d) Monitoring and Reporting (9 to 12 o'clock segment): Continuous monitoring and reporting mechanisms are applied at each stage of the supply chain. The collected data supports informed decision-making, ensures that Waqf projects achieve their intended food security outcomes, and guarantees the efficient allocation of resources.

c) Start Button (Pilot Phase)
This element represents the Pilot Phase, symbolizing the initial launch of the model's implementation. The project seeks to provide economic empowerment to the community, particularly targeting asnaf, vulnerable populations, and small- and medium-scale farmers. These groups are expected to benefit through enhanced employment opportunities, increased income, and improved access to markets.

d) Mode Button (Targeted Focus Areas)
This component represents the Targeted Focus Areas within the model, signifying its capacity to adjust and prioritize interventions. The WVI Model emphasizes regions susceptible to food security challenges, demonstrating its ability to mobilize Waqf assets strategically to address high-risk areas.

e) Stop Button (Effectiveness and Sustainability)
This element symbolizes the end goals of effectiveness and sustainability. The WVI Model is designed to generate long-term, positive impacts through:

- Sustainable and Inclusive Well-being: Benefits from the model are intended to be enduring, encompassing the entire community in an equitable manner.
- Return of Benefits: In alignment with the objectives of Zakat, Infaq, Sadaqah, and Waqf, the model seeks to deliver tangible returns to society, both materially and socially.

In summary, the WVI Model presents a holistic approach to enhancing food security by integrating Islamic economic principles with vertical integration strategies, thereby creating sustainable and inclusive benefits for the community.

4.3.3 Conclusion

In conclusion, the Waqf Vertical Integration (WVI) Model presents a transformative and holistic perspective for addressing the persistent and complex challenge of food security through the powerful, yet underutilized, instrument of Islamic social finance. The model emerges from a critical recognition that the core issue of food insecurity is not merely a deficit in production but a systemic failure within the agri-food supply chain, characterized by fragmentation, exploitative intermediaries, post-harvest losses, and a lack of transparency, which collectively depress farmer incomes and inflate consumer prices. The WVI Model directly confronts these inefficiencies by proposing a synergistic fusion of the timeless ethical capital of Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) with the modern strategic business approach of vertical integration. This confluence creates a self-reinforcing ecosystem designed for sustainable and inclusive impact. At its core, the model is powered by ZISWAF assets, which provide the patient, ethically grounded capital necessary for long-term investment in agricultural infrastructure, bypassing the short-term profit motives of conventional finance. This capital is strategically deployed to vertically integrate the entire food supply chain—from production and processing to distribution and market access—under a unified, socially-driven management framework. This integration is the engine of efficiency, eliminating redundant intermediaries, reducing operational costs, ensuring transparency from farm to fork, and guaranteeing that a fairer share of the value reaches the primary producers.

Furthermore, the model is fundamentally anchored in the principle of community development, specifically targeting the empowerment of smallholder farmers, *asnaf* (Zakat recipients), and other vulnerable groups. By providing them with access to capital, advanced technology, fair markets, and capacity-building initiatives, the WVI Model transitions these communities from a state of dependency to one of economic agency and resilience. The operational layers of the model, encompassing asset allocation, food production, distribution, and rigorous monitoring, ensure that this empowerment is systematic, measurable, and scalable. The proposed integration of blockchain technology further fortifies the model by providing an immutable ledger for transactions and smart contracts, thereby enhancing trust among donors, ensuring compliance with Shariah principles, and providing real-time traceability that deters manipulation. Ultimately, the WVI Model transcends the conventional scope of food aid; it is a proactive, structural solution that builds a self-sustaining agri-food ecosystem. It aligns seamlessly with national food security policies and global Sustainable Development Goals (SDGs), particularly SDG 2: Zero Hunger, by not only ensuring stable access to affordable, high-quality, and *halalan tayyiban* food but also by actively generating community wealth, creating employment, and reducing poverty. By leveraging the perpetual nature of Waqf to build an integrated, efficient, and equitable food system, the WVI Model offers a visionary pathway toward achieving lasting food sovereignty and shared prosperity, fulfilling the higher objectives of Shariah (*maqasid al-Shariah*) in promoting social welfare and economic justice.

4.4 Integration of Islamic Social Finance Agricultural Contracts and Blockchain Technology: An Innovation in Waqf Crowdfunding

Financial technology has become one of the most widely adopted concepts in contemporary financial research. The prospects for the future of Islamic finance—particularly within the sphere of Islamic financial technology—are remarkably promising across Muslim-majority countries. The rapid expansion of mobile and smartphone technologies is among the key drivers accelerating the transformation of Islamic fintech. As the world moves deeper into the domains of the Internet of Things (IoT) and Artificial Intelligence (AI), blockchain technology positions itself as a technological revolution poised to reshape global systems. It embodies a decentralized framework that enables the execution of transactions at minimal cost while ensuring transparency and security through an immutable distributed ledger (Rejeb 2021).

In this context, the present study seeks to examine the integration of Islamic social finance instruments with blockchain technology, specifically through the application of smart contracts, to support agricultural entrepreneurs in expanding their agricultural ventures. Blockchain and smart contracts are emerging as a new framework for recording and managing business activities with minimal reliance on intermediaries. This new system is anticipated to deliver enhanced standards of governance at significantly lower costs compared to traditional technologies. Such advancements may assist Islamic social finance institutions, including Waqf entities, in overcoming longstanding challenges related to strengthening governance structures to ensure both Shariah compliance and economic efficiency (Abojeib and Habib 2021).

The primary objective of this study is to ascertain how blockchain technology, with its inherent advantages, can transform Waqf institutions through the utilisation of crowdfunding platforms. The adoption of blockchain and smart contracts can foster greater trust and confidence in Waqf management systems, as the flow of funds can be traced from the point of payment to the eventual beneficiary. Moreover, the technology's disintermediated nature facilitates faster, more efficient transactions, making it particularly suitable for the agricultural sector, where activities must adhere to strict, time-sensitive operational schedules.

4.4.1 What Is Blockchain?

Blockchain technology was developed to address the limitations associated with establishing public trust in digital environments (Bailon and Materum 2019). It functions as a digital ledger that cannot be altered once it has been distributed (Yaga et al. 2019). Fundamentally, blockchain involves the process of recording a distributed general ledger of all transactions that have been executed and validated through majority consensus within a network, after which these records are shared with all participating parties. Once stored, the information cannot be removed or erased (Crosby et al. 2016). As Sarmah (2018) emphasizes, blockchain is essentially the recording of transactional data that is distributed, authenticated, and maintained by a global network of computers. Based on these definitions, it may be concluded that blockchain is a technology that centralizes data for distribution across networks while relying on robust security mechanisms capable of fostering trust among stakeholders engaged in long-term projects or collaborative ventures.

Blockchain systems are generally categorized into two types: permissionless and permissioned. Permissionless blockchains—also referred to as public blockchains—represent decentralized ledger platforms that allow any participant to publish blocks without requiring authorization from any central authority. In contrast, permissioned or private blockchains operate under the control of a single organization, where the right to publish blocks within the network is granted only to users authorized by designated authorities within that organization (Yaga et al. 2019). Additionally, a further category exists under permissioned systems known as consortium blockchains, which are administered by a group of organizations rather than a single entity, as seen in strictly private blockchains (Adam-Kalfon et al. 2017). A final variation is the hybrid blockchain model, which is controlled by one organization but incorporates a degree of oversight characteristic of public blockchains, particularly for the verification of specific transactions (Kathleen and Eugenia 2021).

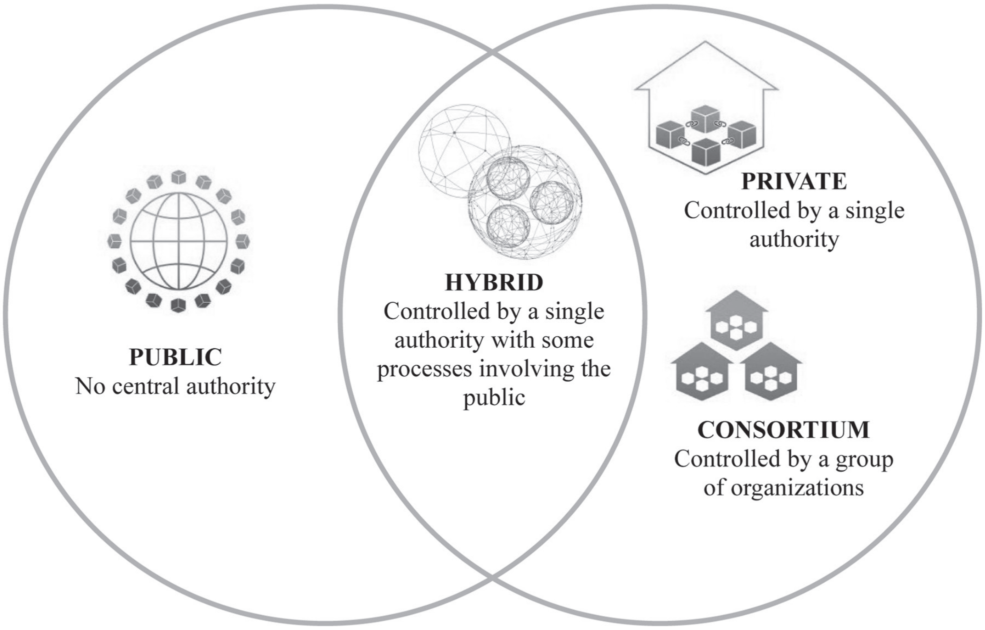

Figure 4.5 Blockchain Categories
Source: Kathleen and Eugenia (2021)

Blockchain represents a form of disruptive technology that brings significant benefits. Broadly, Christensen characterizes disruptive technology as a novel procedure that replaces existing, well-established technologies in the market with the aim of enhancing current products, while simultaneously creating more robust new industries (Utterback and Acee 2005). In this regard, when viewed through the lens of financial technology, it refers to innovations designed to generate new market networks and value systems. Nevertheless, such innovation inevitably challenges traditional financial market structures and has the potential to displace existing firms, financial institutions, or established business arrangements.

The principal advantages of blockchain are threefold. First, its decentralized framework removes the need for a centralized database, enabling the system to operate with high efficiency and low cost. This structure also renders it resistant to disruptions that typically affect centralized databases. Second, blockchain resolves the issue of double spending. By employing a public ledger shared by internet users, the system ensures security, transparency, and data integrity, all of which are protected from manipulation or falsification; this, in turn, safeguards user privacy and data security (Zyskind et al. 2015). Third, blockchain is programmable, thereby enhancing flexibility and reliability across diverse applications (Pilkington 2016). However, blockchain systems require substantial energy consumption for computational processes, a necessity that supports the wide distribution of data (Swan 2015).

4.4.2 Integration of Crowdfunding with Blockchain

Crowdfunding, as a form of social financing in the contemporary technological era, represents a significant advancement in mobilising funds rapidly through the internet for individuals in need or to support specific projects. This study seeks to explore how the benefits of crowdfunding can be optimised without interference from self-interested parties who may manipulate public contributions for personal gain, as well as to address issues of non-transparency. It also aims to examine how Waqf institutions can cultivate public trust in the crowdfunding platforms they utilise, particularly when these platforms involve the handling of monetary transactions. So, the application of blockchain technology within crowdfunding platforms is anticipated to ensure the security and transparency of data in every transaction, thereby preventing project falsification undertaken for personal advantage.

At its core, blockchain is an open and transparent model that reduces uncertainty between parties engaged in value exchange. This quality makes it highly suitable for systems involving public participation, particularly in the present time, such as crowdfunding initiatives. Although blockchain is not yet a universally mainstream technology, it holds considerable potential to enhance operations that require crowdfunding as a key financial resource, especially within Waqf institutions. Crowdfunding fundamentally depends on the trust between contributors and fund recipients. To eliminate any form of doubt or to strengthen mutual confidence regarding the utilisation of funds, blockchain technology provides a compelling solution. Its security advantages stem from its nature as a ledger that records transactions openly and operates using a decentralized database that bypasses third-party intermediaries while being distributed across global networks.

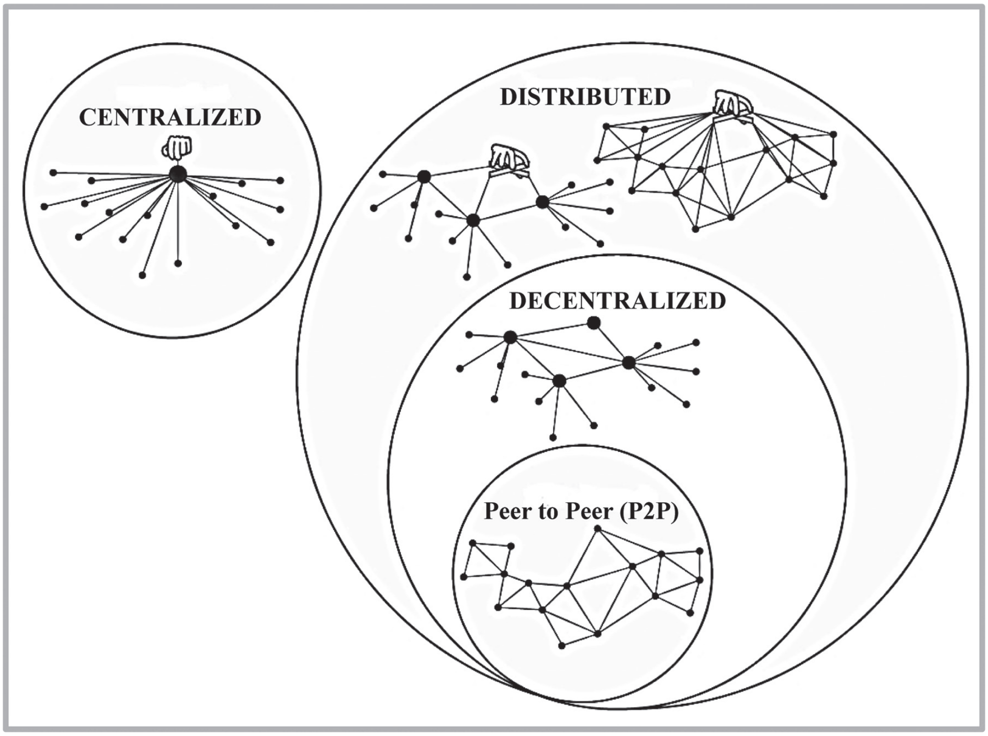

Figure 4.6 Decentralized Transactions in Blockchain Technology

By utilising blockchain technology with its decentralized transaction structure, crowdfunding platforms become significantly easier to verify and audit, as transactional data are disseminated to all participants. This distributed visibility allows every contributor to track the progress of their financial support and ensure that their funds are channelled appropriately. Crowdfunding is employed for a wide variety of purposes, ranging from fundraising activities to the subsequent distribution of funds, such as in natural disaster management, start-up development, scientific research, or enhancing commodity production within the agrifood sector. As crowdfunding continues to grow rapidly, several operational models have emerged, including donation-based crowdfunding, reward-based crowdfunding, and equity-based crowdfunding.

Donation-based crowdfunding is designed for charitable activities supported by the public to fund projects or initiatives that do not seek profit, such as providing disaster relief (Hossain and Oparaocha 2017). Reward-based crowdfunding, in contrast, involves project creators offering a material incentive to contributors, whereby each donor receives a non-financial reward such as vouchers, tickets, or similar tokens of appreciation (Cox and Nguyen 2017). Equity-based crowdfunding extends this concept further by allowing public supporters to fund a business in exchange for equity, enabling investors to acquire ownership interests in the company in the form of shares or share-like agreements involving profit-sharing arrangements (Bradford 2012).

Blockchain technology offers a means to reduce several problems commonly encountered in crowdfunding and the traditional banking system. For example, fundraisers may issue their own shares or develop smart contracts that automatically dissolve an agreement in the event that the funding target is not met. This mechanism enables project initiators and crowdfunding shareholders to register their rights securely and at lower cost (Zhu and Zhou 2016). Table 4.2 summarises the distinctions between traditional banking and the ways in which blockchain technology can address issues within crowdfunding.

Table 4.2 How Blockchain Can Compete with Traditional Banking and Support Crowdfunding

Aspect	Traditional Banking	Blockchain
System Efficiency Constraints	• Complex transaction flow processes • Multiple intermediary links	• Distributed ledger • Automated processes • Disintermediation
Fund Management Security	• Reliance on a central trusted authority • Complex procedures for transactions and equity transfers	• Peer-to-peer (P2P) transmission • Uniqueness of transactions and equity transfers
Cost	• High operational and transactional costs	• Lower costs
Transaction Speed	• Centralized data management • Outdated and lagging processes	• Decentralized data management • Time-stamped transactions verified in near real time
Operational Risk	• Asymmetric information leading to adverse selection and moral hazard • Susceptibility to double spending	• Use of encrypted coding • Transparent transactional environment

Sources: Guo and Liang 2016; Niforos et al. 2017; Zhu and Zhou 2016

Blockchain platforms offer a wide range of advantages to crowdfunding-based financial technologies. Among the key benefits are the following:

a) Token System

Tokens represent tradable assets or utilities that carry exchangeable value and exist on their own blockchain infrastructure. While tokens are frequently used to raise funds through public sales, they can also function as substitutes for various other items. These tokens are typically created, distributed, sold, and circulated through an Initial Coin Offering (ICO) process. In such contexts, asset tokens operate as an independent form of currency or as rewards, thereby enabling organisations to hire additional professionals, particularly in areas such as marketing and advertising (Choudary 2021).

b) Availability and Authenticity of Information

Through blockchain, identity management systems that grant users full control over their personal data can be developed, thus preventing identity theft and money laundering (Niforos et al. 2017). Furthermore, the introduction of blockchain-based voting systems allows the public or even shareholders to participate in corporate governance in a cost-effective and efficient manner (Zhu and Zhou 2016). Choudary (2021) also notes that individuals who invest in crowdfunding using blockchain technology experience enhanced safety, as fraudulent activities are unlikely; investors receive their ownership rights or fractional shares of the venture immediately.

c) Smart Contracts
Smart contracts are user-defined programs or distributed databases that operate on a blockchain and record all transactions, enabling the execution or enforcement of agreements between two or more parties within the network (Sadiku et al. 2018). Through smart contracts, all changes made within an agreement can be easily tracked, thereby allowing regulators to identify any fraudulent behaviour (Niforos et al. 2017; Zhu and Zhou 2016).

4.4.3 Islamic Social Finance Ecosystem

The Islamic social finance ecosystem encompasses a set of specialised instruments that can be strategically mobilised to generate substantial economic impact. Grounded in mutual benefit and philanthropic values, Islamic social finance is characterised by mechanisms such as Zakat, Sadaqah, and Waqf, as well as cooperative arrangements that include *qard*, a benevolent loan extended reciprocally among individuals (Jouti 2019). These Islamic social finance instruments hold significant potential in addressing socio-economic challenges by reducing poverty, creating employment opportunities, lowering unemployment rates and economic disparities, strengthening equitable wealth and income distribution, supporting justice and social equity, promoting financial inclusion, and advancing holistic human development.

The Islamic social finance ecosystem comprises social finance providers, enterprises, and a broad spectrum of stakeholders who participate in, contribute to, influence, or are influenced by social investment activities. The primary aims of this ecosystem, as outlined by Varga and Hayday (2016), include:

- Connecting all participating individuals to enhance the overall effectiveness of the system.
- Cultivating an enabling environment that facilitates the establishment of new social enterprises through comprehensive legal and regulatory frameworks, along with adequate availability of financial instruments.
- Supporting existing social enterprises throughout their operational chains by providing appropriate regulations, financial instruments, and advisory services.

The Islamic social finance ecosystem consists of four principal actors: social welfare institutions, social finance providers, social ecosystem coordinators, and beneficiaries. Each of these entities fulfils a distinct role in conceptualisation, implementation, coordination, financing, and sustaining the broader ecosystem. This structure is crucial to ensure that all stakeholders remain interconnected within a single, coherent ecosystem, enabling social welfare institutions to work collaboratively in launching complementary initiatives (Jouti 2019). The overarching objective is to generate more tangible and far-reaching impact across society, particularly in ensuring continuous financial support for the Islamic social finance ecosystem and, most importantly, for vulnerable communities. This goal can be effectively achieved through blockchain technology, which links actors across the ecosystem through end-to-end digital connectivity.

Islamic public crowdfunding represents one of the viable mechanisms for strengthening this ecosystem by linking investors or funders with enterprises requiring financial support through profit-sharing (*mudarabah*) arrangements, interest-free Islamic social finance products, and services. So, the operational design of financial technologies must align with Shariah principles to ensure that Islamic social finance instruments are fully leveraged to achieve their intended social and ethical impact while maintaining compliance with Islamic financial norms. Within blockchain technology, the use of a publicly distributed ledger to monitor operations offers substantial benefits by enhancing efficiency and transparency for Islamic social finance institutions. In doing so, it mitigates issues of information asymmetry, fraud, and distrust among actors. It also reduces operational ambiguities and uncertainties within business models across the Islamic economic ecosystem (World Bank Group 2020).

4.4.4 Blockchain and the Management of Islamic Social Finance

Blockchain refers to a continuously expanding sequence of blocks, where each block records transaction data, timestamps, and the cryptographic hash of the preceding block (Nakamoto 2008). This structure renders the blockchain inherently resistant to modification, ensuring that all recorded transactions can be readily traced (Abu-Bakar 2018). Such characteristics are essential for institutions managing Islamic social finance, as they promote fairness, enhance traceable transparency, and reinforce the integrity of transactions. By enabling verifiable and tamper-resistant records, blockchain technology can significantly strengthen trust in Islamic social finance operations, fund transfers, and contractual arrangements.

Dahdal et al. (2022) further affirm that, within the context of Islamic finance, blockchain technology offers a viable solution for addressing challenges that arise from ensuring continuous Shariah compliance.

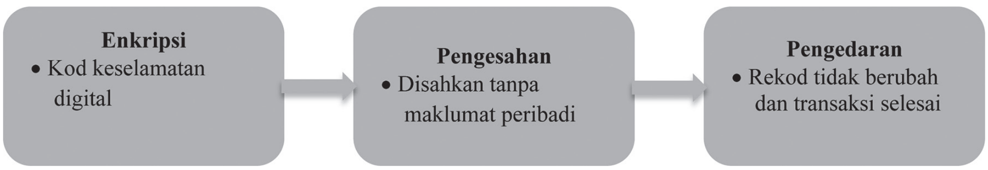

Figure 4.7 How Blockchain Facilitates Transactions
Data processed: Chang et al. 2020

The process of promoting transactions within a blockchain system begins with the creation of a digital security code through encryption. The second step involves users verifying the transaction while maintaining the confidentiality of personal information. Finally, the transaction is permanently recorded and automatically distributed to all users within the network (Chang et al. 2020).

Several previous studies have suggested that blockchain technology can enable financial institutions to save at least USD 20 billion in cross-border payments, regulatory compliance, and settlement costs (Fanning and Centers 2016). Rabbani et al. (2020) assert that integrating blockchain with existing financial technologies has reduced outstanding reconciliation issues by 80%, shortened close-of-business (COB) processing time by 50%, and enhanced operational efficiency by as much as 99%. This view is further supported by Alidin et al. (2018), who examine current challenges faced by Islamic financial services and highlight the benefits of adopting blockchain within the sector, illustrated through the integration experience of trustworthy individuals, *sadiqin*, with blockchain technology.

However, integrating blockchain with existing financial management systems is far from straightforward. Efforts are currently underway to merge existing digital frameworks with blockchain technology through the support of third-party software (Alidin et al. 2018). Such efforts may provide a new direction for leveraging blockchain to improve the administration of Islamic social finance and enhance Islamic social financial services, ensuring stronger alignment with Shariah principles.

4.4.5 Smart Contracts

Szabo (1997) describes smart contracts as systems that integrate protocols with user networks to formalise and secure relationships through computer-based infrastructures. The objectives and design principles of such systems are derived from legal theory, economic theory, and reliable and secure protocol theory. The purpose of a smart contract is to fulfil all the requirements of a conventional contract while minimising the need for intermediaries. Additionally, smart contracts aim to reduce losses arising from fraud, minimise human error, and lower transaction costs (Rahim et al. 2018). They are also intended to accelerate transaction processes and maximise transparency.

Compared to traditional contracts, which exist in physical paper form and are susceptible to opacity, fraud risks, and delays, smart contracts present a more effective alternative. While these issues can be mitigated through financial intermediaries, such solutions typically incur substantial costs (Cant et al. 2016). Moreover, smart contracts are far more difficult to alter than traditional contracts, providing contracting parties with significant advantages: they can rely on the conditions encoded in the smart contract—namely, the transactional protocol—to be executed automatically without requiring judicial intervention (Woebbeking 2019). Altay and Motawa (2020) further compare smart contracts with traditional contracts and highlight seven core advantages of smart contracts: streamlined payments, enhanced cooperation and trust, cost and time savings, reduced error probability, effective archiving, improved backup and security features, and prevention of insolvency.

The figure below illustrates the framework of a smart contract system. Each contract is assigned a unique address comprising 20 bytes. Once deployed onto the blockchain, the contract's code becomes immutable. To execute the contract, users send a transaction to the contract's address. This transaction is then processed by every consensus node (known as miners) within the network to reach agreement on its output. The contract is subsequently updated accordingly. Smart contracts can read from or write to their private storage, storing funds within their account balances, and sending or receiving messages. They can also transfer or accept funds from user accounts or from other contracts, depending on the nature of the transactions received (Alharby and Moorsel 2017).

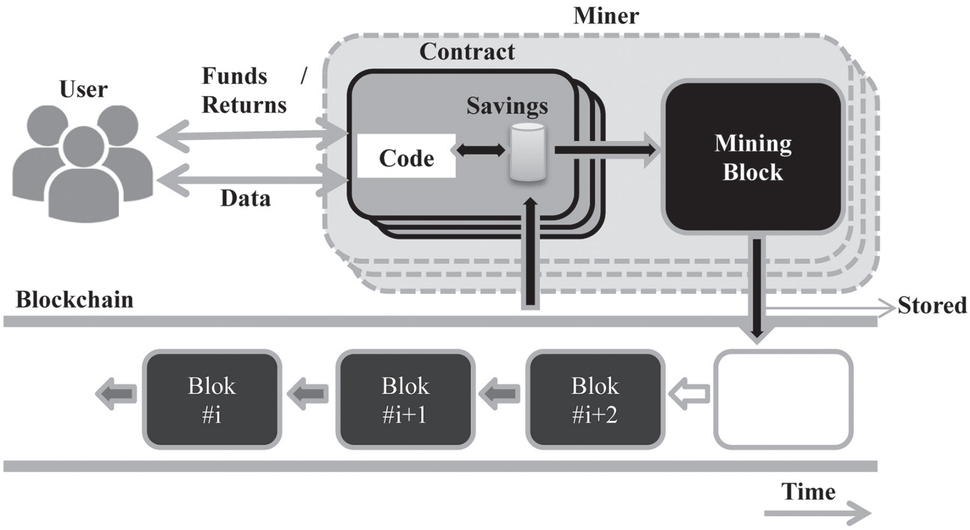

Figure 4.8 Smart Contract System
Source: Alharby and Moorsel (2017)

Buterin (2014) also discusses the algorithm employed by nodes within a blockchain to verify the validity of a block. For a block to be considered legitimate and secure, it must reference the preceding block, possess a digital timestamp that is greater than that of the previous block, and be generated within a period of less than two hours, in addition to containing valid proof-of-work.

There are two categories of smart contracts: deterministic and non-deterministic smart contracts (Morabito 2017). A deterministic smart contract is one that, upon execution, does not require any external information from outside the blockchain. In contrast, a non-deterministic smart contract depends on external inputs—referred to as oracles or data feeds. For instance, within the agricultural sector, a contract that requires real-time weather information during execution cannot function solely on blockchain data if such information is not already embedded within the chain.

According to Wintermeyer and Basit (2017), the use of smart contracts as substitutes for conventional financial contracts could reduce financial service costs by up to 95%, potentially revolutionising Islamic banking. Moreover, smart contracts can serve as reliable mechanisms for a wide range of financial transactions, enabling monitoring and regulatory processes to be significantly reduced or automated by simply encoding the contract—without relying on other financial institutions (Lacasse 2017).

In summary, the emergence of smart contracts offers an alternative capable of dispelling public ambiguities concerning projects or campaigns hosted on crowdfunding platforms. The automated nature of these contracts ensures that breaches of trust or operational errors are prevented, thereby safeguarding all contracting parties from potential losses. Blockchain technology also enables the digitisation of physical assets and property rights, validated through decentralised peer-to-peer (P2P) transactions between investors and enterprises for donation or funding purposes. So, the utilisation of blockchain technology within crowdfunding platforms represents a viable solution for enhancing the efficiency and governance of Waqf-based agrifood institutions.

4.4.6 Research Analysis: Islamic Social Finance Agricultural Contracts Through Smart Contracts

A substantial body of prior research has examined various structures and financial instruments designed to address the needs of smallholder agricultural entrepreneurs, creating opportunities for them to expand their enterprises and contribute to national food security initiatives. Most of these structures and instruments aim to provide financial support and enhance farmers' access to financial services, enabling them to make profitable investments and improve their productivity. Nevertheless, only a limited number of entrepreneurs obtain access to financial loans, primarily because many lack collateral. The agricultural sector is also vulnerable to excessive rainfall and climatic uncertainties, placing farmers in the category of high-risk investments (Azganin et al. 2021).

Therefore, to address the financial constraints and funding challenges faced by farmers, there is a need for a model or crowdfunding platform that ensures security, minimises opportunities for misuse, guarantees accuracy of information, and complies with Shariah requirements. Investors are unlikely to commit funds if the projects or campaigns presented to them lack clarity of purpose. Hence, detailed and transparent information—such as the nature of the social activity, target beneficiaries, expected returns, and associated risks—must be communicated clearly. In this study, the proposed model incorporating a crowdfunding platform integrated with smart contracts is identified as suitable for meeting the criteria of an effective crowdfunding mechanism. The integration of various stakeholders within this platform, including investors, entrepreneurs, and regulatory authorities, also fosters collective responsibility in addressing capital deficiencies and financial resource shortages within the agricultural sector. The model is illustrated in the figure below.

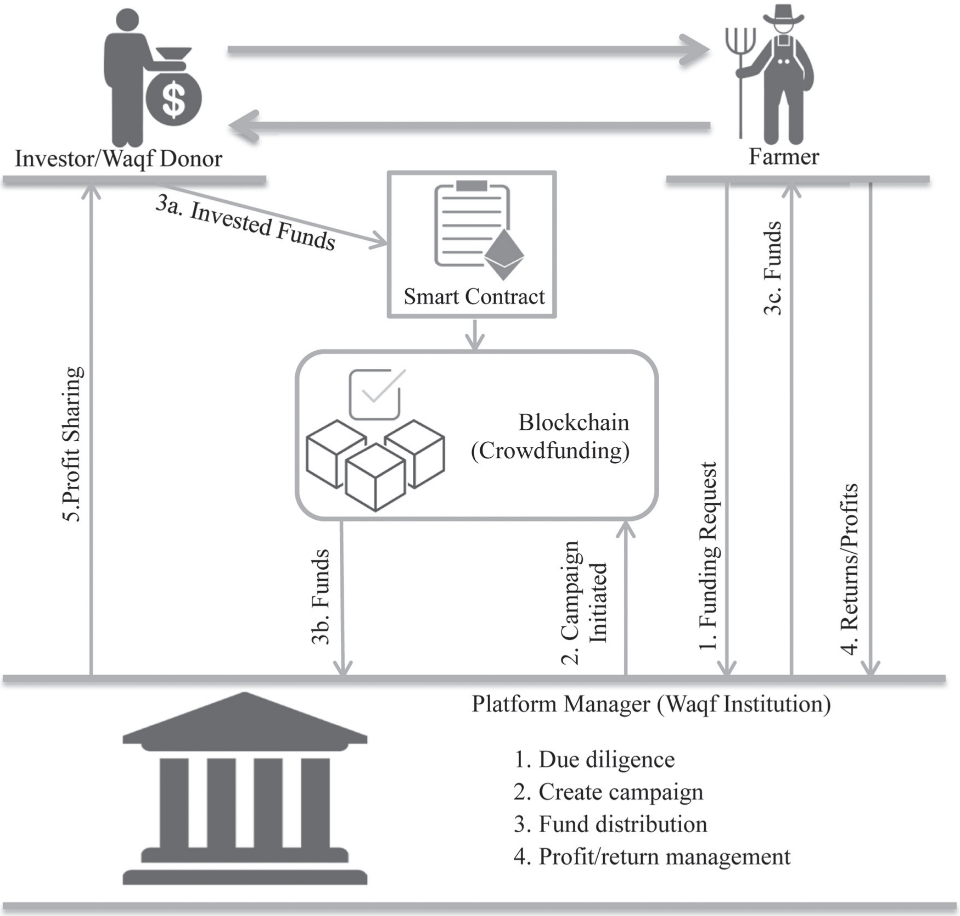

Figure 4.9 Waqf Crowdfunding Platform with Smart Contracts on Blockchain
Source: Adapted from Azganin et al. (2021)

Islamic social finance agricultural contracts function as mechanisms that connect fund providers with recipients, whereby financing is extended to support agricultural projects or developmental plans based on mutual agreement between the two parties—whether in the form of investment, profit-sharing, or donations. Through crowdfunding as an alternative modality for Islamic social finance, and with the support of smart contracts on blockchain technology, transactions and record-keeping between parties become significantly more efficient and reliable.

The figure above illustrates the smart contract embedded within the crowdfunding platform. Based on this model, the following describes its operational modalities:

1st) Provision of the blockchain-based platform.
A blockchain platform is made available for agricultural entrepreneurs and farmers wishing to showcase their agricultural projects. All communication between stakeholders occurs through this platform. Farmers must complete an online form that includes business information and detailed project descriptions. To safeguard investor interests, the platform manager must undertake due diligence procedures and ensure that the project's business plan is structured and coherent enough to meet its intended objectives.

2nd) Project submission and screening.
Once the platform manager receives comprehensive project information—such as content, images, videos, and strategies—from the agricultural entrepreneur, the project undergoes a due diligence evaluation. Agricultural enterprises that successfully meet the required criteria are then granted the right to promote their applications on the platform. Approved projects are subsequently displayed for public viewing and investment.

3rd) Investor onboarding and smart contract activation.
The first step in this stage is the collection of necessary documents for conducting Know Your Customer (KYC) procedures in compliance with anti-money laundering regulations.

a) Investors who successfully pass the KYC process may proceed with their investments by transferring funds through the online mechanisms provided. Smart contracts perform multiple functions at this point, streamlining the transaction process and facilitating accurate record-keeping. Various Islamic social finance contracts applicable to the agricultural sector—such as *musaqah*, *muzara'ah*, *mukhabarah*, and *ijarah*—may be embedded within smart contracts (Mohamed and Shafiai 2021). Smart contracts also act as digital tokens that reflect the amount invested (Azganin et al. 2021). All investment information and transaction details are stored within the smart contract and fully decentralised across the blockchain database.
b) The platform manager receives the funds from investors.
c) The platform manager disburses the funds to the agricultural entrepreneur. At this point, several agreements must be signed between investors and the entrepreneur to clarify rights and obligations, thereby providing protection for both parties.

4th) Project implementation and monitoring.
The agricultural entrepreneur utilises the funds and manages the project under full operational oversight. Periodic outputs or profits are transferred to the platform manager's bank account, and regular updates regarding project progress are shared with investors.

5th) Profit distribution and exit options.
Ultimately, profits and capital are distributed—either periodically or in a lump sum—to investors. Participants are then given a choice to reinvest in other projects or exit the investment entirely.

4.4.7 Benefits of Integrating Islamic Social Finance Contracts with Smart Contracts on the Blockchain

4.4.7.1 Strengthening Fund Management

One of the main reasons institutions fail to operate effectively is their inability to identify the whereabouts of funds or determine how those funds have been utilised. This typically stems from weak or unsystematic fund management. Through the transparency and reliability offered by blockchain technology, institutions can verify the funds received and track how those funds are allocated through embedded smart contracts. Blockchain and smart contracts provide a new system for record-keeping and management that reduces reliance on intermediaries. This system is expected to offer a higher level of governance at significantly lower cost compared to traditional technologies (Abojeib and Habib 2021).

4.4.7.2 Ensuring a Trustworthy Environment

A study by Farooq et al. (2020) demonstrates that an environment lacking trust reduces investor or Waqf donor confidence. The primary reason for this issue is the absence of transparency in the processes of fund collection and distribution. So, smart contracts and blockchain serve as a solution, as they can detect unauthorized access to the network or data inconsistencies. Implementing smart contracts within a blockchain-based platform enables investors or Waqf contributors to know exactly where their funds have been transferred and for what purpose. Through blockchain, funds collected can be traced precisely, ensuring clarity regarding their usage. This results in processes that are traceable, auditable, and immutable qualities essential for sustaining a credible crowdfunding platform (Elasrag 2019).

4.4.7.3 Time Efficiency

Agricultural enterprises constitute a complex ecosystem shaped by numerous factors, with activities tied closely to seasonal schedules and external conditions. Such businesses require timely financing, especially for seasonal agricultural structures (Bogomolov et al. 2019). The absence of intermediaries and the use of smart contracts enable real-time payments for agricultural financial services, eliminating delays and reducing transaction costs and processing time (Tripoli and Schmidhuber 2018).

4.4.7.4 Connecting Investors/Donors and Farmers to the Network

Smart contracts have the capacity to directly link fund providers with beneficiaries. This is because cashflow transfers are executed entirely through algorithmic processes (Kabuye 2018). As a result, the need for traditional intermediaries such as banks is reduced; agricultural entrepreneurs requiring funds no longer need to physically visit financial institutions but can instead log into the Waqf institution's blockchain platform, submit funding requests, and upload project proposals. Moreover, peer-to-peer (P2P) mechanisms facilitate the matching of funders with fund recipients (Sa'ad et al. 2019). Through P2P integration, the platform connects agricultural entrepreneurs with investors or Waqf contributors while ensuring a clear understanding of the contractual agreement. P2P crowdfunding can serve as a catalyst for the future growth of Islamic finance, offering greater opportunities for small businesses to overcome financing gaps (Azganin et al. 2021).

4.4.7.5 Efficiency in Fund Transfers

The use of blockchain-based smart contracts reduces the complexity associated with payment processing and fund transfers to agricultural entrepreneurs. Smart contracts streamline payment procedures, enabling real-time fund transfers while ensuring accuracy and transparency. They also accelerate transaction settlement through autonomous verification (Lambert 2019). This allows farmers to receive funds immediately and carry out agricultural activities without delay—delays that could otherwise lead to crop failure or missed harvesting schedules.

4.4.7.6 Reducing Human Error

By employing smart contracts, all rules and procedures are automated through coded instructions, reducing unnecessary manual processes (Lambert 2019). Autonomous verification ensures accuracy through stringent and reliable algorithms. This mechanism also identifies potential errors, effectively eliminating human mistakes (Almakhour et al. 2020). Within a blockchain system, human error is minimized through built-in error-checking methods (Peter and Panayi 2016). According to Tarhini (2021), centralized systems often suffer from time inefficiencies due to excessive operations (thousands of daily transactions), necessitating extensive monitoring. This increases pressure on authorities, and manual monitoring often becomes inconsistent due to human error.

4.4.8 Conclusion

Public crowdfunding holds substantial potential both in the present and in the foreseeable future. Nevertheless, the transparency and public trust associated with crowdfunding platforms remain the decisive factors in determining the success of their implementation. Such requirements can be effectively addressed through the application of blockchain technology. Blockchain systems offer multiple advantages for financial technologies supporting crowdfunding within Waqf institutions in the agricultural sector, including the utilisation of token systems as standalone digital currencies or as rewards for investors, the availability and verifiability of accurate information, and the integration of smart contracts.

Furthermore, it is observed that smart contracts can play a significant role in Islamic banking activities, which typically rely on sequential fund transfers for verification and compliance processes. Managing, monitoring, and auditing these sequential transfers through conventional means often demands substantial costs and specialised expertise. Smart contracts, however, have the capacity to streamline these processes, enhancing their efficiency while reducing operational burdens. In addition, the automation inherent in smart contracts can minimise human error in the management of crowdfunding activities, thereby improving reliability and governance across the entire system.

4.5 Blue Waqf Framework for Blue Forest Sustainability

As an archipelagic and maritime nation, Indonesia possesses considerable potential in its marine and coastal resources. Among these resources, coastal forests have historically been undervalued. Commonly referred to as "blue forests," these ecosystems play a critical role in safeguarding coastlines against flooding and erosion. Beyond their protective function, blue forests support biodiversity and provide sustainable livelihoods for surrounding communities. There are five principal categories of blue forests: mangroves, salt marshes, seagrass meadows, rockweed, and kelp forests (Mutmainah et al. 2022). At present, mangrove forests represent the most extensive type of blue forest in Indonesia, with a total area of 3,364,076 hectares, indicating substantial untapped potential (Kementerian Kelautan dan Perikanan 2022). Mangrove ecosystems underpin local economies by sustaining fisheries, supplying food sources for various species, and maintaining coastal stability (Turisno et al. 2018). Economically, each hectare of mangrove forest is valued at approximately US$33,000–57,000 per year and sequesters carbon at rates five times higher than terrestrial green forests (UN Environment Programme 2017).

Communities can further enhance the economic value of mangrove forests through tourism, as the sector's rapid growth directly influences tourist arrivals and generates benefits for local economies. Despite this potential, mangrove forests in Indonesia face significant threats, with 700,000 hectares having been deforested (Indonesian Mangrove and Peat Restoration Agency 2022). Degradation occurs across both natural forests and cultivated ponds, primarily resulting from overexploitation without consideration for carrying capacity or the sustainability of coastal resources. The primary drivers of mangrove destruction include conversion to plantations, ponds, agricultural land, salt pans, settlements, industrial zones, timber extraction, mining, and natural disasters (Ilman et al. 2011). Without effective mitigation, the rate of mangrove forest degradation is expected to accelerate.

One viable strategy for mitigating this issue is the development of forest-based tourism, a model that has proven effective in conserving forest resources and biodiversity in Bangladesh while simultaneously generating income through ecotourism (Alam et al. 2010). Strengthening this approach requires active community engagement through Community-Based Conservation (CBC), an adaptive co-management framework that involves local communities, governmental agencies, and non-governmental organizations. This approach has been recommended for promoting mangrove conservation in both Malaysia and Indonesia (Kamariah et al. 2014; Purwanti et al. 2021), with communities participating through community-based ecotourism (CBE) models.

The CBE framework, as applied in Southern Thailand, has emerged as a key mechanism for advancing sustainable tourism while prioritizing community participation and empowerment (Suwanno et al. 2017). Ecotourism activities are instrumental in educating the public, protecting ecosystems, and conserving mangrove forests (Friess 2017). Given that local communities rely on mangrove forests for their livelihoods and possess Indigenous knowledge for their preservation, their involvement in conservation is essential (Eddy et al. 2016). Sustainable management of mangrove forests therefore requires ecotourism initiatives integrated with community participation. However, extensive damage resulting from land clearing and conversion to plantations, such as coconut farming, entails significant restoration costs. Initiatives to rehabilitate mangrove ecosystems and develop educational tourism programs require substantial investment, which cannot be shouldered solely by local governments (Purwanti, Susilo, and Lestariadi 2017). So, external financing and capital support are critical to ensuring the long-term sustainability of mangrove forests (ADB 2020).

The preservation of mangrove ecosystems aligns with Sustainable Development Goal (SDG) 14, which focuses on the conservation and sustainable use of marine resources, thereby enabling communities to fully benefit from these ecosystems (Mutmainah et al. 2022). Achieving this goal necessitates financing mechanisms to maintain mangrove sustainability. One viable option within the framework of Islamic social finance is Waqf, which can provide structured funding to mitigate mangrove forest destruction while advancing SDG objectives (Bakar et al. 2020; Budiman 2011). Waqf, traditionally understood as a religious endowment, also functions as a form of sustainable asset management or productive fund.

This paper seeks to propose an Islamic Social Finance-based funding model specifically for the blue forest sector, termed “blue Waqf.” Adapted from the concept of green Waqf, the blue Waqf model targets the conservation and restoration of blue forests, with particular emphasis on mangroves. By doing so, it aims not only to rehabilitate Indonesia’s mangrove ecosystems but also to generate tangible socio-economic benefits for local communities.

4.5.1 Overview of Waqf for the Environment

In the literature of Islamic economics, Waqf is defined as the endowment and management of certain assets for specific benefits, while prohibiting any use outside the designated purpose (Kahf 2003). Waqf is not limited to tangible property alone; it can also take the form of monetary endowments directed toward charitable or socially beneficial causes. As such, Waqf represents an Islamic financial instrument designed to provide sustained, long-term benefits to its beneficiaries, with primary emphasis on serving the broader community (Osman and Agyemang 2020). Over the past two decades, Waqf has increasingly focused on promoting socio-economic development. Three fundamental criteria underpin Waqf: perpetuity, irrevocability, and inalienability (Abbasi 2012).

These criteria demonstrate that Waqf functions as an Islamic social finance instrument capable of addressing the needs of both Muslim and non-Muslim communities. Its applications are diverse, including but not limited to education, healthcare, disaster relief, and poverty alleviation. In relation to environmental concerns, Waqf can be allocated as land for agricultural purposes or as financial resources for forest and ecosystem restoration. From a socio-economic perspective, Waqf can mitigate poverty arising from environmental degradation that affects livelihoods, such as those of fishermen, while also facilitating community access to education and healthcare programs. Accordingly, Waqf instruments aimed at environmental rehabilitation are categorized as green Waqf and blue Waqf.

Green Waqf represents a scheme designed to address and mitigate environmental challenges. The green Waqf framework leverages Islamic financial instruments to provide innovative solutions that contribute to sustainability objectives, including the reforestation of mangrove ecosystems. In contrast, blue Waqf constitutes a Waqf-based financing model focused on the preservation of marine ecosystems, encompassing blue forests as integral components of the marine environment (UN Environment Programme 2017). The restoration and sustainable management of mangrove forests necessitate financial mechanisms aligned with the marine economy, which can be supported through blue Waqf. By establishing a blue Waqf model, it is possible not only to maintain the long-term sustainability of marine environments but also to enhance the socio-economic resilience of communities living in proximity to these ecosystems (Thaker et al. 2022).

4.5.2 Waqf for the Environment and Its Impact on Sustainability

Islam places great emphasis on environmental preservation, viewing it as a divine commandment. So, Islamic teachings obligate Muslims to actively participate in protecting the environment and to exercise wisdom in its management. This principle is reflected in the Qur'an, particularly in Surah Al-Baqarah, verse 164, which highlights the intricate relationship between Allah (SWT) and the natural world:

> *"In the creation of the heavens and the earth, and the alternation of night and day, and the ships that sail the sea for the benefit of people, and the water Allah sends down from the sky, reviving the earth after its death and dispersing all kinds of living creatures therein, and the ordinance of the winds — these are signs for people of understanding."*
> Al-Baqarah (2:267)

Scholars note that the Qur'an contains 759 verses emphasizing the significance of ecology and environmental resources (Duh 2010). These verses serve as a foundational source for understanding environmental stewardship within Islam, underscoring the obligation of Muslims to protect nature from degradation, recognizing it as Allah (SWT)'s property and a divinely endowed gift. Accordingly, the concept of Waqf for environmental restoration, particularly for mangrove forests, is both doctrinally supported and socially applicable.

Waqf, as an Islamic philanthropic institution, holds significant potential as a primary instrument for environmental conservation. Historical evidence demonstrates that Waqf has been applied to environmental purposes on multiple occasions. For instance, Ismail Zuhdu Pasa donated plant seeds, timber, and 5,550,000 square meters of forest in 1885 (Foundations 2014). Further, Akhtar (1996) emphasized the vital role of Waqf in revitalizing land resources for reforestation, irrigation management, and the preservation of flora and fauna. Waqf can manifest as land endowed for specific purposes—such as agricultural research or public parks—or as financial resources supporting replanting and ecosystem restoration projects (Bagader et al. 1994).

The unique attributes of Waqf exemplify Islamic teachings on charitable bequests that serve not only societal welfare but also environmental protection. In Indonesia, numerous non-profit and Waqf-based initiatives actively contribute to environmental conservation, including tree planting and replanting, the construction of wells, and the provision of clean water sources (Budiman 2011). Additionally, forest conservation programs have been implemented to safeguard ecosystems (Ali and Kassim 2021). While these projects often rely on public support, they have yielded tangible benefits, including the provision of clean water and the protection of coastal environments, thereby sustaining fishermen's livelihoods by preserving marine resources.

In conclusion, environmental Waqf offers multifaceted benefits, encompassing ecosystem preservation, restoration, poverty alleviation, and broader community welfare (Budiman 2011). Moreover, Waqf aligns closely with the objectives of the Sustainable Development Goals (SDGs), the blue economy, and blue finance, providing the conceptual foundation for "blue Waqf" (Abdullah 2018; Listiana and Alhabshi 2020). Given Indonesia's position as the world's largest Muslim-majority nation and its high rate of charitable donations globally, the promotion of Waqf as a solution to contemporary environmental and social challenges is particularly relevant (CAF 2019; Listiana and Alhabshi 2020).

4.5.3 Proposed Model

Building upon the discussion in the previous sections, this paper proposes a blue Waqf framework as a strategic approach to addressing global challenges within the blue economy. The preservation and sustainable management of marine and coastal ecosystems require the collaborative efforts of multiple stakeholders, with the government assuming a central role as the primary custodian. Accordingly, the government bears a significant responsibility to identify and implement effective solutions, independent of political considerations (Guild 2020). It should be noted, however, that in certain countries, political dynamics may present challenges to the implementation of blue economy policies (Moravecz 2021).

The implementation of the blue Waqf framework involves several critical elements, including:

a. Political authority
b. Human resources
c. Technological capacity
d. Stakeholder commitment
e. Financial resources

This paper specifically focuses on a blue Waqf scheme centred on mangrove replanting. Mangroves, as essential components of marine forest ecosystems, provide both direct and indirect benefits. Indirectly, mangroves at Cengkrong Beach function as natural barriers against river erosion (physical benefits), absorb carbon dioxide, produce oxygen, and supply essential nutrients. The estimated economic value of these ecosystem services is approximately Rp. 567,531,598 per year, equating to Rp. 6,523,352 per hectare annually (Fattah et al. 2018). Direct benefits of mangroves include their contribution to tourism and the preservation of coastal resources (Purwanti, Susilo, and Lestariadi 2017). So, the blue Waqf mangrove replanting initiative has the potential to be replicated and scaled across other regions in Indonesia and internationally. Furthermore, the restoration of mangrove ecosystems enhances biodiversity, provides nursery habitats for fish and crustaceans, and contributes to carbon sequestration.

Environmental restoration through mangrove replanting generates significant social benefits. The mangrove forests can serve as managed ecotourism sites under local community stewardship. Additionally, local populations may derive income from productive activities such as mangrove crab fishing, general fisheries, crab and clam farming, mangrove tree nurseries, and the production of mangrove-based products such as fruit syrup. These activities present long-term economic value and potential for further development (Purwanti, Susilo, and Indrayani 2017). In this context, Waqf functions as an instrument that supports sustainable development while fostering collaboration across strategic sectors. Maximizing the potential of Waqf in such sectors can contribute to the achievement of sustainable development objectives and the enhancement of community prosperity.

Successful implementation of the Blue Waqf initiative requires the identification of diverse financing sources capable of supporting project activities. Potential funding may be drawn from Waqf endowments, Infaq contributions, or a combination of both. To ensure the program's sustainability, the Blue Waqf Framework should be integrated into the government's medium- and long-term national development plans. A government-affiliated Waqf institution, such as the Indonesian Waqf Board, would serve as the primary coordinator, with registered nazir institutions acting as co-managers where appropriate.

Public engagement and awareness are critical for the success of blue Waqf. A comprehensive campaign leveraging media, influencers, governmental agencies, environmental NGOs, and organizations such as Greenpeace is recommended. The active participation of local communities as social adaptors is essential, as they serve as intermediaries linking mangrove ecosystem preservation with blue Waqf management. Additionally, the implementation of Waqf management through blue Waqf should be supported by takaful or project guarantees to mitigate potential economic risks associated with mangrove replanting. Profits generated from the management of blue Waqf are to be distributed to the designated beneficiaries (*mawquf ‘alayhi*).

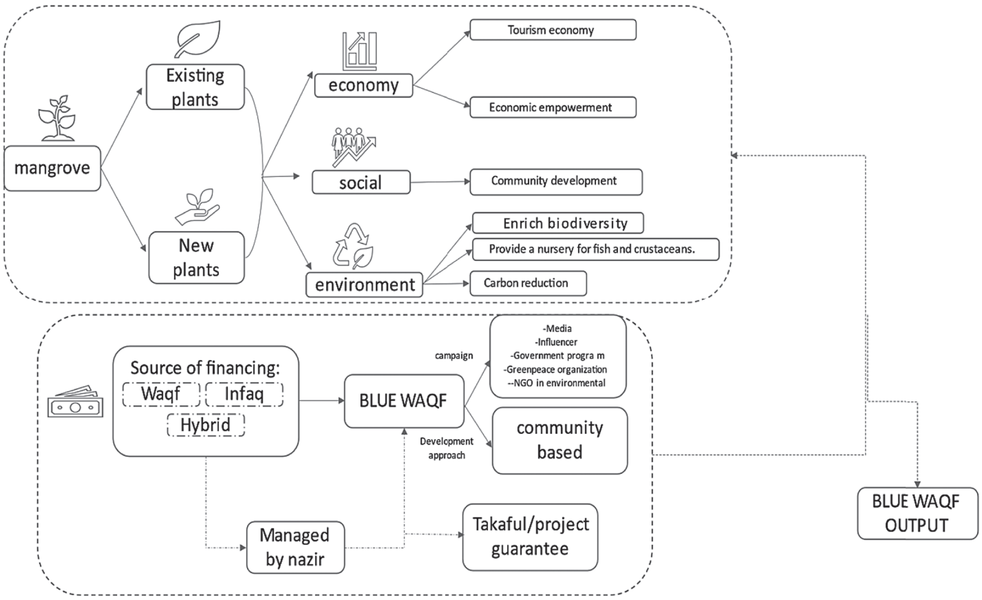

Figure 4.10 Impact and Ecosystem of Blue Waqf

4.5.4 Conclusion

This chapter introduces a framework designed to address the critical issue of declining blue forests, with particular emphasis on mangrove ecosystems in coastal regions. This situation is especially concerning given the ecological and socio-economic functions of mangroves: they serve as natural barriers against coastal flooding and erosion, provide habitats for diverse wildlife, and support sustainable livelihoods for local communities. The primary drivers of mangrove degradation are overexploitation and a lack of consideration for the carrying capacity and long-term sustainability of coastal resources. Such conditions are problematic and conflict with the objectives of Sustainable Development Goal 14, which emphasizes the conservation and sustainable use of marine ecosystems and resources to ensure communities can fully benefit from them.

Addressing these environmental challenges necessitates the active support and collaboration of both governmental authorities and local communities. Moreover, the financial requirements for restoring degraded ecosystems are substantial. The blue Waqf scheme offers a viable solution by providing funding in the form of land, mangrove seedlings, or cash contributions dedicated to replanting and rehabilitating mangrove forests. The successful implementation of this initiative has the potential to generate wide-ranging economic, social, and environmental benefits for the community. Nevertheless, the effectiveness of blue Waqf is contingent upon active government involvement as a regulatory authority. To mitigate the risks associated with project failure, it is also recommended that the programme be secured through takaful or equivalent risk-management mechanisms.

4.6 Conclusion to Chapter 4

At its core, this chapter goes beyond a discussion of Zakat and Waqf mechanisms; it articulates a new narrative of development for rural communities. It advocates for a fundamental perspective shift: from perceiving Islamic social finance merely as a temporary welfare tool to positioning it as a systemic framework for building economic sovereignty and social sustainability.

This transformation is achieved through the integration of three interrelated pillars. Strong institutions transition fund management from a passive distribution culture to a strategic impact-investment model. Technological innovation, particularly blockchain, is no longer optional but essential for cultivating the most critical currency in philanthropic institutions: trust. Finally, inclusion expands the scope of empowerment beyond income metrics, recognizing that genuine development entails harmonizing economic well-being, social stability, and ecosystem health.

The models highlighted—Agrofood Waqf Institutions, Vertical Integration, Smart Contract-Based Crowdfunding, and Blue Waqf—represent practical manifestations of this new perspective. Each is centred on empowering economically marginalized agents, whether smallholder farmers trapped in exploitative supply chains or coastal communities whose livelihoods depend on increasingly fragile ecosystems.

Overall, this chapter emphasizes that Zakat and Waqf constitute a unique form of capital: patient, ethical, and community oriented. These qualities render them particularly suited to addressing systemic failures that conventional market mechanisms or government fiscal interventions alone cannot resolve. By integrating the wisdom of these traditional instruments with modern governance frameworks and advanced technological solutions, the chapter offers not merely a set of policy recommendations but a visionary roadmap for a future in which the principles of Islamic social and economic justice underpin a truly successful and sustainable rural development model—fully aligned with the objectives of *maqasid al-Shariah*.

Part C

Chapter 5: Toward a Malaysian Model of Glocal Islamic Rural Development: Synthesis, Framework, and Future Pathways

5.1 Introduction: Why a Malaysian Model?

The preceding chapters of this book have collectively laid the historical, philosophical, institutional, and economic foundations necessary for reimagining the position of Islamic finance within the broader track of rural development in Malaysia. Across Chapters 1 to 4, we have observed a recurring tension between the conceptual aspirations of Islamic economics—rooted in moral economy, distributive justice, and the unity of social–spiritual purposes—and the operational realities of modern Islamic finance, which has evolved within a glocal context shaped by capitalist necessity, regulatory protocols, and the socioeconomic specificities of Malaysian society. As Malaysia enters a new developmental phase marked by global uncertainty, rural transformation challenges, and the intensification of glocal interactions, the time has come to articulate a coherent framework that positions Malaysia not only as a technical leader in Islamic finance but as a potential pioneer of a substantive, community-rooted Islamic rural development model.

This chapter, therefore, serves as the culmination of the book. It synthesises key insights from the earlier chapters while advancing a constructive, future-oriented proposal for what we may term the Malaysian Model of Glocal Islamic Rural Development. At this final stage of the manuscript, the question is no longer merely historical ("How did Islamic finance develop?"), philosophical ("What is the moral economy underlying Islamic economic thought?"), or diagnostic ("Why has Islamic finance not significantly transformed rural Malaysia?"). Instead, the central analytical question shifts toward the normative and strategic:

5.1.1 What Should a Malaysian Glocal Model of Islamic Rural Development Look Like, and Why Is Malaysia Uniquely Positioned to Formulate Such a Model?

Malaysia provides an intriguing, even paradoxical case. Unlike Iran, Pakistan, Sudan, or other jurisdictions that attempted wholesale Islamisation of the state apparatus and financial system, Malaysia pursued a distinctive pathway: gradual, pragmatic, and institutionally grounded. Rather than engineering a complete Islamic economic order, Malaysia constructed what may be described as an Islam-friendly capitalist developmental state—a structure that retains the core framework of market capitalism but overlays it with Islamic institutions, banking products, and governance standards. This hybrid formation has produced a financial ecosystem that is simultaneously modern, legally sophisticated, globally competitive, and yet symbolically anchored in Islamic legitimacy.

This hybridisation, however, also raises a critical question: Can a system that is primarily capitalist yet symbolically Islamic meaningfully contribute to the transformation of rural livelihoods in accordance with the ethical and socio-economic aspirations of Islamic economics? Chapters 2 and 3 demonstrated that Malaysia's Islamic finance industry, while globally celebrated, has been predominantly oriented toward urban middle-class asset financing, operating largely within the logic of financial deepening rather than socio-economic restructuring. Meanwhile, Chapter 4 illuminated the persistent structural vulnerabilities of rural Malaysia—ranging from agricultural underperformance to supply-chain distortions—issues that Islamic finance has not substantively addressed despite decades of institutional growth.

Yet, despite these shortcomings, Malaysia possesses a unique synergy that warrants a renewed attempt to articulate an Islamic rural development model. Several unique characteristics set Malaysia apart:

a) Institutional Capacity:
Malaysia has one of the most developed Islamic financial ecosystems in the world, with strong regulatory bodies, a comprehensive Shariah governance framework, and fully formalised Islamic institutions such as Zakat authorities, Waqf corporations, Islamic banking networks, Islamic capital market infrastructure, and halal governance systems.

b) Operational Experience in Islamic Finance:
Four decades of Islamic finance development have endowed Malaysia with a deep reservoir of technical expertise, market familiarity, and jurisprudential harmonisation—elements largely absent in many Muslim-majority countries.

c) Malay Social Capital and Communal Trust Structures:
The existence of traditional Malay communal institutions, *mushawarah* practices, mosques, surau networks, village leadership structures, and localised trust mechanisms creates fertile ground for Islamic economic instruments such as Waqf, Zakat, Infaq, and Salam partnerships, and cooperative models to be mobilised in rural contexts.

d) Dense Network of Rural Development Agencies:
Agencies such as FELDA, FELCRA, RISDA, MADA, LKIM, FAMA, and various state agricultural boards give Malaysia a level of institutional penetration into rural society that is unmatched in most Muslim countries. This provides both infrastructure and governance channels through which Islamic finance can be glocally embedded at the grassroots level.

These elements—Islamic financial sophistication, state developmental capacity, communal trust structures, and extensive rural development networks—combine to form a unique Malaysian synergy. It is precisely this synergy that makes Malaysia a strong candidate for articulating not merely an Islamic finance model, but a holistic Islamic rural development framework that is simultaneously rooted in local sociocultural realities and inclusive of global best practices. In other words, Malaysia has the ingredients to craft a genuinely glocal model: global in its Islamic finance expertise, local in its community engagement and rural sociological foundations.

The subsequent sections of this chapter will therefore build upon the preceding analyses to articulate a conceptual model for Malaysia. This model does not propose a utopian Islamic economic system, nor does it reject the capitalist structures within which Malaysia's Islamic finance has operated. Rather, it seeks to chart a middle path—one that harnesses Malaysia's existing institutional strengths, corrects its structural blind spots, and repositions Islamic financial instruments toward the real sectors, livelihoods, and socio-economic needs of rural communities.

Thus, Chapter 5 represents both a synthesis and a proposition. It is a synthesis in that it binds together the conceptual threads from Chapters 1 through 4—glocalisation, moral economy, institutional evolution, and rural vulnerabilities. It is a proposition in that it offers a forward-looking framework for policymakers, Islamic financial institutions, scholars, and rural development practitioners who are seeking a more substantive alignment between Islamic finance and the actual socio-economic conditions of rural Malaysia.

Ultimately, the question that animates this chapter is straightforward yet profound: If Malaysia cannot produce a meaningful Islamic model of rural development—despite its institutions, expertise, networks, and history—then where else in the Muslim world could such a model realistically emerge?

The Malaysian case thus becomes not merely a national inquiry, but a contribution to the global Muslim search for development pathways that embody the ethical, distributive, and spiritual aspirations of Islam while remaining grounded in contemporary economic realities. The remainder of this chapter will attempt to answer this challenge.

5.2 Synthesising Chapters 1–4: A Critical Glocal Reading of Malaysia

This section does not seek to recapitulate the detailed discussions of the previous chapters. Instead, it extracts the underlying themes, conceptual tensions, and structural patterns that emerge when the trajectories of Islamic thought, state-led Islamisation, institutional development, and rural transformation are read together through a glocal lens. A glocal reading recognises that Malaysia's Islamic finance ecosystem did not evolve in isolation, nor was it shaped purely by endogenous religious impulses. Instead, it emerged from the intersections of global capitalist modernity, national developmental agendas, scripturalist revivalism, bureaucratic Islamisation, and local socio-cultural structures. When viewed holistically, Chapters 1 to 4 reveal a persistent incongruity between Islamic economic ideals and actual socio-economic outcomes, particularly regarding rural Malaysia. This synthesis section brings these incongruities to the forefront, setting the stage for the Malaysian model proposed later in this chapter.

5.2.1 Philosophical Foundations, The Lost Moral Economy

Chapter 1 traced the intellectual and historical genealogy of Islamic economics, highlighting the post-colonial revivalist push to reconstruct an Islamic moral economy—one grounded in justice, reciprocity, stewardship, social solidarity, and a profound awareness of human accountability before Allah (SWT). Central to this intellectual revival were several foundational themes: the *maqasid al-Shariah* as the overarching ethical compass; *ijtihad*-driven reform as the epistemic engine of renewal; and the aspiration to build a holistic Islamic system that transcended the mechanistic, interest-driven logic of the capitalist financial framework. These ideals emerged not merely as theological abstractions but as responses to the socio-economic traumas of colonial extraction, post-independence inequality, and the alienation produced by rapid capitalist modernisation in Muslim societies.

Yet, the glocal Malaysian experience demonstrates a striking paradox. Malaysia succeeded in institutionalising Islamic banking and finance but failed to institutionalise the moral economy that underpins Islamic economic thought. While the infrastructure of Islamic finance expanded impressively—complete with Shariah boards, legislative frameworks, sophisticated products, and global recognition—the ethical anthropology envisioned by Islamic economists remained largely unfulfilled. The transition from theory to practice did not follow the transformative track imagined by pioneers like Siddiqi, Chapra, al-Najjar, or al-Faruqi, who saw Islamic economics as a comprehensive social project aimed at cultivating just markets, ethical consumption, and shared prosperity. Instead, Malaysia built an Islamic finance industry that is technically sophisticated, globally integrated, and legally robust—but only selectively reflective of the moral commitments embedded in Islamic economic ethics.

Part of this divergence is rooted in a deeper philosophical shift. The revivalist aspiration for an Islamic system was gradually eclipsed by the operational demands of a capitalist financial marketplace. As Malaysia entered global financial circuits, Islamic economics was reinterpreted through the lens of pragmatism, institutional feasibility, and market acceptance. *Ijtihad*, originally envisioned as a transformative socio-economic tool capable of reimagining property relations, reconfiguring financial contracts, and realigning economic incentives, shifted toward a narrower function: enabling the Shariah-compliant replication of conventional financial products. The creative, imaginative, system-building dimension of ijtihad gave way to *ijtihad for product engineering*, where the goal was not to construct a new economic order but to adapt existing instruments to satisfy Shariah criteria without unsettling the broader framework of financial capitalism.

Similarly, *maqasid al-Shariah*, which should have served as the teleological anchor of economic activity—guiding the pursuit of social equity, ecological stewardship, and community well-being—gradually migrated into the domain of institutional rhetoric. Rather than functioning as an operational benchmark for evaluating socio-economic outcomes, *maqasid* increasingly appeared in the form of mission statements, corporate vision slides, and regulatory speeches. The gap between the symbolic invocation of *maqasid* and its structural implementation widened over time, reinforcing the impression that *maqasid* had become a moral vocabulary rather than a governing principle.

This philosophical dilution was not simply an intellectual oversight; it was a structural effect of Malaysia's glocal positioning. The country pursued Islamic finance not within a vacuum but within the competitive logic of global financial capitalism. As a result, Islamic finance evolved within the same systemic incentives that drive conventional finance—profit maximisation, risk minimisation, regulatory conformity, and investor appeasement. Under such conditions, the moral economy envisioned by Islamic economic thought struggled to translate into policy, product design, or institutional behaviour.

The implications of this divergence are profound. The moral economy is not merely a set of ethical intentions; it is a framework that seeks to reorder the relationship between finance and society. Its absence meant that Islamic finance, despite its institutional triumph, had limited capacity to address socio-economic inequalities, structural poverty, and rural disenfranchisement—issues that Islamic economics was originally conceived to confront. The ethos of mutuality, solidarity, and distributive justice, central to Islamic thought, was overshadowed by the operational logic of balance sheets, cost-recovery mechanisms, and asset-liability matching.

Thus, the first major theme emerging from the synthesis of Chapters 1 to 4 is this: the philosophical foundations of Islamic economics were not substantively embedded into Malaysia's Islamic finance model. This forms the philosophical faultline upon which subsequent institutional, structural, and developmental contradictions rest. The disjuncture between moral economy and financial practice shaped not only how Islamic finance developed in Malaysia but also how it failed to meaningfully shape rural livelihoods—a theme that recurs throughout the remainder of this chapter.

5.2.2 Malaysian Islamization Track, Legalism without Social Transformation

Chapter 2 examined Malaysia's Islamisation journey, particularly under the Mahathir era, when Islamic symbols, institutions, and bureaucratic structures were integrated into state governance. Malaysia's approach to Islamisation was distinctive: incremental, technocratic, modernist in tone, and embedded within the nation-building agenda of a multi-ethnic developmental state. It was neither the revolutionary Islamisation of Iran nor the legal-judicial Islamisation of Pakistan; rather, it resembled a carefully curated synthesis of Islamic legitimacy and capitalist developmental pragmatism. In many ways, Malaysia's Islamisation was calibrated to stabilise the political economy, not to transform it.

The result was the construction of an impressive institutional framework: Shariah

Advisory Councils with internationally recognised jurisprudential expertise; comprehensive Islamic banking legislation; formalised Zakat collection and disbursement systems; evolving Waqf governance bodies; Islamic universities and think tanks; halal regulatory frameworks; and a bureaucratic apparatus capable of embedding Islamic norms within selected state functions. This framework has been widely praised for its institutional sophistication and regulatory clarity, positioning Malaysia as a global benchmark in Islamic finance and halal governance.

Yet, these institutional triumphs did not translate into a corresponding transformation of the material conditions of rural Malays. While the institutional apex of Islamisation grew in strength, complexity, and visibility, its socio-economic foundations remained essentially unchanged. The apparatus of Islamic governance became increasingly concentrated in urban centres, corporate environments, and policy-making institutions, with limited penetration into the rural economies where the ethical necessities of Islamic economics—justice, redistribution, mutuality, solidarity—were most urgently required.

This disconnect is not incidental; it is structural. Malaysia's Islamisation prioritised legitimacy and symbolism over distributive restructuring. Islamic institutions were positioned as markers of modern Islamic identity and as instruments of state legitimacy, but they were not designed to radically alter the underlying developmental model anchored in capitalist accumulation, export-led growth, and urban-centric economic planning. In this context, Islamic finance became a mechanism for expanding the financial sector rather than for reconfiguring rural livelihoods. Zakat institutions professionalised their operations but retained a largely welfare-oriented orientation rather than adopting transformative productive strategies. Waqf governance improved, yet Waqf assets were rarely mobilised to strengthen rural economic ecosystems.

This leads to the second underlying theme emerging from the synthesis: Malaysia exhibits strong Shariah governance but weak distributive impact. The legal–bureaucratic dimension of Islamisation thrived—characterised by procedural compliance, jurisprudential harmonisation, and institutional proliferation—but the socio-economic dimension stagnated. The framework of Islamisation became vertically strong but horizontally thin. It extended upward into global Islamic finance networks but extended weakly into rural agricultural systems, smallholder value chains, and community-based economic structures.

In other words, the Islamisation project became top-heavy: strong at the institutional level, weak at the societal level. Islamic norms became embedded in regulation, branding, and governance frameworks, but not consistently operationalised in the material economy. The moral economy principles outlined in Chapter 1—risk-sharing, distributive justice, self-sufficiency, and mutual assistance—remained philosophically affirmed but institutionally marginal.

This misalignment does not reflect a lack of religious sincerity or commitment among policymakers or institutions. Rather, it reflects a structural consequence of Malaysia's hybrid model, which sought to balance the pursuit of capitalist development with selective Islamic enhancements. The model prioritised stability, legitimacy, and competitiveness, leading to the institutionalisation of Islamic procedures without the transformation of economic structures. As a result, Islamic governance in Malaysia became more about ensuring that financial and bureaucratic practices conformed to Shariah criteria than about ensuring that economic outcomes aligned with *maqasid al-Shariah*.

Over time, this produced what may be described as a form of legalistic Islamisation—a mode of Islamic governance that emphasises compliance, standardisation, and procedural correctness, while leaving socio-economic hierarchies largely intact. Legalism, in this sense, becomes an end rather than a means toward social transformation. The success of Shariah governance frameworks is visible in banking halls, capital market reports, and corporate disclosures, but far less visible in rural supply chains, smallholder farms, fishing communities, and village economies.

In short, Malaysia's Islamisation track produced legalism without social transformation. This does not negate the achievements of Islamic institutions, nor does it diminish Malaysia's global leadership in standard-setting and regulatory excellence. Instead, it highlights the deeper structural misalignment between Malaysia's mode of Islamisation and the ethical, redistributive, and community-oriented principles of Islamic development thought as outlined in Chapter 1. It also highlights the central question of this chapter: whether Malaysia, despite this history, possesses the potential—through institutional reform, glocal adaptation, and strategic repositioning—to realign Islamic finance with rural development in a more substantive and transformative manner.

5.2.3 IBF Evolution, Financial Deepening for the Urban Middle Class

Chapter 3 further reveals the consequences of Malaysia's glocal position in the global Islamic finance industry. Malaysian Islamic finance developed primarily through the logic of financial deepening, not economic restructuring. The early dominance of *murabahah*, *bay' bi-thaman 'ajil*, *tawarruq*, and other debt-based instruments—and the ongoing reliance on asset-backed rather than risk-sharing modes—reflects a broader structural reality: the framework of Islamic finance in Malaysia was designed to integrate smoothly into the global financial order, not to disrupt or transform it. As a result, Islamic finance evolved as a parallel variant of conventional finance, serving similar market segments and pursuing similar forms of profit optimisation.

This evolution was neither accidental nor ideologically neutral. Malaysia's strategic aspiration to position itself as a global Islamic finance hub created a powerful incentive to prioritise financial stability, market competitiveness, and investor confidence. These necessary favoured products that were functionally equivalent to their conventional counterparts—both in pricing behaviour and risk allocation—were made possible because such instruments allowed Islamic banks to operate within established Basel-compliant risk frameworks, attract international investors, and align with global financial norms. In such an environment, equity-based and risk-sharing instruments, despite their ethical superiority from the standpoint of Islamic economics, were seen as commercially risky, administratively burdensome, and difficult to scale.

In practice, this meant that the market for Islamic financial products gravitated toward the urban middle class, who possessed the credit profiles, income stability, and asset portfolios that made them attractive clients for Islamic banks. Homebuyers, vehicle purchasers, salaried professionals, civil servants, and corporate clients became the central consumer base of the industry. This demographic profile shaped the industry's track: Islamic finance products increasingly mirrored the lifecycle consumption patterns of urban households and firms. Meanwhile, rural households, microenterprises, smallholder farmers, agricultural cooperatives, and informal-sector producers were not only peripheral to the industry—they were structurally excluded from its product design logic.

The consequences of this orientation are significant. The third major theme emerging from the synthesis is that IBF in Malaysia is structurally designed for urban, asset-holding consumers rather than rural, productive sectors. Islamic financial products became instruments for middle-class asset acquisition—housing, vehicles, education, personal financing—rather than catalysts for rural economic renewal. This transformation entrenched a banking culture where profitability was tied to consumer financing rather than productive investment, and where the risk-reward calculus favoured low-default, stable-income borrowers over small and medium rural producers whose incomes were volatile and structurally exposed to supply-chain vulnerabilities.

Moreover, the overwhelming dominance of debt-based financing has further deepened the disconnect between Islamic finance and the Islamic moral economy. Debt instruments, especially those based on *tawarruq*, replicate the risk asymmetries of conventional finance, transferring risk away from the bank and onto the borrower. This is antithetical to the spirit of partnership-based modes such as *musharakah* and *mudarabah*, which emphasise shared risk, shared responsibility, and shared prosperity. The marginalisation of these partnership contracts reflects not only commercial pragmatism but a deeper structural accommodation to global capitalist logics in which risk is priced, transferred, and insulated rather than shared.

So, the expansion of Islamic finance, while impressive in quantitative terms—asset growth, regulatory sophistication, global recognition—did not translate into developmental depth. Rural Malaysia remained an externality to its growth story. Financial inclusion may have improved in aggregate, but not in the ways that matter for rural transformation: the provision of risk-sharing mechanisms for small producers, financing for food system modernisation, capital for small-scale agro-processing, structured investment for integrated rural supply chains, or incentives for entrepreneurial diversification in village economies.

This absence is even more striking when viewed through the lens of Islamic economic theory. Instruments such as *salam* were historically designed for farmers; *istisna'* for producers; *mudarabah* for entrepreneurs; and *musharakah* for shared investment between capital and labour. Yet these instruments remain peripheral in Malaysia's Islamic financial landscape, confined to niche uses or certain corporate transactions rather than embedded in the institutional framework of rural development. The very contracts intended to operationalise Islamic economic justice are those least mobilised in the Malaysian experience.

Thus, the story of IBF evolution in Malaysia reveals a structural paradox: the stronger Islamic finance grew, the further it drifted from the real sectors and communities that Islamic economics originally sought to uplift. Islamic finance expanded within the financialised logic of modern capitalism, rather than transforming the productive structures upon which rural livelihoods depend. Rural Malaysia, therefore, stands not simply as a neglected sector but as a missed opportunity—a frontier where Islamic finance could most powerfully demonstrate its distinctiveness, but where it has thus far failed to do so.

5.2.4 Rural Malaysia, The Missing Frontier

Chapter 4 demonstrated that rural Malaysia continues to face a constellation of structural challenges: agricultural decline, rising dependency on imports, entrenched middlemen in supply chains, fragmented smallholder systems, limited productivity-enhancing investment, and demographic shifts characterised by youth outmigration and ageing rural populations. These issues are not merely economic inefficiencies; they are manifestations of a deeper structural imbalance between national development trajectories and rural socio-economic realities. The unevenness of Malaysia's developmental landscape—where urban centres experience high levels of financial inclusion, modernisation, and institutional penetration while rural areas remain trapped in cycles of low productivity and structural vulnerability—reveals a persistent dualism in the country's political economy.

When viewed through the lens of Islamic finance, rural Malaysia emerges as the missing frontier—the developmental terrain that Islamic finance has yet to meaningfully penetrate. Although Islamic finance has grown impressively in institutional strength, global visibility, and asset size, its presence in rural Malaysia is limited not by regulatory constraints but by a systemic disconnect between product design and rural economic realities. The structural issues of rural Malaysia are therefore not simply the result of market failures or outdated agricultural practices; they are symptomatic of a broader gap: Islamic finance has not engaged the real sector in ways consistent with its theoretical commitments.

Historically, Islamic financial instruments were constructed with rural economies in mind. Contracts such as *musharakah* and *mudarabah* were designed to support entrepreneurial partnerships; *salam* supported farmers by providing advance payment for future crops; *istisna'* supported craft producers and early-stage manufacturing; and *qard hasan* served as a social financial safety net. However, in the Malaysian experience, these instruments remain marginal—either confined to niche corporate uses, pilot programs, or specialised institutional arrangements. In mainstream Islamic finance portfolios dominated by *tawarruq*, *murabahah*, and other debt-based structures, the instruments most aligned with the needs of rural Malaysia are precisely the ones least utilised.

This mismatch reflects a fundamental misalignment: the most authentically Islamic instruments are the least commercially adopted, while the most commercially viable instruments are the least developmentally transformative. In effect, Malaysia's Islamic finance framework has grown upward into global markets rather than outward into domestic rural communities. This divergence illustrates how glocal Islamic finance—shaped by global market expectations and local urban consumer demands—gradually moved away from the productive and distributive objectives articulated in Islamic economic theory.

Moreover, rural Malaysia's economic structures require forms of financing that conventional Islamic banking models are ill-equipped to provide. Smallholder farmers operate on thin margins, face weather and price volatility, and often lack formal collateral—conditions that make them invisible to credit-scoring frameworks used by Islamic banks. Middlemen persist not only because of exploitative behaviour but because they provide the very services Islamic finance has not: liquidity, risk-sharing, informal guarantees, market access, and relational trust. From this angle, the dominance of middlemen is also a symptom of institutional absence—an absence that Islamic finance has not filled despite possessing the conceptual tools to do so.

Thus, the rural problem is not the absence of Islamic finance, but the absence of relevant forms of Islamic finance. The issue is structural: the institutional framework, governance processes, and product frameworks of Islamic finance have been designed with urban, salaried, asset-holding consumers in mind, not with small-scale rural producers, fishermen, agropreneurs, or cooperative networks. The consequence is a financial landscape where Islamic finance is abundant in cities but almost invisible in villages, abundant among middle-class consumers but scarce among agricultural producers, and abundant in balance sheets but limited in developmental outcomes.

In this sense, rural underdevelopment in Malaysia reflects the cumulative misalignments outlined in Chapters 1 to 3:

- The moral economy foundation of Islamic economics (Chapter 1) was never institutionalised in ways that would privilege rural livelihoods or real-sector engagement.
- The Islamisation track (Chapter 2) prioritised institutional visibility and legal-bureaucratic consolidation rather than grassroots socio-economic restructuring.
- The evolution of Islamic finance (Chapter 3) entrenched a model geared toward urban consumption rather than rural production, reflecting a financial deepening logic rather than developmental transformation.

The rural sector thus becomes the symbolic and practical space where the limitations of Malaysia's Islamic finance model are most clearly revealed. It is the frontier where Islamic finance should, in theory, demonstrate its distinctiveness—its capacity for shared risk, social justice, market intermediation, and community upliftment—but where in practice its presence is weakest.

So, the fourth major theme emerging from the synthesis is clear: rural underdevelopment in Malaysia reflects the institutional disengagement of Islamic finance from the real economy, illustrating the cumulative impact of the philosophical disjunctures in Chapter 1, the institutional shifts in Chapter 2, and the market-oriented evolution described in Chapter 3. Rural Malaysia thus stands not only as a site of economic vulnerability but also as a powerful diagnostic mirror exposing the gap between the ideals of Islamic economics and the operational behaviour of Islamic financial institutions.

5.2.5 Synthesis of the Four Themes

Overall, these themes reveal a coherent pattern:

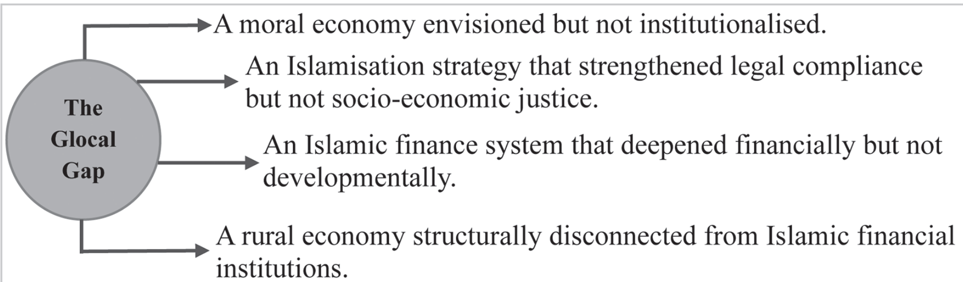

Figure 5.1 The Glocal Gap: From Moral Economy to Rural Disengagement

These patterns demonstrate that the gap between Islamic economic ideals and rural realities in Malaysia is not accidental or episodic. It is systemic, rooted in the glocal manner through which Malaysia internalised Islamic finance within a capitalist developmental perspective.

This synthesis sets the stage for the next sections of the chapter, which will move from diagnosis to construction, proposing a Malaysian model capable of realigning Islamic finance with rural development through institutional integration, real-sector engagement, and glocal adaptation strategies.

5.3 Critical Diagnosis of the Malaysian Model

The preceding synthesis reveals a set of structural and philosophical tensions within the Malaysian experience of Islamic finance and Islamic development. While Malaysia is globally celebrated for its institutional sophistication, regulatory leadership, and technical innovation in Islamic finance, these achievements coexist with persistent socio-economic gaps—particularly the limited penetration of Islamic finance into the rural and real sectors. This section provides a critical yet constructive diagnosis of the Malaysian model, identifying the core structural limitations that have hindered Islamic finance from fulfilling its developmental potential. The aim is not to dismiss Malaysia's achievements, but to illuminate the constraints and blind spots that must be addressed if Malaysia is to craft a credible, glocally relevant Islamic rural development model.

5.3.1 Islamic-Friendly Capitalism, Not Islamic Economics

A core insight that emerges from Malaysia's developmental history is that the country is best understood as a capitalist developmental state with an Islamic flavour, not an Islamic economic system in the classical or revivalist sense. Since the 1980s, Malaysia has adopted a model that blends capitalist growth strategies—export-led manufacturing, financial liberalisation, foreign investment attraction, and continuous financial deepening—with carefully curated Islamic institutional enhancements. These Islamic elements served not only economic purposes, but also political ones: legitimising state authority, reinforcing Malay-Muslim socio-political identity, and positioning Malaysia as a global leader in Islamic finance.

The integration of Islamic finance into this capitalist developmental model was neither accidental nor ideologically neutral. Kitamura et al. (2021) show how Bank Negara Malaysia deliberately used Islamic banking as an instrument to expand economic opportunities for Malay Muslims while quietly maintaining a neoliberal policy framework. Likewise, Shukri (2023) observes that Islamisation in Malaysia was often deployed to *justify*, rather than alter, the capitalist foundations of state economic policy—using Islamic rhetoric to generate political legitimacy for otherwise conventional economic strategies.

Within this hybrid structure, Islamic banking and finance (IBF) did not emerge to replace capitalist financial logics. Instead, it evolved as a parallel system designed to operate seamlessly alongside conventional finance. The core framework of Malaysia's economy remained intact: interest rate benchmarks continued to anchor pricing; capital accumulation remained the priority; and broader policy frameworks remained oriented toward consumption-driven growth rather than distributive restructuring. Islamic finance adapted to this framework rather than transforming it.

So, the IBF sector in Malaysia largely consists of Shariah-compliant variants of conventional instruments. Contracts such as *murabahah*, *tawarruq*, and *ijarah*—while jurisprudentially valid—were engineered to replicate the economic functions of conventional loans with minimal interruption to existing financial processes. This tendency is widely recognised in the literature. Ishak and Asni (2020) argue that Islamic banking in Malaysia often *reconciles* classical fiqh rulings with modern banking realities by applying technical modifications that retain the fundamental logic of capitalist finance. Similarly, Ebrahim and Abdelfattah (2021) highlight how Islamic financial institutions frequently "re-package existing conventional products under different contractual arrangements" to achieve Shariah compliance without altering risk structures.

This replication phenomenon has become so pervasive that scholars now refer to it as the "*murabahah* syndrome." Khan (2024) describes this syndrome as the industry-wide tendency to develop Islamic products that avoid *appearing* usurious while maintaining the same risk-reward framework as conventional debt. In other words, the industry preserves the economic outcomes of conventional finance while providing a veneer of Islamic jurisprudential legitimacy. This supports Ul-Haq et al.'s (2022) critique that the emancipatory potential of Islamic economics has been *subverted* by a technocratic, capitalist discourse of "efficiency and effectiveness," which has displaced the moral economy ideals foundational to Islamic economic thought.

Even where Islamic finance contributed positively to economic indicators, its integration did not alter the underlying developmental logic. For example, Tan and Mohamad Shafi (2021) demonstrate that Islamic *sukuk* issuances have significantly boosted Malaysia's economic growth, increased liquidity, and enhanced market depth. Yet, as Adisa et al. (2023) caution, this rapid expansion within a capital-intensive framework has also heightened vulnerability to corruption and rent-seeking, particularly when Islamic instruments are used within opaque procurement systems. The risk, therefore, is that Islamic finance becomes an accelerator of elite-oriented growth rather than a tool for socio-economic redistribution.

Overall, these empirical findings reinforce the central argument of this subsection: Malaysia has constructed a model of Islamic-friendly capitalism, where Islamic symbols, terminology, and governance mechanisms coexist—and ultimately accommodate—the necessity of a capitalist developmental state. While *maqasid al-Shariah* is frequently cited in policy documents, corporate strategies, and national blueprints, it has not been systematically institutionalised into operational mandates or measurable outcomes. In practice, the *maqasid* functions as a normative aspiration rather than a structural constraint on policy or product design. The deeper systemic foundations of Malaysia's economy—its prioritisation of financial accumulation, urban-centric growth, and integration into global capitalism—remain largely untouched by Islamic moral economy principles.

This diagnosis is not a criticism of Malaysia's pragmatism, nor of the institutional achievements that have positioned Malaysia as a global leader in Islamic finance. Rather, it is a structural acknowledgment: the developmental impact of IBF will remain limited unless Malaysia moves beyond Islamic branding and compliance mechanisms toward a more substantive institutionalisation of Islamic economic ethics. Without such structural shifts, Islamic finance will continue to function as an Islamised extension of capitalist modernity, rather than as a transformative vehicle capable of reshaping socio-economic outcomes—particularly for rural Malaysia, the focus of this chapter.

5.3.2 The Legalistic, Compliance Perspective

One of Malaysia's most widely celebrated achievements in the global Islamic finance landscape is its highly sophisticated Shariah governance framework. Few countries have invested as systematically in building a multilayered regulatory framework that integrates Shariah Advisory Councils, detailed governance standards, harmonised jurisprudential interpretations, and a professionalised class of Shariah scholars trained not only in fiqh but also in modern financial engineering. Empirical assessments consistently affirm this strength: AlQassar and Ahmed (2022) conclude that Malaysia possesses the "most robust Shariah governance regime" among major Islamic finance jurisdictions, placing it ahead of the GCC, South Asia, and even regions with longer traditions of Islamic jurisprudence.

This achievement is rooted in the Shariah Governance Framework (SGF) introduced by Bank Negara Malaysia in 2010 and fully enforced from 2011 onward. As documented by Muhamad Sori et al. (2015) and Laldin and Furqani (2018), the SGF articulated explicit roles and responsibilities for Shariah committees, established mandatory functions (Shariah Review, Shariah Audit, Shariah Research, Shariah Risk Management), and imposed institution-wide accountability mechanisms. Subsequent reforms—including the 2017 enhancements—strengthened enforcement, clarified fiduciary obligations, and aligned Malaysian standards with emerging global best practices. Collectively, these efforts positioned Malaysia as the *regulatory reference point* for countries attempting to develop an Islamic finance ecosystem from the ground up.

Yet, this regulatory excellence has produced an unintended consequence: it has entrenched what can be termed the legalistic–compliance perspective.

Under this perspective, Islamic finance becomes primarily concerned with the technical, procedural, and documentary requirements of Shariah compliance rather than the substantive socio-economic objectives that Islamic economics originally aspired toward. Compliance becomes a matter of contract form, not economic function; of documentary legitimacy, not distributive justice; of legal validation, not livelihood transformation.

This dynamic reflects Asutay's (2007, 2012) influential critique: Malaysia has produced an Islamic finance industry that is Shariah-compliant, not Shariah-based. The distinction is crucial. "Shariah-compliant" ensures that contracts avoid prohibited elements—*riba*, *gharar*, *maysir*—but does not require the system to pursue the deeper ethical aspirations of *maqasid al-Shariah*. "Shariah-based," by contrast, would demand a more radical orientation toward risk-sharing, equity-based modes, social upliftment, poverty alleviation, and real-sector integration.

A substantial body of scholarship substantiates this diagnosis:

Table 5.1 Critical Perspectives on Islamic Finance

Author(s) and Year	Summary of Key Argument
Calder et al. (2020)	The term "Shariah-compliant" emerged in the 1990s as a project of technical rationality, not as a revival of moral economics.
Farooq et al. (2022)	The Malaysian model is "prohibition-driven," where avoiding *riba* legally replaces a holistic commitment to Islamic ethics.
Jaafar et al. (2022)	Even in green Islamic finance, governance mimics conventional ESG metrics technocratically, instead of reimagining ethics based on Islamic principles.
Ebrahim et al. (2021)	Malaysian Islamic Financial Institutions (IFIs) are criticized for merely repackaging conventional products with Shariah-compliant wrappers.
Ayub et al. (2023)	A shift towards a "value-oriented financial ecosystem" is needed, as current systems prioritize rigid compliance over substantive ethics.

A powerful example of this legalistic drift comes from Alam et al. (2023), who show that Malaysia's Islamic Financial Services Act 2013 inadvertently replaced the deep *maqasid* hierarchy—its moral telos and ethical commitments—with a narrow managerial framework. In effect, the law renders maqasid decorative, not determinative; symbolic, not structural.

The consequences of Malaysia's legalistic–compliance perspective manifest in several observable patterns:

a) Risk Minimisation Overrides Risk-Sharing

Malaysian IFIs overwhelmingly favour *debt-based*, *low-risk* instruments—*murabahah*, *tawarruq*, *ijarah*—over partnership-based modes like *mudarabah* and *musharakah*. The latter involve real uncertainty, performance volatility, and information asymmetry—features incompatible with risk-averse banking practices. Thus, the system fulfils the legal form of Islamic contracts but abandons the risk-sharing ethos central to Islamic economic philosophy.

b) Documentation Replaces Developmental Intention

Shariah compliance becomes an auditing exercise. Contracts are assessed for *form*, not for *impact*. If the contract structure passes Shariah review, there is no requirement to evaluate whether the financing:

- improves livelihoods
- builds rural capacity
- enhances resilience
- or reduces inequality

Thus, a *murabahah* financing for luxury goods can be more compliant than a *musharakah* for rural farmers if the documentation is tidier.

c) Procedural Perfection Displaces Ethical Ambition

Malaysia's model excels in protecting financial stability, investor confidence, and regulatory predictability. But this success comes at the cost of a trade-off: Islamic finance becomes an exercise in technical conformity rather than a project of moral-economy reconstruction. This is why Ul-Haq et al. (2022) argue that the emancipatory potential of

Islamic economics has been hijacked by a discourse of "efficiency and effectiveness"—concepts deeply rooted in capitalist rationality, not Islamic ethical theory.

5.3.3 *Maqasid* as Branding, Not Structure

The *maqasid al-Shariah* has become one of the most ubiquitous and rhetorically powerful concepts in Malaysian Islamic finance. Virtually every major Islamic bank proclaims its commitment to *maqasid*; regulators embed *maqasid* terminology in strategy documents; corporate annual reports frequently include "Maqasid Alignment" dashboards; and Bank Negara Malaysia promotes Value-Based Intermediation (VBI) as the industry's ethical compass. In public discourse, *maqasid* has become synonymous with the promise that Islamic finance can remain profitable while simultaneously advancing human wellbeing.

Yet, beneath this rhetorical prominence lies a critical structural contradiction: *maqasid* in Malaysia functions more as a branding device than as an operational framework.

Most Islamic financial institutions in Malaysia do not systematically measure indicators that would demonstrate genuine *maqasid* outcomes, such as:

- Reductions in poverty or income vulnerability,
- Measurable exposure to risk-sharing instruments,
- Real-sector productivity enhancement,
- Rural development penetration,
- Environmental protection or intergenerational sustainability,
- Empowerment of small producers or microenterprises,
- Community economic resilience.

Without these metrics, *maqasid* remains aspirational rather than structural, narrative rather than operational, decorative rather than directive. It exists as a language of legitimacy, not as a mechanism of accountability.

This trend aligns with findings from multiple empirical studies. Ngalim and Ismail (2015) revealed that the performance evaluation of Islamic banks in Malaysia remains business-centric, focused on profitability, liquidity, and market share rather than broader developmental purposes. Abdul Zalim (2022) similarly finds that microfinance institutions—even those claiming Islamic identity—rely predominantly on financial measures while neglecting social goals. The sector, in other words, prioritises *what is easy to measure.* Not *what is essential to maqasid?*

A recurring theme in the literature is that Malaysia's *maqasid* discourse has been absorbed into a managerial logic, stripped of its ethical radicalism. Alam et al. (2023) demonstrate that the profound hierarchy of *maqasid*—which historically served as a teleological framework for justice, welfare, and human flourishing—has been *fitted into a narrow managerial mould* by contemporary financial regulations. In this process, the *maqasid* is no longer a transformative public philosophy but a checklist integrated into existing risk-management systems.

Similarly, Ishak and Asni (2020) argue that Islamic banks *pragmatically adapt* Shariah principles to sustain profitability, effectively subordinating *maqasid* considerations to operational necessity. Rather than transforming financial practices, maqasid is retrofitted to justify them.

This aligns with Taufik et al. (2023), who characterise much of the industry's *maqasid* implementation as *pseudo-Islamic*—symbolically Islamic in appearance but grounded in the same managerial practices as conventional banks. Supporting this, Shahar et al. (2020) found no significant differences in Shariah governance disclosures between Islamic and conventional institutions, suggesting that Islamic banks replicate existing reporting structures rather than adopt genuinely different evaluative perspectives.

A growing body of research shows that *maqasid* has undergone a semantic shift: from a moral-philosophical framework to a marketing vocabulary. Tarique et al. (2021) developed a performance measurement model that deliberately reframes *maqasid* as a source of *competitive advantage*. Amin (2020) shows that *maqasid* positioning has become a critical success factor in consumer attraction. Banks now emphasise *maqasid* to differentiate themselves in a crowded marketplace—*maqasid as branding, not transformation*.

This commodification of *maqasid* reflects what sociologists call the "symbolic economy" of religion—where moral principles are packaged as value-added features for market consumption. In this logic, *maqasid* becomes a *brand identity*, contributing to customer loyalty and institutional legitimacy, rather than serving as a guiding philosophy for socio-economic restructuring.

The hollowing-out of *maqasid* is not merely institutional negligence; it is a systemic consequence of the underlying framework of Malaysian Islamic finance. Several structural factors contribute:

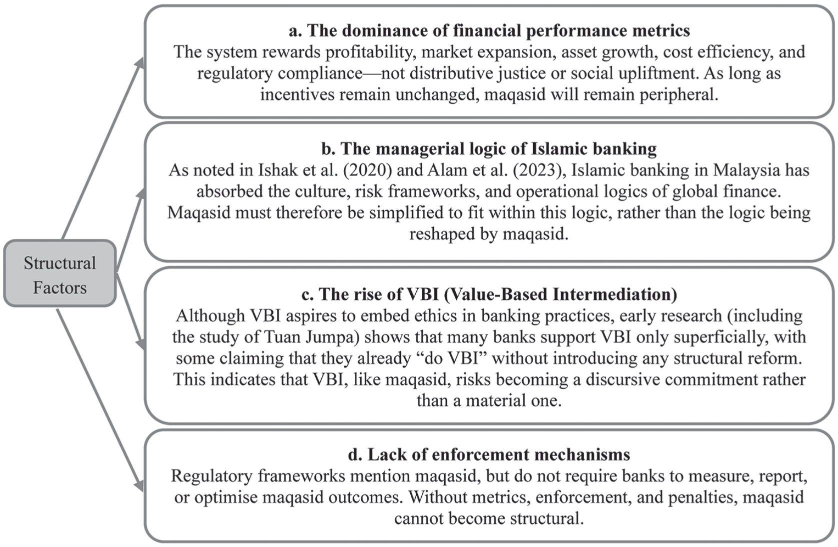

Figure 5.2 The Hollowed-Out *Maqasid*

The cumulative effect of this development is clear: *maqasid* has shifted from a teleology to mere terminology. It no longer represents a vision for human flourishing but has instead become a vocabulary for market positioning. What was once a moral command has now been reduced to a managerial slogan. The Islamic moral economy envisioned by early scholars—rooted in justice, risk-sharing, a spirit of cooperation, community upliftment, and engagement in the real sector—has been replaced by a financial system that prioritizes performance, stability, and reputational legitimacy. So, Malaysia's Islamic finance sector now faces a profound contradiction: it speaks the language of *maqasid* but operates by the logic of global finance. Ultimately, without an effort to make *maqasid* measurable, enforceable, embedded in regulatory structures, integrated into risk assessment, and directly linked to product design and institutional incentives, it will remain symbolic rather than substantive.

5.3.4 IBF Serves the Middle-Class Muslim Consumer

One of the clearest and most persistent patterns emerging from Malaysia's Islamic finance track is the heavy concentration of Islamic banking products around urban, salaried, middle-class Muslim consumers. From its earliest phases, the industry gravitated toward market segments that promised stable returns, predictable cash flows, and manageable risks. As a result, Islamic finance in Malaysia has evolved into a system that deepens financial inclusion for the urban middle class but has a limited structural presence in the rural and agricultural sectors.

Empirically, Islamic banking portfolios in Malaysia cluster around a predictable set of products: home financing (particularly in urban growth zones), vehicle financing (wage-earning professionals), personal financing (often salary-deducted), Islamic credit cards, and corporate financing (large, established firms).

These products are inherently urban-centric. They require stable income, predictable monthly instalments, credit histories, formal employment contracts, and collateral—conditions overwhelmingly associated with the urban middle class rather than rural smallholders.

This pattern is consistent with the argument advanced by Rudnyckyj et al. (2017), who trace the evolution of Islamic finance in Malaysia from an initial tool of Malay upliftment to a broader technique aimed at the *entrepreneurialisation of the Malay-Muslim population*. In practice, this entrepreneurialisation is skewed toward the Malay middle class, not the Malay rural demographic.

Multiple studies reinforce this structural bias. Kamarulzaman and Madun (2013) demonstrate that corporate clients—not individual Muslim depositors—drive the growth of Islamic banking. The study also finds that non-Muslim consumers adopt Islamic banking when services meet expectations, confirming that Islamic finance is increasingly driven by market competitiveness, not socio-religious mission.

The broader financial ecosystem mirrors this pattern. O'Sullivan and Rethel (2023) show that state-controlled financial entities in Malaysia are highly responsive to upper-middle-class consumption preferences, particularly in areas like housing, urban infrastructure, and lifestyle-oriented credit. This responsiveness indicates that Islamic finance sits within a developmental state logic—one oriented toward urban economic expansion rather than rural restructuring.

The microfinance sector reveals a similarly urban-centric pattern. Mohamed and Elgammal (2023) show that conventional microfinance institutions provide significantly fewer loans to rural borrowers, confirming a systemic preference for urban markets with lower transaction costs and higher repayment probabilities.

Overall, these studies indicate a *structural gravitational pull*: the economics of Islamic finance, shaped by risk aversion, regulatory necessity, and profitability metrics, naturally concentrate in urban centres.

The data is stark: rural-targeted financing accounts for less than 5% of total Islamic banking exposure in Malaysia. The small share that does exist is typically channelled not through mainstream Islamic banks, but through government-linked financing schemes, development agencies, agricultural credit institutions, microfinance programmes, or Zakat/Waqf-linked social initiatives.

This indicates a clear separation between Islamic banking and Islamic social finance, with rural communities relying almost entirely on the latter.

As Ali et al (2020) emphasise, *location* itself is a systematic barrier: rural populations face reduced access to Islamic bank branches, lower digital infrastructure, and weaker financial literacy—factors that, combined, create a geography-based exclusion.

Regulatory factors reinforce this exclusion. Saifurrahman and Kassim (2024) show that regulatory imbalances disincentivise Islamic banks from extending financing to rural MSMEs and microenterprises because compliance costs, risk assessments, and documentation burdens are disproportionately high relative to the amounts financed.

The most significant implication of this skew is that Islamic finance in Malaysia finances consumption more than production, and assets more than livelihoods. Urban Malays, particularly the rising professional class, gain access to housing assets, acquire vehicles that facilitate upward mobility, obtain personal credit for lifestyle spending, and accumulate financial capital. Meanwhile, the rural population—farmers, fishermen, small cooperatives—remains disconnected from Islamic financial services.

Solarin et al. (2022) and Koh et al. (2021) both demonstrate that microfinance products significantly improve socio-economic welfare—yet these benefits accrue primarily to urban households, not rural ones. This further confirms that Islamic finance's institutional ecosystem is structured around *urban-centric financial empowerment*, not rural upliftment.

The dominance of middle-class Muslims in IBF is not an accident; it is the result of Malaysia's broader glocal developmental model:

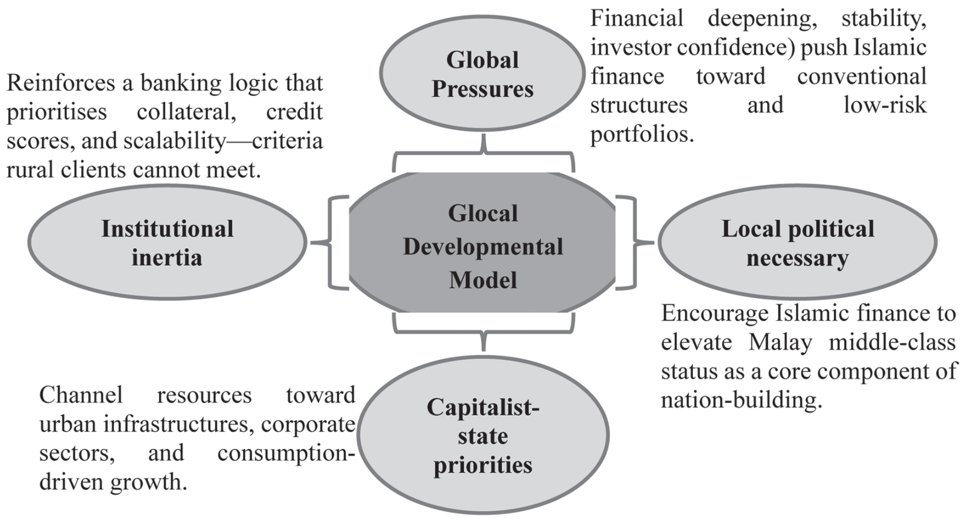

Figure 5.3 The Glocal Compass

Thus, Islamic finance becomes locked into a system that advances the interests of urban Muslims who already possess economic capital, rather than rural Muslims who historically aligned more closely with the *maqasid*-driven vision of Islamic economics. The system is highly successful—innovative, profitable, stable, globally admired—but its socio-economic reach is narrow. The communities that most need Islamic finance, and those that most resonate with its original moral economy ideals, are the very communities least served by it. This is the structural dilemma that any Malaysian model of glocal Islamic rural development must confront.

Synthesis of the Critical Diagnosis

Overall, these four critiques reveal a clear pattern:

Figure 5.4 Malaysian Model Gap: From Moral Economy to Rural Disengagement

These structural limitations, however, do not imply that Malaysia lacks the potential to construct a substantive Islamic rural development model. On the contrary, Malaysia's institutional capacities, regulatory sophistication, and established Islamic finance ecosystem provide a strong foundation upon which a more inclusive, real-sector-driven, *maqasid*-oriented framework can be built. However, these structural limitations should not be misinterpreted as a complete failure. Malaysia does implement several rural development initiatives, but their scope and approach are often limited. Many programs are short-term and lean more towards immediate aid and subsidies—merely providing a "stopgap" for survival—rather than building long-term, sustainable capacity. The focus on achieving *maqasid* remains weak, as projects with clear benefits for the community are still often evaluated based on their profit potential rather than their human development value.

5.4 Toward a Malaysian Glocal Model of Islamic Rural Development

Having diagnosed the structural contradictions within Malaysia's Islamic finance landscape—financial Islamization without economic transformation, a legalistic–compliance perspective, the symbolic deployment of *maqasid*, and the urban-centric bias of Islamic banking—the next step is to reconstruct a Malaysian model of glocal Islamic rural development. This model must respond directly to the shortcomings identified earlier while leveraging Malaysia's unique strengths: its dense institutional ecosystem (Zakat, Waqf, IBF), its rural social capital, and its position as a globally respected leader in Islamic finance.

The goal is not to discard the successes of Malaysia's Islamic finance industry, but to re-embed them within a developmental perspective consistent with the moral economy ideals of Islamic economics and the real socio-economic needs of rural Malaysia.

A Malaysian glocal model must be grounded on four interlocking principles:

1. A shift from financial Islamization to economic Islamization.
2. The vertical integration of Islamic institutions into rural supply chains.
3. The emergence of decentralised rural Islamic finance ecosystems.
4. A strategy of glocal adaptation, combining global IBF expertise with local socio-cultural realities.

Together, these principles articulate a new vision for Malaysia—a model that is globally relevant yet rurally grounded; financially sophisticated yet economically redistributive; religiously legitimate yet pragmatically actionable.

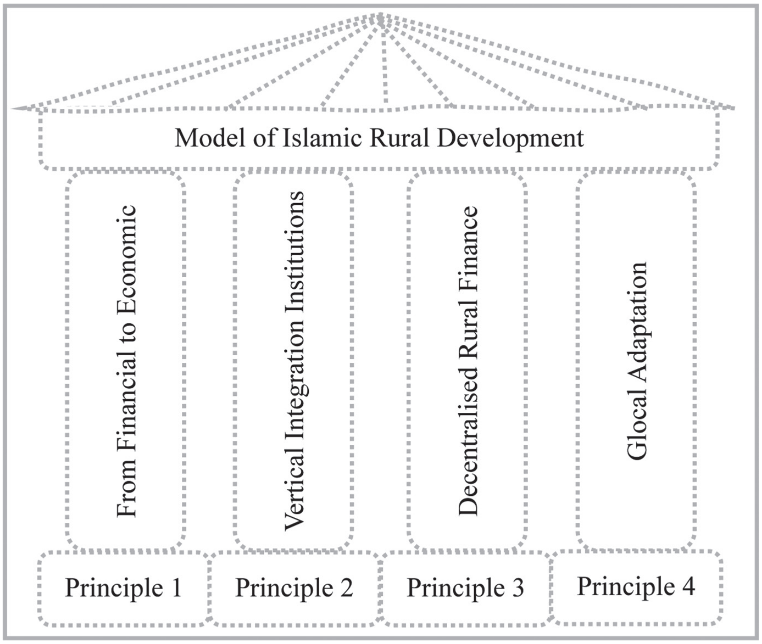

Figure 5.5 Malaysian Glocal Model of Islamic Rural Development Framework

5.4.1 Principle 1: From Financial Islamization to Economic Islamization

Malaysia's Islamic finance track has been defined for four decades by a strong commitment to *financial Islamization*—the creation of sophisticated Shariah-compliant products, the establishment of world-class regulatory frameworks, and the rapid expansion of Islamic banking and capital market assets. These efforts have undeniably elevated Malaysia as a global leader. Yet, as growing scholarship indicates, these achievements have not produced *economic Islamization*—that is, a restructuring of economic incentives, institutional behaviours, and distributional patterns in accordance with the moral economy ideals embedded in Islamic economic thought. Jaafar and Brightman (2022) emphasise that Malaysia's Islamic finance framework, for all its innovation, has not fundamentally altered the growth-oriented managerialism inherited from conventional finance. Similarly, Avdukic and Asutay (2024) argue that the industry's performance continues to mirror the priorities of neoliberal finance, contributing positively to macro-level human development only under narrow conditions and without significantly reducing inequality or altering structural imbalances. The distinction between financial and economic Islamization, therefore, marks a critical turning point in Malaysia's developmental discourse: Islamic finance can no longer be evaluated merely by the *validity* of its contract forms, but by the *impact* of its operations on socio-economic well-being, vulnerability reduction, productivity enhancement, and equitable wealth distribution.

Seen through this lens, the prevailing model—celebrated for its compliance but criticised for its limited transformative power—echoes the long-standing critique that much of Malaysia's Islamic finance remains "Shariah-compliant rather than Shariah-based." Scholars highlight that focusing predominantly on contract structures and documentary precision does not guarantee meaningful outcomes. Alam et al. (2022) openly note that the industry still struggles to "rise above commercial goals and prioritise Shariah objectives as a means of socio-economic welfare," while Ebrahim and Abdelfattah (2021) critique the widespread tendency to repackage conventional financial instruments in Shariah-compliant wrappers rather than redesigning products around economic substance and developmental priorities. This reinforces the need for a decisive perspective shift: Islamic finance must transition from a product-oriented logic—concerned primarily with the compliance validity of financial instruments—to an outcome-oriented ethos that evaluates success through tangible socio-economic improvements such as income resilience, reduced reliance on exploitative middlemen, enhanced rural productivity, and strengthened value chain integration.

Central to this transformation is the reimagining of *profit-and-loss sharing (PLS)*—a contractual mode widely celebrated in Islamic economic theory but marginal in practice. Empirical data across jurisdictions show that PLS modes such as *mudarabah* and *musharakah* remain underutilised, comprising only a small fraction of financing portfolios (Syarifuddin 2020). The dominant obstacles are well-known: concerns about moral hazard, high monitoring costs, asymmetrical information, and business volatility (Yustiardhi et al. 2020). Yet these very characteristics make PLS inherently suitable for rural sectors—where uncertainty, seasonality, environmental risk, and fragmented production systems render conventional debt-based financing inappropriate and, at times, harmful. Redirecting PLS toward smallholder agriculture, fisheries, micro-cooperatives, village production clusters, rural agro-processing, and artisanal or cottage industries would reconnect Islamic finance with the real-sector ethos envisioned by early Islamic economic thinkers. Such a reorientation would redistribute risk more equitably between financiers and producers, reduce farmers' vulnerability to price shocks, and stabilise rural livelihoods in ways that debt-based products structurally cannot.

Nevertheless, redirecting PLS into rural spaces requires parallel institutional changes. Researchers recommend reconfiguring Islamic bank operating models, incorporating fintech to reduce evaluation and monitoring costs, improving regulatory incentives, and enhancing financial literacy among rural communities (Yustiardhi et al. 2020). These reforms would allow PLS to be adapted to the realities of rural Malaysia, where incomes are seasonal, yields unpredictable, and collateral scarce. Without such reforms, Islamic banks will remain reluctant to depart from safer, low-risk asset-based modes such as *murabahah* and *tawarruq*.

The broader transformation envisioned here is supported by emerging scholarship calling for a value-oriented Islamic finance ecosystem. Muhamad et al. (2022) advocate for holistic performance measurement systems that incorporate sustainability indicators and socio-economic objectives, while Ayub et al. (2024) propose an integrated framework for Islamic finance that foregrounds social equity, corporate responsibility, and environmental stewardship.

These frameworks align closely with the moral economy foundations articulated in earlier chapters of this book, reinforcing the argument that Malaysia must shift from Islamic banking to *Islamic development finance*. This shift requires rethinking risk assessment protocols, collateral requirements, pricing methodologies, and product design philosophies—moving from asset accumulation to livelihood enhancement, from credit provision to ecosystem building, and from compliance checklists to *maqasid*-driven developmental outcomes.

The consensus emerging from contemporary scholarship—spanning Güney (2024), Raimi et al. (2024), Avdukic and Asutay (2024), Othman et al. (2021), and many others—is that Islamic finance must prioritise reducing socio-economic vulnerability, enhancing productive capacity, and improving material well-being. Malaysia's unique institutional environment gives it an unparalleled opportunity to pioneer this shift. By embracing outcome-oriented Islamic finance, Malaysia can reconnect Islamic finance with its original ethical mission, support the revitalisation of rural Malaysia, and offer the world a model of economic Islamization that is not merely compliant in form, but transformative in substance.

5.4.2 Principle 2: Vertical Integration of Islamic Institutions

The possibility of constructing a vertically integrated Islamic economic system in Malaysia emerges not as an abstract theoretical proposition, but as a realistic and empirically supported pathway grounded in the country's extraordinary institutional density, historical policy experimentation, and accumulated social capital. Malaysia possesses an unparalleled constellation of Islamic economic instruments—Zakat institutions with stable revenue streams and grassroots networks; Waqf authorities managing strategic land assets; Islamic banks supplying liquidity, financial expertise, and global credibility; cooperatives operating in both formal and informal sectors; and rural agencies such as FELDA, RISDA, MADA, and LKIM with decades of operational experience in agriculture, fisheries, and rural logistics. While these institutions largely function in isolation under siloed mandates, their synergistic potential is immense. Recent studies reinforce this view: Mahadi (2025) demonstrates that Malaysia can significantly accelerate its economic transformation by integrating Zakat, Waqf, Islamic microfinance, and commercial Islamic banking into a coherent development ecosystem, while Majid et al. (2024) provide evidence through the Ummah Economic Development Zone that coordinated Zakat deployment can shift entire communities from welfare dependency toward productive enterprise. The underlying logic—also highlighted by Othman et al. (2025) and Mahadi (2025)—is that institutional fragmentation remains the principal barrier preventing Malaysia's Islamic economic sector from achieving full developmental effectiveness. Indeed, empirical analyses suggest a substantial efficiency gain of 23–41% if these fragmented entities were reorganised into a coordinated, vertically integrated structure.

A vertically integrated rural Islamic model would bind these institutions across the entire agricultural and rural supply chain, creating a seamless ecosystem grounded in Islamic contractual jurisprudence. Inputs and seeds could be provided via Waqf agricultural funds, Zakat-based capital grants, or *musharakah* working capital, reducing upfront burdens on farmers and lowering risk through the protective buffer of social finance instruments. The production phase could be financed through *muzara'ah* and *musaqah* contracts—reviving classical Islamic sharecropping partnerships in which risk and returns are jointly shared among landowners, financiers, and cultivators—precisely the kind of participatory arrangements that Mohamed and Shafiai (2021) identify as structurally suited to contemporary smallholder agriculture. As produce moves downstream, the volatility and market asymmetry experienced by rural communities could be mitigated through *istisna'* and *salam* contracts, guaranteeing offtake, stabilising prices, and providing predictable cashflow—an approach validated in practice by Malaysian initiatives documented by Muttaqin et al. (2023) through Agrobank's hybrid financing schemes. In the distribution and retail stages, Islamic cooperatives and digital supply chain platforms could deploy *mudarabah* partnerships that pool entrepreneurial, capital, and market expertise, enabling farmers to bypass exploitative middlemen and capture greater value from their produce. On the demand side, Islamic banks could provide consumer financing to ensure that retail demand remains stable, closing the loop and reinforcing rural economic circulation. Such a system—spanning inputs, planting, logistics, processing, retail, and consumption—would effectively reconstruct the classical Islamic economic framework of producers, traders, and financiers bound together through risk-sharing contracts, but adapted to the contemporary Malaysian context with modern governance tools, data systems, fintech interfaces, and institutional specialisation.

Malaysia's structural suitability for this model is underscored by multiple streams of research. Zakat institutions, as shown by Othman et al. (2025) and Mabrukah and Sadiq (2024), are increasingly capable of shifting from immediate-consumption aid to revolving productive capital that fosters economic independence. Waqf, traditionally limited to passive property administration, can be repositioned as an active venture-building instrument through Shariah-compliant strategic partnerships, echoing the findings of Majid and Sukmana (2023), who demonstrate that cash Waqf offers unique risk-mitigation advantages for low-cost agricultural financing. Islamic banks—currently constrained by collateral-based lending—can reduce exposure to individual farmer risk by anchoring their financing in the upstream buffer provided by Zakat and Waqf, thereby enabling more aggressive deployment of PLS-based or quasi-PLS contracts. Rural agencies such as FELDA and MADA, with decades of field experience, can function as operational anchors linking financiers with real production processes, ensuring that Islamic financial instruments are calibrated to agricultural realities rather than remaining purely theoretical. At the same time, cooperatives, long weakened by structural inefficiencies, can be modernised through digitalisation, corporate governance reforms, and Islamic financial injection.

However, realising this integrated model requires significant institutional recalibration. Zakat agencies must embrace a perspective shift from charitable relief to productive investment; Waqf authorities must transition from passive custodians to developmental entrepreneurs; Islamic banks must reorient away from collateral-heavy, low-risk models toward risk-sharing capital informed by the stabilising presence of social finance buffers; cooperatives must be professionalised, technologized, and woven into modern supply chains; and rural agencies must pivot from commodity-centric operations to Shariah-based integrated ecosystem design. As Othman et al. (2025) caution, achieving integration is not simply a matter of policy harmonisation but a matter of governance restructuring, inter-agency coordination, and shared incentive systems. The vertically integrated model therefore represents not a cosmetic enhancement but a *full-system redesign*—one that reconnects Islamic financial institutions with the normative foundations of Islamic economics, leverages Malaysia's unique institutional richness, and creates a comprehensive rural development engine capable of addressing fragmentation, reducing dependency, stabilising incomes, and ultimately transforming Malaysia's rural economy into a high-performing, glocally relevant Islamic developmental model.

5.4.3 Principle 3: Decentralised Rural Islamic Finance

Malaysia's aspiration to construct a glocal Islamic rural development model necessitates a decisive shift from the dominant urban-centric, centralised framework of Islamic finance toward a decentralised, community-rooted ecosystem capable of empowering rural households through autonomy, participation, and genuine economic inclusion. Centralised Islamic finance—largely concentrated in Kuala Lumpur and other urban financial hubs—has proven structurally inadequate for addressing the granular realities of rural economic life, where volatility, seasonality, fragmented land ownership, and weak market access create barriers that standardised banking products cannot penetrate. Empirical research reinforces this structural imbalance: Nawai et al. (2023) argue that rural communities require targeted Islamic microfinance mechanisms explicitly designed to address B20 vulnerabilities, while Mahadi (2025) shows that Malaysia is actively reclassifying household income segments in policy planning precisely because national financial inclusion remains skewed toward urban populations. The emergence of initiatives such as Bank Islam's BangKIT Microfinance (Abd. Wahab et al. 2023) hints at the possibilities of decentralised interventions, yet these remain exceptions rather than systemic practice. To build a truly decentralised Islamic finance landscape, Malaysia must cultivate micro-Waqf and micro-Zakat investment funds at the village level, creating instruments that extend beyond short-term welfare toward long-horizon productive capacity. Evidence from Khan et al. (2021), Majid and Sukmana (2023), and Mohamed and Shafiai (2021) shows that such funds can finance a spectrum of rural necessities—from working capital and equipment procurement to micro-irrigation systems, cold-chain storage, harvesters, dryers, and small fishing vessels—substantially reducing vulnerability to price shocks and reinforcing farmer resilience. These Islamic social finance tools, according to Ali et al. (2022) and Nor et al. (2022), function not merely as sources of capital but as mechanisms that redesign livelihood pathways by reducing dependency, supporting value-added activities, and embedding financial responsibility within a halal, low-cost structure.

Decentralisation also requires reviving the cooperative spirit of *al-ta'awun* and *al-'aqilah* through Islamic farmer cooperatives that harness *mudarabah*, *musharakah mutanaqisah*, and other participatory contracts as governance mechanisms rather than mere financial instruments. While empirical literature on fully integrated Islamic agricultural cooperatives remains limited, Suherli et al. (2024) find strong evidence that Shariah-based agricultural cooperation improves financial access, production efficiency, and supply chain transparency. Samad and Shafii (2021) likewise confirm that Islamic cooperatives play an important role in strengthening mutual support, member bargaining power, and collective market access—functions that directly challenge the persistent monopolistic power of middlemen across Malaysia's agricultural supply chains. Although comprehensive empirical evidence for mechanisms such as collective price negotiation or coordinated crop planning remains limited, examples such as the goat-breeding cooperative highlighted by Pamikatsih and Latif (2021) demonstrate the viability of profit-sharing cooperative structures for rural enterprises. More importantly, these cooperative forms provide institutional vehicles through which Islamic finance can be embedded within community life, generating a decentralised governance layer that urban banks cannot replicate.

Equally critical is the mobilisation of village-level Islamic institutions—mosques, surau committees, imam-led networks, kampung councils, and informal kinship structures—as locally trusted nodes of financial intermediation, screening, training, and micro-entrepreneurship cultivation. Mosques possess unrivalled social legitimacy, trust capital, and convening power. Nuriyah and Fakhri (2022) show that mosque-integrated economic programmes enhance community welfare, while Ojong and Simba (2019) demonstrate that group-based religious and communal interactions generate social trust, facilitate resource flows, and accelerate entrepreneurial learning among micro-business owners. Adinugraha et al. (2023) further argue that Islamic social finance remains one of the most effective instruments for sustainable poverty alleviation precisely because it operates through trust-based, localised, and morally cohesive networks. In this context, decentralising Islamic finance through mosque-linked governance channels transforms these institutions into community-based financial intermediaries, information brokers, credit guarantors, data collection centres, and grassroots entrepreneurship hubs. Such localisation does not merely extend financial access; it redistributes decision-making to the very community that bears the consequences of financial choices, thereby reducing dependency and strengthening self-governance.

Finally, digital infrastructures and rural fintech innovations serve as the enabling backbone for decentralised Islamic finance. Studies by Schroeder et al. (2021) show that digital tools dramatically reduce transaction costs associated with money transfers, information flows, and verification—three of the biggest impediments to rural finance. Shariah-compliant e-wallets, as analysed by Maisaroh and Wahyuni (2024) and Allaymoun and Hamid (2020), respond directly to cultural and religious sensitivities surrounding financial access and can serve as low-cost platforms for micro-wakalah contracts, digital PLS tracking, and Zakat-linked micro-insurance. Digital credit scoring and remote sensing also lower monitoring costs—an essential condition for rural PLS contracts that depend heavily on accurate production data. Digital marketplaces, such as those discussed by Fausiyat (2025), further break geographical barriers, linking rural producers to buyers without reliance on predatory intermediaries. Collectively, these technologies underpin a decentralised Islamic finance framework that is scalable, transparent, and adaptable to rural realities.

Overall, the evidence points to a necessary and urgent reconfiguration: a decentralised Islamic finance ecosystem anchored in micro-Waqf, micro-Zakat investments, participatory cooperatives, mosque-centric financial governance, and Shariah-aligned rural fintech. Such an ecosystem does not merely extend the reach of Islamic finance—it transforms its function, repositions rural communities as agents rather than recipients, and grounds Malaysia's Islamic development model in both global financial innovation and the deep ethical traditions of local Muslim society. This decentralised approach becomes essential if Malaysia intends not only to include rural communities in its Islamic finance narrative, but to make them co-architects of a new, glocally embedded Islamic economic perspective.

5.4.4 Principle 4: Glocal Adaptation

A Malaysian glocal model of Islamic rural development must be rooted in the principle that Islamic finance cannot be meaningfully transformative unless it is re-anchored within the socio-economic texture, historical memory, and cultural grammar of the communities it seeks to uplift. In this sense, glocalization is not a rhetorical device but the operational logic connecting global Islamic finance infrastructure to local Islamic social norms and rural livelihood realities. Malaysia's international leadership in Islamic finance—consistently described by scholars such as Shi et al. (2025) as an "innovation-led regime" distinguished by regulatory standardization, advanced fintech ecosystems, and sophisticated digital Shariah finance—provides a powerful global-facing foundation. The country's integration of ESG values, VBI principles, and sustainability-oriented investment frameworks, as documented by Ezzuddin et al. (2024), further strengthens its ability to meet global benchmarks in responsible finance. Yet, these global strengths are only one half of the Malaysian equation. The other half resides in rural Malaysia: deep community bonds, mosque-based social systems, ingrained traditions of *gotong-royong*, cooperative farming cultures, and a lived agricultural heritage spanning rice, rubber, palm oil, fisheries, and smallholder crops. Mahadi (2025) demonstrates that Zakat, Waqf, and Islamic microfinance instruments can be strategically deployed to accelerate economic development precisely because Malaysia possesses this unique blend of urban financial sophistication and rural social resilience. Thus, glocalization becomes the mechanism that fuses two distinct but complementary domains—global IBF capabilities and local Islamic communal strengths—into a coherent development pathway.

Glocal adaptation also requires reimagining the structure of Islamic finance itself, shifting from a model that is globally competitive but urban-oriented to one that is globally competent yet rurally meaningful. Malaysia's Islamic finance ecosystem must evolve beyond a perspective of product innovation toward a mode of structural innovation capable of integrating rural supply chains, local value systems, and *maqasid* (alignment with Shariah principles) orientation. Studies such as Muttaqin et al. (2023) provide concrete evidence that this is possible: Agrobank's modification of agricultural value chain finance to align with Shariah principles demonstrates how global Islamic finance instruments can be localised for farmers without sacrificing regulatory integrity. Kasim et al. (2022) similarly show that supply chain management, when infused with Islamic principles, can drive sustainable rural development outcomes, meaning that glocal Islamic finance is not a theoretical aspiration but an emerging empirical possibility. What distinguishes Malaysia from Middle Eastern models—often driven by petrocapitalism, rentier logics, and high-net-worth market segments—is its pragmatic capacity to adapt Islamic instruments to the needs of ordinary citizens. Ishak and Asni (2020) emphasise that Malaysia adopts a practical, context-sensitive approach to Shariah implementation: not an idealised replication of classical fiqh, and not a liberal dilution for convenience, but a calibrated adaptation grounded in Malaysian socio-cultural realities. This pragmatism is precisely what allows Malaysia to develop a model of Islamic finance that is neither rigidly Gulf-centric nor narrowly legalistic, but dynamically attuned to kampung economies, cooperative-based livelihoods, and hybrid formal–informal market structures.

If Malaysia succeeds in building a genuinely glocal Islamic rural development model, the international implications are significant. For Muslim-minority countries, Malaysia offers a replicable template that does not rely on demographic dominance for Islamic financial inclusion; Cheumar and Akem (2024) explicitly highlight Malaysia as a viable model for jurisdictions seeking to institutionalise Islamic finance within pluralistic societies. For South–South cooperation, the Malaysian experience already demonstrates the feasibility of grassroots-driven digitalisation, as exemplified by the eHalal4All Program documented by Dahlan et al. (2016), which leverages mosque networks to expand rural economic participation. For the OIC world, where agricultural revival remains an urgent priority, Islamic microfinance studies such as Abid and Hakimi (2017) show that profit-sharing and collaborative financing—if properly institutionalised—can uplift rural farmers, enhance food security, and rebuild agrarian resilience. In contrast to Gulf-centric Islamic finance perspectives that are often capital-rich but socially distant, Malaysia's glocal model emphasises the ethical, communal, and developmental dimensions of the Islamic moral economy. Amin et al. (2015) describe this as a holistic synthesis of spiritual and material development, offering an alternative track for Islamic economic thought, one that re-integrates lived ethics into financial structures. This glocal strength is further reinforced by the rise of Islamic crowdfunding platforms (Azganin et al. 2021), which can be used to mobilise community capital for agricultural and rural ventures—yet another illustration of how global digital tools can be culturally adapted into Islamic rural financing mechanisms. Hydara (2020) notes that many OIC countries struggle with poverty, rural stagnation, and weak agricultural institutions; Malaysia's model, if fully realised, can offer a roadmap for combining ethical finance, institutional integration, and local socio-economic realities into a new perspective of Islamic development.

Ultimately, the glocal principal positions Malaysia not as a passive beneficiary of global Islamic finance trends but as a proactive innovator capable of reshaping the global narrative. By weaving together regulatory sophistication, supply-chain integration, Islamic social finance tools, rural cooperative structures, mosque-based social capital, and digital fintech infrastructures, Malaysia can articulate a model that is both globally recognisable and locally authentic. It is this hybrid, adaptive, and deeply contextual framework that positions Malaysia as a future reference point for Islamic rural development—one whose lessons can transcend geography, informing global Muslim-minority contexts, South–South development exchanges, and the broader OIC community. A Malaysian glocal model, therefore, is not merely a policy configuration; it is a new intellectual contribution to Islamic economic thought, rebalancing the relationship between global Islamic finance and the lived realities of Muslim rural life.

5.5 A Proposed Framework: The Malaysian Glocal Islamic Rural Development Model

The cumulative analyses across the earlier sections—philosophical, institutional, financial, and rural-structural—point toward the urgent need for a new integrated framework capable of reorienting Malaysia's Islamic finance ecosystem toward substantive rural transformation. The Malaysian context is uniquely positioned to generate such a framework because it contains, within a single national ecosystem, the full range of Islamic institutions—banks, Zakat authorities, Waqf boards, Islamic cooperatives, Shariah governance infrastructure, and well-established rural development agencies. Yet these institutions currently operate in parallel rather than in coordinated synergy. The proposed Malaysian Glocal Islamic Rural Development Model aims to reorganise these fragmented pieces into a coherent development framework that mobilises the strengths of global Islamic finance while grounding them in local socio-economic realities. The framework rests on four interdependent components—Institutional Framework, Financial Framework, Real Sector Framework, and Social–*Maqasid* Framework—each of which addresses a critical structural gap in the existing Malaysian model and collectively forms a pathway toward a more authentic Islamic moral economy.

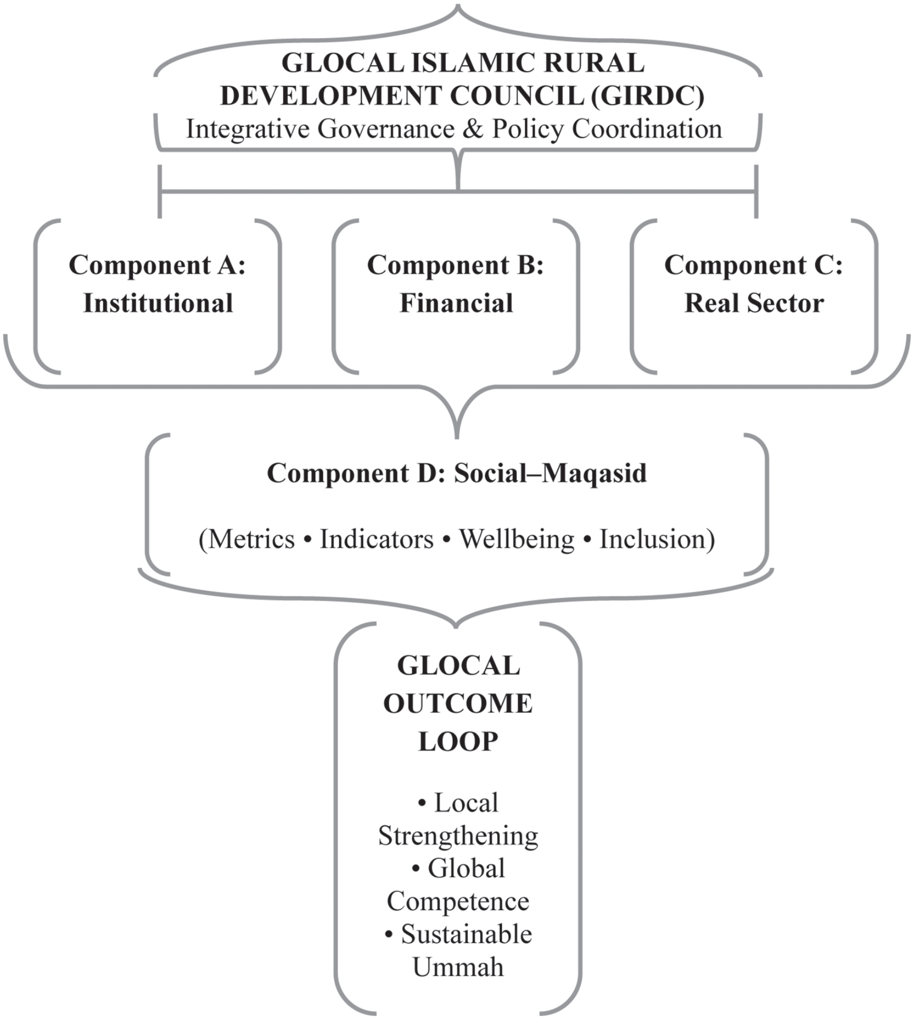

Figure 5.6 Integrated Glocal Islamic Rural Development Model

5.5.1 Component A: Institutional

The foundation of the Malaysian Glocal Islamic Rural Development Model rests on the construction of a new institutional framework capable of overcoming the chronic fragmentation that has long characterised Malaysia's Islamic economic ecosystem. At present, Islamic banks, Zakat institutions, Waqf authorities, Islamic microfinance providers, and rural development agencies such as FELDA, RISDA, LKIM, MADA, and FAMA each operate with distinct mandates, governance structures, regulatory authorities, and data systems. The absence of a unifying institutional mechanism has resulted in duplication of efforts, misaligned incentives, poor information flow, and a developmental landscape where institutions work in parallel rather than in synergy. To address this structural deficiency, the framework proposes the establishment of a *Glocal Islamic Rural Development Council* (GIRDC), conceived as a supra-institutional governance platform designed to consolidate strategic functions, align missions, and orchestrate collaborative action across Malaysia's diverse Islamic institutions.

The GIRDC is not intended to serve merely as an administrative coordinating committee, but as a structural redesign of how Islamic economic institutions conceptualise their roles, allocate resources, and measure developmental impact. Its rationale is grounded in empirical scholarship: Iskandar et al. (2023) recommend hybridising Islamic banking and Islamic social finance institutions through unified risk management and shared profit–loss financing philosophies, while Iqbal et al. (2024) highlight the need for structured coordination involving beneficiary mapping, business training pipelines, and co-designed support ecosystems. Maulina et al. (2023) further emphasise that integration models focusing on Waqf asset development and entrepreneurship generation yield the highest welfare multipliers, provided that technology adoption and multi-stakeholder collaboration are fully embedded within institutional processes. These findings collectively reveal a clear academic consensus: fragmented Islamic institutions cannot deliver systemic transformation, but integrated ones can.

In this context, the GIRDC would serve as a platform for *ecosystem orchestration*, following Autio's (2022) insight that effective ecosystems depend not on top-down enforcement, but on voluntary, mutually aligned contributions shaped by shared mission and moral legitimacy. This model of orchestration is particularly relevant to Malaysia, where Islamic institutions possess differing authorities, regulatory structures, and historical legacies. The Council's success would hinge on its ability to cultivate alignment through incentives, shared-value logic, and a clear moral economy mandate, rather than through bureaucratic compulsion. Complementing this, Tyagi (2021) stresses the need for robust *information governance*—including harmonised data standards, digital registries, interoperable databases, and transparent performance reporting—to ensure accountability and enable evidence-based decision-making. A GIRDC organised around strong information governance would finally allow Malaysia to overcome the long-standing opacity of Waqf data, the siloed nature of Zakat reporting, and the risk-averse financial profiling used by Islamic banks.

This institutional consolidation also responds to the apparent weaknesses identified in Malaysia's Waqf ecosystem. Mustaffa et al. (2022) demonstrate that Waqf institutions remain hampered by inconsistent legislation across the thirteen states, possess uneven managerial capacities, and lack integrated development strategies. Zulkifli et al. (2022) argue that transparency, accountability, and fair governance are essential prerequisites for Waqf-based economic development, while Kamaruddin and Hanefah (2021) find that governance practices across Malaysian Waqf bodies are consistently moderate, indicating systemic inefficiencies. Without a unifying coordinating body, these weaknesses persist and inhibit the transformational potential of Waqf as a development instrument. Similarly, Zakat institutions—despite substantial annual revenue—remain fragmented under state jurisdiction, leading to inconsistent programme standards, duplicated administrative costs, and inefficiencies in productive distribution. Islamic banks, on the other hand, remain structurally bound to profit-making and regulatory capital constraints, limiting their capacity to engage in high-risk, low-return rural investments without institutional risk-sharing partners.

The GIRDC is therefore designed to redirect the system away from institutional silos toward a *collective developmental purpose*. Karbhari et al. (2021) and Abu Talib et al. (2020) highlight that integrated Islamic financial systems consistently outperform fragmented ones in terms of social development, distributive justice, and wealth-sharing outcomes. Kaukab et al. (2020) similarly illustrate how Islamic economic frameworks—with their emphasis on no-usury fund management, market fairness, and entrepreneurial empowerment—offer a more equitable alternative to conventional development strategies that often exacerbate rural inequality. Comparative studies further reinforce the argument: Naeem and Haq (2025) show that Islamic financial ecosystems generate greater social equity and financial inclusion than conventional systems, providing empirical justification for constructing an institutional model that places rural justice and community wellbeing at its core.

Table 5.2 Rationale, Functions, and Expected Outcomes of the Glocal Islamic Rural Development Council (GIRDC)

Dimension	Current Fragmented System	Proposed GIRDC Integrated System	References
Institutional Governance	Siloed institutions with inconsistent mandates	Unified governance platform for coordinated rural development	Iskandar et al. (2023); Karbhari et al. (2021)
Risk Management	Each institution manages risks separately; banks highly risk-averse	Shared risk-pooling and coordinated PLS frameworks	Iqbal et al. (2024); Abu Talib et al. (2020)
Information Systems	Disconnected databases, opaque Waqf/Zakat reporting	Integrated information governance and digital registries	Tyagi (2021); Mustaffa et al. (2022)
Social Finance Integration	Zakat–Waqf–banking linkages weak	Holistic integration of social and commercial finance	Maulina et al. (2023); Fuady et al. (2023)
Developmental Orientation	Mixed priorities, inconsistent mandates	Shared Islamic moral economy mission	Kaukab et al. (2020); Naeem and Haq (2025)
Expected Outcomes	Limited rural penetration, inefficiencies	Coordinated rural upliftment driven by maqasid metrics	Zulkifli et al. (2022); Kamaruddin and Hanefah (2021)

By consolidating these diverse institutions under a single governance roof, Malaysia can finally build a self-contained Islamic development arena rather than competing directly with conventional finance. The GIRDC is envisioned as a protective institutional space where Islamic banks can engage in risk-sharing without excessive regulatory penalty, where Zakat institutions can channel productive funds without being inhibited by administrative fragmentation, where Waqf can shift from property management to venture-building, and where rural agencies can integrate Islamic financing into supply-chain design rather than treating finance as an external input. This institutional arena is Malaysia's unique comparative advantage: few other countries possess such a dense Islamic institutional infrastructure, and fewer still have the capability to synchronise them meaningfully.

5.5.2 Component B: Financial

The financial framework proposed under this Malaysian Glocal Islamic Rural Development Model seeks to fundamentally restructure how Islamic finance flows into rural economies by shifting the system away from conventional mimicry and toward a genuine moral economy logic. The central ambition is to create a financing ecosystem that is simultaneously productive, distributive, stabilising, and transformative—a sharp departure from the current Islamic banking landscape, which remains heavily concentrated in urban, consumption-oriented, debt-based financing. To operationalise this shift, the framework prescribes a balanced rural finance portfolio composed of four interlocking financial pillars: 30% profit-and-loss-sharing (PLS) rural financing, 30% trade- and asset-based financing, 20% cash Waqf developmental investment, and 20% productive Zakat programmes.

This structured allocation is designed to engineer a financing continuum that begins with social protection and ends with long-term asset formation. Zakat programmes form the initial safety net that protects the poor and vulnerable; Waqf functions as catalytic patient capital capable of absorbing early-stage risks; PLS mechanisms provide shared-risk equity for enterprise formation; and trade-based contracts ensure liquidity and working capital stability throughout the production cycle. This model directly addresses the chronic rural financing gaps documented in the literature, where risk aversion, collateral requirements, and asymmetric information have kept Islamic banks at a distance from the agricultural and rural sectors.

Yet, the inclusion of 30% PLS financing is not merely aspirational; it is grounded in a broad body of evidence showing that participatory modes, despite their risks, can significantly enhance empowerment outcomes. Yanti et al. (2025) find that PLS arrangements increase economic empowerment and entrepreneurship potential in rural communities, while Addury and Ramadhani (2024) note positive effects of profit-sharing financing on long-term financial stability. However, Widarjono et al. (2020) caution that PLS-heavy portfolios increase financing risk in less-developed areas, and Sutrisno and Widarjono (2022) reveal that high proportions of PLS financing can reduce bank profitability. Studies further show that non-performing PLS financing can burden institutions (Hidayah and Karimah 2023). These findings reinforce the need for a balanced but meaningful PLS allocation within the portfolio—sufficient to drive transformative outcomes but supported by risk buffers such as Waqf capital and Zakat-funded enterprise development.

The second component—30% asset-based rural production financing—responds to the need for stable liquidity mechanisms in rural agriculture and agrofood cycles. Contracts like *salam*, *istisna'*, diminishing *musharakah*, and *ijarah* help mitigate cashflow volatility, guarantee off-take markets, and reduce farmers' exposure to predatory middlemen. Evidence from Danso-Abbeam et al. (2020) highlights that non-farm income diversification strengthens rural household welfare, indicating that financing for processing, logistics, and micro-SMEs is as important as crop production itself. This asset-based stream stabilises the rural economy while complementing the higher-risk PLS component.

The third component—20% cash Waqf developmental investment—serves as the model's risk absorber and catalytic engine. Waqf has historically been among the most powerful Islamic tools for education, agriculture, irrigation, and community infrastructure. Ahmed (2021) and Nouman et al. (2021) show that Waqf can redistribute resources effectively while anchoring participatory finance in Islamic ethical values. In the Malaysian context, cash Waqf can be deployed for early-stage agricultural technology, mechanisation, cold-chain infrastructure, upstream inputs, and smallholder insurance schemes. Studies such as those by Maulina et al. (2023) and Bacha (2024) emphasize the need for innovative Waqf asset development and entrepreneurship funding, noting that current Islamic financial products offer insufficient asset-class diversity and lean too heavily on conventional structures. Cash Waqf thus becomes a strategic corrective mechanism, injecting flexibility, risk absorption, and long-term developmental capital into a system otherwise dominated by short-term commercial logics.

The fourth pillar—20% Zakat-funded productive programmes—anchors the model's social–developmental foundation. Zakat has demonstrated strong potential in poverty reduction and enterprise upliftment. Sutrisno and Haron (2020) show that productive Zakat significantly increases welfare outcomes, while Alam et al. (2022) find that Zakat-supported businesses often grow successfully, contingent upon consistent mentorship and institutional support. Yet implementation gaps remain. Ramli et al. (2025) reveal that productive Zakat programmes frequently suffer from insufficient mentoring, weak monitoring, limited staff capacity, and a lack of progress indicators. These findings underscore the importance of embedding Zakat within an integrated, multi-institutional framework—precisely the role played by the GIRDC—to ensure that Zakat functions not merely as a one-off capital injection but as part of a structured enterprise development pipeline.

At the heart of this framework is a deliberate rejection of what may be termed financing parasitism—the practice of replicating conventional interest-based structures under Shariah-compliant forms, thereby extracting value from rural clients without generating real economic activity. Critics such as Bacha (2024) and Kamdzhalov (2020) argue that Islamic banking often mimics conventional products and prioritises short-term profits through speculative tendencies or cost-cutting rather than developing new asset classes or supporting the real sector. The proposed financial framework breaks decisively from this trend by clearly separating commercial Islamic finance from developmental Islamic finance. Commercial Islamic finance operates profit-driven but ethically governed, ensuring market discipline; developmental Islamic finance anchors itself in inclusion, wellbeing, and maqasid-oriented metrics. This distinction echoes the insights of Siswantoro (2022) and Tamanni et al. (2022), who identify multiple integration models linking Islamic social finance with commercial institutions and argue that hybrid models best address poverty, inclusion, and structural challenges. Alam et al. (2022) and Hassan et al. (2022) further emphasise that the true potential of Islamic finance lies in its dual ability to achieve commercial and social objectives simultaneously—an objective that requires a clear separation of domains to avoid one overwhelming the other.

Table 5.3 Proposed Rural Islamic Finance Portfolio Under the Malaysian Glocal Model

Portfolio Component	Allocation	Function	Risks / Challenges	References
PLS Financing (Mudarabah, Musharakah)	30%	Enterprise formation, shared risk, empowerment	High monitoring costs, risk of NPF, profitability impact	Yanti et al. (2025); Widarjono et al. (2020); Sutrisno and Widarjono (2022)
Asset-Based Financing (Salam, Istisna', Ijarah)	30%	Production stability, liquidity, market assurance	Price volatility, commodity risk	Danso-Abbeam et al. (2020); Yanti et al. (2025)
Cash Waqf Investment	20%	De-risking early ventures, infrastructure, tech adoption	Weak governance, fragmented Waqf systems	Ahmed (2021); Maulina et al. (2023); Bacha (2024)
Productive Zakat Programmes	20%	Poverty exit, microenterprise upliftment	Lack of mentoring, monitoring gaps	Sutrisno and Haron (2020); Alam et al. (2022); Ramli et al. (2025)

Thus, the proposed financial framework is not merely a technical allocation mechanism; it is a structural redefinition of Islamic finance itself. It transforms Islamic finance from a Halalised version of conventional credit into a *moral-economy instrument* designed to shape rural livelihoods, stabilise production systems, reduce vulnerability, and align financial flows with Malaysia's broader maqasid-based rural development vision.

5.5.3 Component C: Real Sector

The third component—the real sector framework—forms the operational heart of the Malaysian Glocal Islamic Rural Development Model. If the institutional structure (Component A) is the brain, and the financial framework (Component B) is the bloodstream, then the real sector is the body in which livelihoods are produced, wealth is generated, and structural transformation becomes tangible. The model, therefore, anchors itself explicitly within the economic activities that define rural Malaysia: agriculture, fisheries, agrofood systems, small and medium rural enterprises, and cooperative entrepreneurship. Yet, the framework rejects superficial forms of agricultural intervention—such as establishing chili farms solely to supply large agro-processors—which often create narrow income streams while leaving structural power asymmetries intact. These small-farm-to-big-corporation arrangements seldom alter the fundamental market dependency of rural producers; they reproduce unequal exchange relations, limit bargaining power, and lock farmers into price-taking positions that erode long-term resilience.

Instead, the Malaysian model is premised on a strategic transformation of rural value chains through rigorous, data-driven, and market-oriented planning. This requires beginning not with production but with market intelligence: value-chain mapping, price-discovery analyses, competitiveness diagnostics, and the identification of high-leverage entry points. Numerous studies validate this strategic approach. Van Westen (2021) argues that rural development fails when interventions focus on production quantity without addressing market positioning or bargaining power. Ruben (2024) similarly emphasise that rural producers must become value-makers, not mere commodity suppliers. This means that rural communities must be strategically positioned in segments of the value chain where value capture is highest—through cooperative processing, branding initiatives, downstream integration, niche halal markets, digital platforms, and contract structures such as *salam* or *istisna'* that guarantee fair prices and stable demand.

Global empirical research further affirms the centrality of rural value chains. Tshikovhi et al. (2023) note that agriculture remains the livelihood backbone for 2.5 billion people worldwide, while Gunjita and Mainak (2025) show that fisheries and aquaculture alone contribute 20–50% of rural household income in many developing regions. This highlights the need for a diversified real-sector approach that spans multiple subsectors—agriculture, fisheries, livestock, agro-processing, food distribution, and artisanal crafts—rather than overconcentrating on commodity monocultures. In this regard, Raja et al. (2022) propose a "common prosperity model" that revives traditional craftsmanship and rural entrepreneurship, highlighting that local natural resources and cultural capital can serve as bases for new value-added industries.

Empirical insights from SME studies (Ernah et al. 2025) demonstrate that rural SMEs are critical in transforming natural resources into high-value products, particularly when supported by infrastructure, appropriate technologies, and strategic policy interventions (Hajarani and Imsar 2025). These findings align with Novita et al. (2024), who argue that successful agricultural development requires precision technologies, strong farmer institutions, efficient supply-chain networks, and supportive government policies—all of which can be orchestrated under the GIRDC framework proposed earlier.

These structural elements reinforce that the real sector framework must be holistic and multi-layered, integrating production, processing, logistics, digitalisation, and market access. Studies by Zhang et al. (2025) and Liu et al. (2023) demonstrate that smart, integrated supply chains significantly enhance agricultural resilience by improving market information flows, stabilising prices, and enabling more efficient coordination across producer groups. When farmers are embedded within supply chains that leverage community capital, collaborative norms, and digital technologies, their adaptive capacity increases and their vulnerability to market shocks diminishes.

Cooperative entrepreneurship emerges as one of the most powerful vehicles for transforming rural economies. The literature is remarkably consistent on this point. Pröll et al. (2022) show that producer organisations strengthen farmers' market positions. Villalba et al. (2023) demonstrate the benefits of ecosystem-based agricultural value chain finance, which reduces transaction costs and mitigates risks for smallholders. Kafle et al. (2021) find that linking small-scale farmers to regional traders increases farm incomes through higher sales volumes and improved bargaining power. Gattone (2024) provides further evidence that moving to downstream markets improves farmers' consumption and welfare. Meanwhile, Singgalen (2025) reveals how halal certification—especially when supported by digital platforms—expands market reach for rural artisans and SMEs. Islam (2021) adds that strategic market segmentation can help rural producers target premium consumer niches rather than competing in saturated low-margin markets.

Specific studies across Mongolia (Ahado et al. 2021), Nigeria (Olagunju et al. 2021), and South Africa (Wale et al. 2021) confirm that cooperative membership consistently improves farmers' technical efficiency and economic performance. For example, Olagunju et al. (2021) report significantly higher technical efficiency levels among cooperative members compared to non-members. However, as Zhong et al. (2023) caution, cooperative quality matters: only "genuine" cooperatives—those with active farmer participation, transparent governance, and internal capital accumulation—deliver sustained benefits. These insights directly support the model's emphasis on *true* cooperative structures grounded in Islamic principles of *ta'awun* (mutual assistance) and *ukhuwwah* (solidarity), rather than the pseudo-cooperatives that often exist merely on paper.

The final anchor of the real sector framework is its integration with financing structures. Islamic banks and social finance institutions contribute financing tools that align with each stage of the value chain. *Salam* and *istisna'* contracts ensure stable forward pricing for farmers; *musharakah* and *mudarabah* support processing and SME formation; ijarah funds storage, logistics, and transportation infrastructure; and Waqf and Zakat support technology adoption, training, and new entrants. These instruments resonate with Ningrat and Nurzaman's (2019) proposal to unify market actors—landowners, suppliers, farmers, brokers, retailers, and investors—within a coordinated financing ecosystem. Trianto and Masrizal (2021) further find that Islamic banking financing has a positive impact on real-sector development in both short and long terms, validating the model's emphasis on finance–real-sector alignment.

Table 5.4 Real Sector Framework for the Malaysian Glocal Islamic Rural Development Model

Real-Sector Focus Area	Strategic Objective	Mechanisms / Tools	References
Agriculture and Agrofood	Strengthen producer bargaining power	Value-chain mapping, salam/istisna' contracts, downstream integration	Ruben (2024); Zhang et al. (2025)
Fisheries and Aquaculture	Income diversification and resilience	Cooperative hatcheries, cold chain Waqf, digital market access	Gunjita and Mainak (2025)
Rural SMEs	Capture higher value-added segments	Processing hubs, halal branding, SME financing	Ernah et al. (2025); Singgalen (2025)
Cooperative Entrepreneurship	Replace middlemen and build scale	Producer organisations, shared machinery, contract negotiation	Ahado et al. (2021); Olagunju et al. (2021)
Digital Rural Economy	Expand markets and lower transaction costs	e-commerce platforms, supply-chain fintech, digital identities	Silva et al. (2022); Liu et al. (2023)

In totality, this real-sector framework shifts rural development from fragmented, production-oriented interventions to an integrated, market-facing, value-chain-based approach that empowers rural producers to control, negotiate, and shape their economic destinies. Under the GIRDC framework, rural Malaysia can evolve from a landscape of vulnerable smallholders to a networked system of empowered cooperatives, technologically enhanced producers, and market-savvy enterprises—fully aligned with Islamic economic values and equipped to thrive in a glocal economy.

5.5.4 Component D: Social–*Maqasid*

The final component of the model—the social–*maqasid* framework—constitutes the ethical, teleological, and evaluative backbone of the proposed Malaysian Glocal Islamic Rural Development Model. While institutional arrangements determine governance capacity and financial and real-sector frameworks shape the flow of resources and economic incentives, it is this social–ethical layer that ultimately determines whether the entire system remains true to the Islamic moral economy. Without a *maqasid*-driven evaluative structure, even the most sophisticated development ecosystem risks collapsing into conventional rural developmentalism clothed in Islamic vocabulary or Islamic finance that is legally compliant but ethically shallow. By positioning *maqasid* as an operational, measurable, and enforceable framework, the model seeks to rehabilitate its original function—as a compass for human dignity, justice, and holistic wellbeing—rather than allowing it to drift into rhetorical abstraction.

In line with emerging scholarship, the model redefines rural development success not by GDP contribution, financing volumes, or project completion rates, but by a suite of *maqasid*-aligned indicators that reflect material stability, moral flourishing, and communal resilience. The works of Al Fajar et al. (2024) and Zailani et al. (2022) reinforce this orientation, demonstrating that Islamic development thought is inherently inclusive, justice-oriented, and anchored in the protection of the five essentials of life: faith, life, intellect, posterity, and wealth. By moving beyond income metrics, these scholars argue for a development perspective that safeguards against moral erosion, environmental degradation, intergenerational inequities, and socio-economic stratification.

Central to this framework is the shift from measuring temporary relief to evaluating permanent upward mobility. Poverty-exit metrics, therefore, focus on the accumulation of productive assets, long-term financial resilience, intergenerational social mobility, and the mitigation of structural vulnerabilities. Hasbi et al. (2023) emphasise that protecting both material and non-material aspects of life is essential for authentic *maqasid*-compliant development, while Shabbir (2020) criticises conventional poverty measures for isolating economic progress from spiritual and biophysical realities. Empirical contributions such as the Islamic Human Development Index (I-HDI) by Lestari and Arumi (2024) demonstrate that multidimensional indices capture human welfare more effectively than income-based metrics, while Yusoff et al. (2021) highlight the need to address unequal wealth distribution, demographic fragility, and quality-of-life disparities that conventional indicators tend to obscure.

Complementing these poverty measures are holistic wellbeing indicators, including food security, income stability, environmental health, and dimensions of psychosocial wellbeing. Abreu and Mesias’s (2020) identification of twenty-five critical indicators across social, environmental, demographic, and economic categories provides a strong empirical basis for such multidimensional evaluation. Kader (2021) further insists that embedding ethical principles within wellbeing frameworks is crucial for dealing with intergenerational cycles of rural marginalisation, chronic indebtedness, and livelihood precarity. When wellbeing measures are expanded to incorporate social justice, economic protection, environmental sustainability, and community cohesion—as demonstrated by studies such as Hasbi et al. (2023) and Monawer et al. (2022)—development outcomes become not only deeper but also more resilient to external shocks.

Inclusivity is the next pillar of this social–*maqasid* framework. Rather than treating inclusion as a peripheral social objective, the model positions gender participation, youth involvement, intergenerational transition, and equitable distribution as core indicators. This aligns with the argument of Aziz et al. (2024) and Sheikh (2025) that inclusivity is intrinsic to protecting intellect, posterity, and life within the *maqasid* framework. Shabbir (2020) and Anwar et al. (2025) also emphasise that developmental planning must internalise moral and spiritual values to ensure equitable participation across all social groups, while Trivelli and Morel (2021) provide compelling empirical evidence that structured youth participation mechanisms can dramatically increase entrepreneurial capacity, asset accumulation, and intergenerational collaboration. These findings underscore the model’s contention that rural youth must be treated not as beneficiaries but as primary agents of transformation capable of shaping the future contours of Malaysia's rural economy.

Youth empowerment thus emerges as a dedicated evaluative dimension, given Malaysia's ongoing demographic transition, and the need to cultivate a new generation of rural leaders. Incorporating youth extends beyond creating employment opportunities; it involves structured entrepreneurship training, digital literacy development, cooperative leadership formation, and co-ownership models within SMEs and agro-based enterprises. Research by Karimullah (2023) highlights *maqasid* as a moral guide for charting community futures, while Trivelli and Morel (2021) and Anwar et al. (2025) confirm that youth capability-building interventions strengthen long-term rural resilience and community vitality. The emphasis on youth succession planning within cooperatives and family enterprises ensures continuity of Islamic economic values and prevents institutional stagnation.

What fundamentally distinguishes this model is its insistence on integrating *maqasid* indicators into institutional reporting, programme evaluation, and financing design—thereby transforming *maqasid* from a conceptual ideal into a regulatory and operational tool. Mukhlisin (2021) shows that *maqasid*-based reporting leads to greater alignment between ethics and accounting practices, while Kurnia et al. (2020) demonstrate that *maqasid* (Shariah-aligned) frameworks function effectively as benchmarks for distribution and social investment programmes. Tarique et al. (2021) extend this insight by illustrating how *maqasid* integration improves financial product design by aligning incentives with long-term social welfare. Importantly, empirical findings by Alhammadi et al. (2022) reveal the presence of a "faith premium," whereby investors willingly accept lower financial returns in exchange for ethical and spiritually aligned investment outcomes—suggesting that a Shariah-aligned rural development model is not only morally robust but also financially viable and appealing to value-driven investors.

Table 5.5 Social–*Maqasid* Framework for the Malaysian Glocal Islamic Rural Development Model

***Maqasid* Domain**	**Strategic Purpose**	**Operational Metrics**	**Supporting Evidence**
Poverty Exit Metrics	Permanent upward mobility	Asset accumulation, resilience scores, long-term income mobility	Hasbi et al. (2023); Lestari and Arumi (2024)
Wellbeing Indicators	Holistic material–spiritual welfare	Food security, environmental quality, income stability, mental wellbeing	Abreu and Mesias (2020); Kader (2021)
Inclusivity Index	Equitable participation across groups	Gender ratios, youth involvement, intergenerational transitions	Aziz et al. (2024); Trivelli and Morel (2021)
Youth Empowerment Pathways	Leadership, entrepreneurship, capability building	Digital literacy, startup participation, cooperative succession	Anwar et al. (2025); Karimullah (2023)

Ethical Governance Layer	Embedding maqasid in institutions	Maqasid reporting, ethical accountability frameworks	Mukhlisin (2021); Tarique et al. (2021)
Faith Premium Effects	Align investment with moral values	Ethical investment inflows, investor preference surveys	Alhammadi et al. (2022)

Overall, the social–*maqasid* framework transforms rural development into a vehicle for protecting human dignity (*karamah insaniyyah*), strengthening families and community bonds, cultivating future generations, and enabling rural Malaysians to flourish materially, spiritually, and socially. By embedding ethical purpose and holistic wellbeing into the core of institutional operations, financing structures, and real-sector strategies, the model ensures that Islamic rural development does not replicate conventional perspectives, but instead advances a uniquely Malaysian, ethically grounded, and future-oriented pathway for rural transformation.

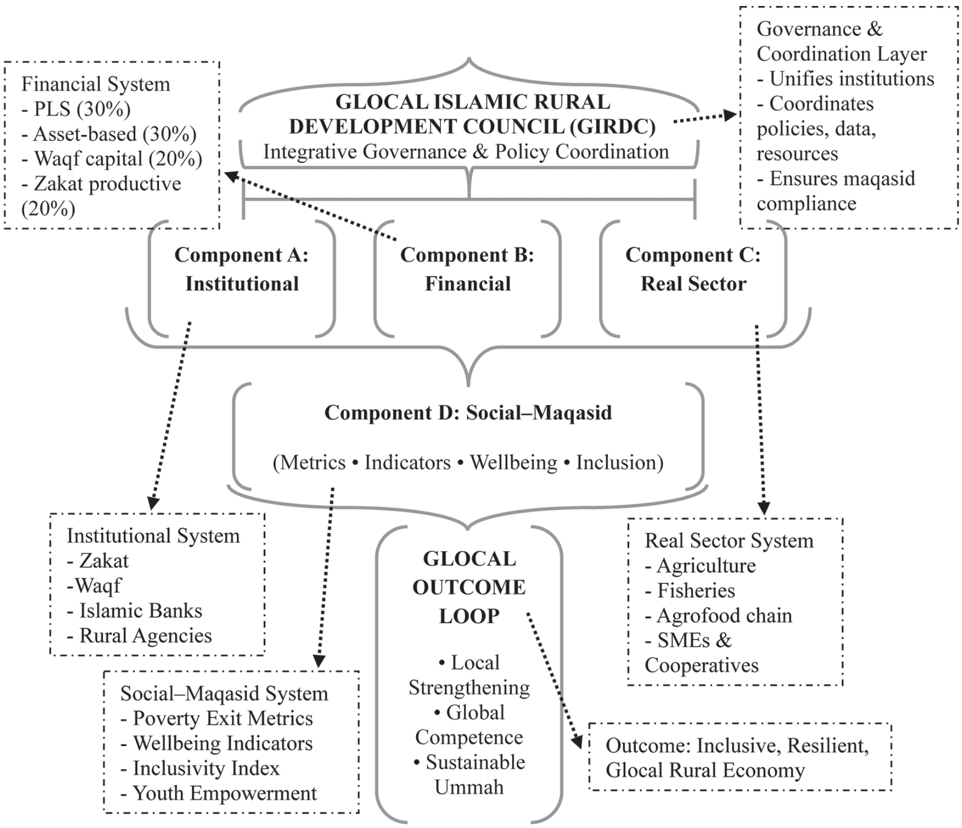

Figure 5.7 Framework Interaction Map

Figure 5.7 is the Framework Interaction Map, showing the dynamic interplay between institutional coordination, financial flows, real-sector upgrading, and *maqasid*-driven evaluation—forming a unified system for Malaysian glocal rural transformation.

5.6 Future Pathways for Malaysia and The Global Muslim World

5.6.1 Malaysia as the Global Hub for Shariah-Based Rural Finance

The proposition that Malaysia can emerge as the global hub for Shariah-based rural finance is not merely aspirational; it is a logical extension of Malaysia's existing institutional density, regulatory sophistication, and accumulated expertise in Islamic finance. For more than three decades, Malaysia has positioned itself as a global reference point for Islamic banking, *sukuk* markets, regulatory harmonisation, and Shariah governance. Yet, despite these achievements, the country's global leadership remains disproportionately concentrated in urban, corporate, and capital-market segments, leaving rural finance—arguably the most historically authentic arena of Islamic economic practice—underdeveloped and conceptually neglected. The future track of Islamic finance increasingly depends on its ability to address food security, rural livelihoods, climate resilience, and the equitable distribution of wealth, and Malaysia possesses the rare institutional configuration capable of leading this shift. Thus, the idea of Malaysia as the global hub for Shariah-based rural finance requires reconceptualising IBF's global value proposition: from product innovation to developmental transformation, from urban consumerism to rural regeneration, and from parallel Islamic banking to integrated Islamic economic systems.

Malaysia's comparative advantage lies in its diverse and well-structured constellation of Islamic institutions—Zakat authorities, Waqf boards, Islamic banks, microfinance arms, agro-development agencies, and cooperative movements—that are present simultaneously within a single jurisdiction. Unlike many Muslim-majority countries where Islamic institutions operate in isolation or face weak regulatory grounding, Malaysia has already institutionalised Shariah committees, centralised fatwa councils, integrated reporting requirements, and a regulatory ecosystem that supports fintech experimentation, digital identity systems, and cross-institutional collaboration. This density of infrastructure provides Malaysia with the capacity to orchestrate a vertically integrated rural development model—linking finance, production, logistics, technology, and community institutions—something no other country has yet successfully operationalised. If harnessed strategically, Malaysia could provide the first scalable blueprint demonstrating how Shariah-based principles can animate an entire rural economy, rather than merely Islamicising discrete financial products.

Furthermore, Malaysia's potential leadership is strengthened by its dual identity as both an advanced Islamic finance jurisdiction and a middle-income, multi-ethnic nation with a significant rural population. This duality positions Malaysia uniquely between the high-income countries of the Gulf—whose rural economies are marginal—and the lower-income Muslim societies in Africa and South Asia—where institutional infrastructure remains underdeveloped. Malaysia thus straddles two worlds: sophisticated enough to model global best practices, yet grounded enough to understand the realities of smallholders, fishermen, micro-entrepreneurs, and rural poverty dynamics. This "glocal middle position" is precisely what makes Malaysia the ideal laboratory for an Islamic rural finance perspective that can be exported across the Global South. Unlike perspectives emerging from Gulf states, which are often capital-rich but structurally detached from agricultural experience, a Malaysian model would be grounded in lived rural realities while maintaining global financial credibility.

Importantly, Malaysia's leadership potential is enhanced by the growing international demand for Islamic ethical development models that prioritise inclusion, resilience, and sustainability. As climate stress, food insecurity, and rural-urban inequality intensify globally, Muslim-majority nations—from Indonesia, Pakistan, Egypt, and Nigeria to Sudan, Bangladesh, and Morocco—are increasingly seeking alternatives to conventional microfinance, donor-dependent development, and debt-driven agricultural expansion. These countries collectively encompass more than 700 million rural Muslims, forming what may be termed the "Global Muslim Rural Belt." Malaysia's experience with Islamic social finance, cooperative systems, agrarian agencies, and fintech regulation renders it exceptionally well-situated to provide the intellectual, institutional, and regulatory scaffolding for a new rural-centred Islamic development perspective. In this sense, becoming a global hub is not merely a matter of prestige but a responsibility—to pioneer models that smaller or institutionally weaker Muslim nations can adapt.

However, Malaysia's claim to global leadership hinges on its willingness to transition from Islamic finance as a compliant financial sub-sector to Islamic finance as a developmental framework. Leadership will not emerge from *sukuk* volume, Shariah pronouncements, or fintech achievements alone; it must be demonstrated through rural transformation outcomes: higher farmer incomes, more resilient supply chains, cooperative empowerment, food security gains, and measurable reductions in rural multidimensional poverty. Only when Malaysia can evidence that its Islamic institutions can lift rural households from subsistence to sustainability—through PLS mechanisms, Waqf-supported ventures, *salam-istisna'* value chains, and Zakat-driven productive capital—will it earn the legitimacy to lead the Muslim world in this new frontier.

If Malaysia succeeds in implementing the integrated GIRDC model, refining Shariah aligned *maqasid*-based performance metrics, and operationalising a hybrid financial framework that combines commercial and developmental mandates, it can position itself as the epicentre of a new global movement: the transition from Islamic banking to Islamic rural economic systems. This shift would redefine Malaysia's global identity—moving beyond being merely an Islamic finance hub to becoming the intellectual, institutional, and practical leader of Shariah-based rural transformation for the Muslim world. Such a role would restore the historical spirit of the Islamic economic tradition: building not only financial sophistication, but also agricultural resilience, community empowerment, justice in markets, and the flourishing of human dignity across rural societies.

5.6.2 Policy Shifts Needed

For Malaysia to credibly position itself as the global hub for Shariah-based rural finance, a series of deep structural policy shifts is necessary. These shifts must move beyond incremental reforms or cosmetic enhancements to existing Islamic finance policies; instead, they require a refocusing of Malaysia's economic framework from an urban–consumerist financial model to a rural–productive Islamic development model. The current policy environment—while strong in regulatory governance, institutional clarity, and industry standardisation—remains anchored in the logic of financialisation, where Islamic finance grows primarily by expanding credit-based consumer markets. To unlock Malaysia's potential leadership in Shariah-based rural development, policy frameworks must be re-engineered to reorient incentives, reshape institutional roles, and realign regulatory priorities with *maqasid*-driven outcomes.

A key policy shift involves redefining the mandate of Islamic financial institutions from providers of Shariah-compliant services to engines of rural economic transformation. Malaysia's regulatory framework currently rewards asset growth, capital adequacy, and profit stability—metrics inherited from the conventional banking perspective. These incentives inadvertently penalize rural engagement, PLS financing, and agricultural ventures, all of which carry higher monitoring costs and lower short-term returns. Policy reforms must therefore introduce differentiated regulatory treatment for Islamic rural finance portfolios, including risk-weight adjustments, capital relief for PLS exposures, blended-finance incentives combining Waqf and Zakat, and a regulatory sandbox dedicated exclusively to rural Islamic finance innovation. Without altering the financial calculus of Islamic banks, rural transformation will remain structurally unattractive, regardless of visionary rhetoric.

Equally critical is the reform of Zakat and Waqf governance. While these institutions hold substantial redistributive potential, their current structures are designed primarily for disbursement compliance rather than productive development. Policymakers must therefore institutionalise a dual Zakat framework that clearly separates consumptive assistance from productive Zakat investment, supported by performance-based reporting, professional fund management, and cross-state harmonisation of standards. For Waqf, a national policy directive is needed to transition from passive land administration to dynamic asset development, enabling the systematic deployment of Waqf land, cash Waqf endowments, and mixed Waqf instruments for rural ventures, cooperative entrepreneurship, and value-chain financing. These reforms echo the emerging literature arguing that Zakat–Waqf integration is one of the most underutilised development tools in Muslim economies, often constrained by regulatory fragmentation rather than theological limits.

The rural policy landscape itself requires recalibration. Malaysia's existing rural development agencies—FELDA, RISDA, FAMA, LKIM, MADA—operate under sector-specific mandates that often produce siloed interventions, duplicated programmes, and disjointed value-chain strategies. A new national rural development policy must integrate these agencies under a shared Islamic economic vision, aligning them with the GIRDC institutional framework proposed earlier. This integration is crucial for addressing market failures that rural households face: monopsonistic buyers, volatile farm-gate prices, low bargaining power, and limited access to logistics infrastructure. Policy frameworks must therefore expand beyond subsidies and input assistance towards structural interventions such as regulated contract farming using *salam* and *istisna'* models, protected market access for cooperative produce, and incentives for decentralized rural processing hubs. Such policies would shift rural communities from being price-takers at the mercy of middlemen to becoming price-setters through coordinated production and value addition.

Furthermore, Malaysia needs a national data-driven rural finance policy. Current data ecosystems provide detailed analytics on macro-financial indicators but offer limited granularity on rural indebtedness, informal financing patterns, micro-enterprise viability, household vulnerability cycles, climate exposure, or supply-chain bottlenecks. A Shariah-aligned rural data framework is essential for designing targeted interventions, identifying underserved communities, and measuring multidimensional welfare outcomes. This aligns with global evidence showing that rural development systems perform best when supported by continuous data flows, participatory monitoring, and integrated digital platforms that link farmers, cooperatives, financiers, agencies, and markets. Malaysia, with its sophisticated fintech infrastructure, is well-positioned to pioneer such a system.

Another crucial policy shift involves embedding *maqasid*-based evaluation within national development planning. Despite rhetorical presence in government documents, the necessary compliance with Shariah remains absent in operational frameworks, KPIs, and budget allocation models. A structural shift is needed to incorporate *maqasid* indicators into performance audits for Islamic financial institutions, rural agencies, and social finance managers. This includes mandating Shariah-compliant *maqasid* reporting for selected financial products, public-sector programmes, and rural financing schemes, ensuring that social justice, equitable distribution, intergenerational sustainability, and human dignity become measurable outcomes rather than symbolic aspirations.

Finally, Malaysia must internationalise its rural Islamic finance strategy. Policy reforms should include cross-border Waqf-rural ventures, South–South agricultural financing partnerships, halal supply-chain collaboration, and shared research platforms with Muslim-majority countries in Africa and Asia. Such outward-looking policies would enable Malaysia not only to export institutional models but also to import knowledge, innovations, and cultural practices from the broader Global Muslim Rural Belt. By positioning itself as both a contributor and learner in a global ecosystem of rural Islamic development, Malaysia can avoid the pitfalls of hubris while cultivating a leadership role grounded in humility, collaboration, and mutual learning.

Overall, these policy shifts represent a comprehensive restructuring of Malaysia's development perspective, signalling a move from financial sophistication to ethical transformation, from sectoral fragmentation to integrated value chains, and from compliance-oriented metrics to *maqasid*-oriented outcomes. If implemented, Malaysia could pioneer a globally significant model of Shariah-based rural development—one that resonates deeply with the needs, aspirations, and moral foundations of rural Muslim communities worldwide.

5.6.3 Islamic Fintech for Rural Transformation

Islamic fintech represents one of the most transformative—and yet still underutilised—frontiers for advancing Malaysia's glocal rural development agenda. While Malaysia has made significant strides in digital Islamic finance, particularly through regulatory sandboxes, e-payment systems, and pioneering Shariah-compliant crowdfunding platforms, these innovations remain disproportionately concentrated in urban markets and oriented toward consumer convenience rather than structural rural upliftment. To unlock the full developmental potential of Islamic fintech, its strategic purpose must shift away from digitising conventional financial behaviour toward re-engineering rural economic systems, reducing transaction costs, strengthening value-chain governance, and expanding access to Shariah-based financial instruments for underserved communities.

A central opportunity lies in the ability of fintech to resolve the longstanding structural barriers that have historically hindered rural participation in Islamic finance: high monitoring costs, information asymmetries, collateral constraints, geographical dispersion, and lack of credit histories. Digital platforms—when designed to conform to Shariah principles—can radically reduce these frictions. Remote sensing technologies, satellite imagery, and IoT-enabled agricultural monitoring can lower the cost of evaluating PLS-based contracts such as *mudarabah* and *musharakah*, directly addressing one of the key disincentives for Islamic banks to engage in rural sectors. Digital identity systems, biometric KYC, and blockchain-based record keeping can expand access for rural households that are often excluded from formal finance due to documentation gaps. These tools not only democratise access but also create the data infrastructure required to track productivity, monitor risk, and evaluate rural enterprise performance in near real time.

Moreover, Shariah-compliant digital crowdfunding and P2P financing platforms can mobilise widespread participation in rural ventures, enabling urban Muslims to invest directly in agricultural production, fisheries, rural SMEs, or cooperative agribusiness projects. When anchored in participatory contracts—such as *salam*-based pre-purchase financing, *istisna'*-based asset construction, *wakalah*-based marketplace intermediation, or *mudarabah*-based profit-sharing—these platforms provide an alternative to rural households' dependence on middlemen, informal moneylenders, or extractive supply-chain financiers. Empirical evidence from emerging markets shows that digital crowdfunding can reduce credit inaccessibility, facilitate producer–consumer linkages, and enhance farmer bargaining power—effects that align strongly with the Islamic economic principle of removing injustice (*raf' al-zulm*) in market exchanges.

A second transformative horizon lies in the development of Shariah-based digital value-chain ecosystems, where fintech integrates production, processing, logistics, and market access. Digital cooperatives can pool harvest forecasts, aggregate supply, negotiate bulk prices, and coordinate planting calendars through AI-enabled dashboards. Blockchain-enabled supply chains can provide transparent farm-to-market traceability, reducing the exploitative pricing patterns often caused by opaque middlemen systems. Smart contracts built upon salam and *istisna'* can automate payment schedules, enforce agreed-upon quality standards, and ensure farmers receive guaranteed offtake prices—directly reducing income volatility, which is one of the greatest sources of rural vulnerability. Such technological integration can reposition rural communities from fragmented producers into coordinated economic actors with enhanced structural power in the marketplace.

Islamic fintech also offers novel tools for activating Zakat and Waqf in ways that were previously impossible due to administrative constraints. Digital Waqf platforms can mobilise micro-contributions from millions of donors, enabling the creation of large-scale rural development funds capitalised through RM1–RM10 recurring contributions. These funds can be channelled into cold-chain infrastructure, small farming machinery, cooperative processing centres, or rural digital academies. Zakat platforms can similarly leverage algorithmic assessments to identify eligible beneficiaries with greater precision, track household vulnerability over time, and match Zakat programmes to tailored livelihood interventions—moving beyond blanket disbursement toward personalised developmental pathways. Digital governance tools, such as real-time dashboards and automated audit trails, can enhance transparency, minimise leakage, and strengthen public trust in Islamic social finance institutions.

The integration of fintech into rural transformation also creates space for a new generation of *Islamic agritech entrepreneurs*. These youths—skilled in coding, AI, GIS, drones, IoT, and digital supply chain management—can anchor economic opportunities within rural communities, reversing the trend of youth outmigration and knowledge drain. When coupled with Shariah-based venture capital and micro-PLS funds, such innovations can power an ecosystem of halal agrofood start-ups, digital cooperatives, rural e-commerce platforms, and Islamic green technology providers. These sectors align strongly with global sustainable development priorities—climate resilience, food sovereignty, and ethical supply-chain governance—thus positioning Malaysia as an international model of how Islamic fintech can serve planetary and community wellbeing.

Critically, the success of Islamic fintech in rural transformation depends on adopting a glocal design philosophy. Technologies must not merely be imported from urban or Western contexts; they must be adapted to rural realities, cultural norms, linguistic diversity, and Islamic ethical expectations. This means designing mobile platforms with low-bandwidth functionality, using local dialects, enabling offline transaction modes, embedding fatwa guidance within apps, and ensuring that AI-driven decision-making adheres to Shariah principles of fairness, transparency, and non-exploitation. Such glocalisation ensures that fintech empowers rather than alienates, integrates rather than disrupts.

In sum, Islamic fintech is not simply a technological layer added onto existing financial systems; it is a systemic enabler capable of transforming rural Malaysia into a digitally integrated, ethically governed, and economically resilient community ecosystem. If harnessed intentionally—through policy support, institutional coordination, and *maqasid*-driven design—Islamic fintech can serve as the linchpin connecting the institutional, financial, real-sector, and social–ethical frameworks of the Malaysian Glocal Islamic Rural Development Model. Its role is not merely supplementary but foundational, providing the digital scaffolding required to build a new generation of rural Islamic economies that are globally competitive, locally grounded, and morally anchored.

5.6.4 The Global Muslim Rural Belt and South–South Cooperation

Malaysia's proposed Glocal Islamic Rural Development Model positions the country not merely as an Islamic finance innovator, but as a potential catalyst for transforming what may be termed the *Global Muslim Rural Belt*—a vast, diverse, and often underdeveloped band of Muslim-majority and Muslim-minority regions stretching across Southeast Asia, South Asia, West Asia, Central Asia, Sub-Saharan Africa, and parts of the Balkans. In these regions, rural populations constitute between 40% and 70% of the national demographic profile, and their economic livelihoods remain heavily dependent on agriculture, livestock, artisanal production, micro-entrepreneurship, and informal supply chains. Despite cultural, geographic, and institutional variations, these communities share three structural challenges that undermine their long-term wellbeing: (i) limited access to ethical financial services, (ii) fragmented or exploitative supply chains, and (iii) absence of governance models that integrate Islamic social finance with real-sector development.

Malaysia's experience—combining advanced Islamic financial markets, deeply embedded social-finance traditions, and a relatively stable rural institutional ecosystem—places it in a unique position to serve as a reference point for South–South cooperation. Rather than exporting a monolithic model, Malaysia can offer a glocal template that can be adapted, scaled, and contextualised based on local realities in Africa, South Asia, or the Middle East. This stands in contrast to Gulf-centric development perspectives, which often prioritise large sovereign investments or capital-intensive mega-projects that do not resonate with the socio-cultural and material conditions of rural communities.

Strategic South–South cooperation begins with recognising that many Muslim-majority developing countries possess rich Islamic economic traditions but lack integrative frameworks to operationalise them. In Sub-Saharan Africa, for example, Zakat systems are widespread but administratively weak; Waqf lands exist but remain idle or poorly managed;

and Islamic microfinance is nascent or overly dependent on donor funding. Across South Asia, participatory agricultural contracts have historical roots—such as *musaqah*, *muzara'ah*, and *mudarabah*—but are seldom connected with modern market systems or linked to Islamic banks. In Central Asia and the Balkans, Muslim communities operate within secular governance structures, yet remain open to Islamic values in cooperative agriculture, halal SMEs, and community-based finance. Malaysia's model, therefore, is not an export of institutions, but an export of *integration logic*: how to align Shariah-based financial tools with rural production systems, community institutions, and contemporary market opportunities.

At the centre of this cooperation lies the creation of Islamic rural development corridors—networks of countries sharing technologies, financing tools, supply-chain innovations, and agricultural expertise. Malaysia can play a convening role by hosting a *Global Muslim Rural Belt Forum*, linking stakeholders from Indonesia, Pakistan, Bangladesh, Türkiye, Iran, Egypt, Sudan, Nigeria, Senegal, Morocco, Uzbekistan, Bosnia, and Muslim-minority regions such as Southern Thailand, Mindanao, and Xinjiang. Such a forum would not merely be diplomatic in nature, but a platform for: (i) exchanging best practices in Waqf governance, (ii) sharing Islamic fintech innovations for rural finance, (iii) exploring cross-border *sukuk* for agricultural infrastructure, (iv) coordinating halal supply-chain standards, and (v) developing joint training programmes for Shariah scholars, rural planners, and development economists.

Further, Malaysia's halal industry expertise—particularly in halal certification, traceability systems, logistics, and standards enforcement—can be leveraged to support rural producers across the Muslim world. By assisting rural cooperatives and smallholder farmers in Africa or South Asia to meet halal export standards, Malaysia could catalyse new South–South trade flows that enhance incomes and strengthen global Muslim consumption networks. This aligns closely with global halal market projections, which show increasing demand for halal agrofood, pharmaceuticals, cosmetics, and ethical lifestyle products in OIC and non-OIC markets. Rural producers could thus be integrated into global halal value chains, capturing higher value-added segments while preserving religious integrity.

Islamic social finance—especially Zakat and Waqf—represents another critical linkage point for South–South cooperation. Malaysia's experience in institutionalising Zakat collection, digitisation, and targeted distribution can provide valuable lessons for countries with less structured systems. Likewise, Malaysia's emerging expertise in cash Waqf, Waqf-linked *sukuk*, and productive Waqf development can be adapted to revitalise thousands of hectares of dormant Waqf lands across Africa, South Asia, and the Middle East. The potential for cross-border Waqf funds—pooled from global Muslim philanthropists and channelled into rural schools, agricultural training centres, renewable energy hubs, and women's cooperatives—is immense and remains largely unexplored within Islamic development discourse.

Digital Islamic finance opens an entirely new horizon for transnational cooperation.

Shariah-compliant crowdfunding platforms, blockchain-based Zakat systems, digital Waqf wallets, and cross-border PLS investment platforms can connect urban Muslims in Malaysia with rural entrepreneurs in Kenya, Pakistan, or Indonesia. Such South–South digital pathways can create a new form of *transnational Ummah-based finance*, where shared faith, shared ethics, and shared developmental goals redefine economic relationships beyond geographic boundaries. These tools can help overcome the physical and regulatory constraints that traditionally hinder cross-border Islamic finance, making rural development a digitally connected and financially integrated endeavour.

However, for Malaysia to effectively lead this global rural revitalisation agenda, it must avoid the pitfalls of top-down development exportation. Instead, the approach must be dialogical, partnership-based, and sensitive to local epistemologies, customary norms, and indigenous economic systems. South–South cooperation must recognise that local contexts shape the viability of Islamic financial instruments; thus, Malaysia's role is to facilitate adaptation rather than impose templates. The Malaysian glocal model is powerful precisely because it emphasises flexibility, cultural grounding, and integration—principles that resonate broadly across the Global Muslim Rural Belt.

In this sense, the future of Islamic rural development is fundamentally collaborative. Malaysia can serve as an intellectual, institutional, and technological hub—but the transformation of rural Muslim economies will emerge from a distributed ecosystem of partnerships that harness collective knowledge, local wisdom, and shared moral purpose. The long-term vision is the formation of a global Islamic rural economy: interconnected, digitally enabled, ethically grounded, and resilient. Such a network would not only strengthen food security, reduce poverty, and enhance economic dignity but also revive the classical Islamic notion of the Ummah as an interdependent community bound by justice, mutual assistance, and shared prosperity.

5.6.5 Research Gaps and Future Agenda

Despite the increasing maturity of Islamic finance scholarship and the growing body of empirical work on rural development, significant research gaps remain that limit the field's capacity to design and implement a truly Shariah-based, outcome-driven, and glocally adaptive rural economic model. Identifying these gaps is essential not only for academic advancement but also for guiding policymakers, practitioners, and global development actors toward more coherent, integrated, and impactful strategies.

One of the most persistent gaps lies in the conceptual misalignment between Islamic finance theory and the operational realities of rural economies. While classical Islamic economic thought emphasises risk-sharing, partnership-based production, and socio-ethical redistribution mechanisms, most contemporary research continues to focus on formal financial products, regulatory compliance, and institutional efficiency. As Avdukic and Asutay

(2024) argue, the sector remains heavily embedded in a managerialist, growth-oriented perspective that reproduces the logic of conventional finance. What is missing is a robust theoretical framework that links *Islamic moral economy principles* with *rural production systems*, *agricultural behavioural patterns*, and *community-driven institutional structures*. Future research must therefore explore models that integrate participatory contracts—such as *musharakah*, *mudarabah*, *salam*, and *muzara'ah*—into rural value-chain dynamics in a way that is analytically rigorous and context-sensitive.

A related gap concerns the chronic under-theorisation of institutional integration. The literature has extensively documented the fragmentation across Zakat institutions, Waqf boards, Islamic banks, microfinance providers, and rural agencies, but empirical and methodological work on how to design integrative frameworks remains scarce. Studies such as Mahadi (2025), Maulina et al. (2023), and Abu Talib et al. (2020) call for more cohesive Islamic institutional ecosystems, yet few provide operational blueprints or governance frameworks capable of harmonising cross-institutional incentives, mandates, and accountability mechanisms. Future research should therefore investigate the institutional design, regulatory interfaces, and coordination technologies necessary to operationalise structures like the Glocal Islamic Rural Development Council proposed in this study.

Another significant gap pertains to financial portfolio engineering for rural Islamic finance. While research has explored the risks, profitability, and adoption barriers of PLS contracts (Widarjono et al. 2020; Syarifuddin 2020), there is limited empirical analysis on how to configure balanced rural financial portfolios that integrate commercial, social, and developmental instruments. The literature offers scattered insights—such as the role of cash Waqf in de-risking (Majid and Sukmana 2023) or productive Zakat programs in poverty alleviation (Sutrisno and Haron 2020)—but an integrated financial framework tailored to rural volatility remains undeveloped. Future studies must model portfolio allocations, risk structures, and long-term financial impacts of mixed instruments—PLS, trade-based contracts, Waqf capital, and Zakat grants—when deployed collectively in real agricultural ecosystems. Simulation models, agent-based modelling, and longitudinal impact evaluations could provide much-needed clarity.

A parallel gap exists in real-sector research. Much of the rural economics literature focuses on farmer productivity, supply-chain inefficiencies, market asymmetries, and agricultural technology adoption. However, it rarely incorporates Islamic economic instruments into these analyses. Moreover, most Islamic finance studies remain detached from the granular details of rural production cycles, seasonality, perishability, price formation, cooperative behaviour, and social capital networks. There is an urgent need for interdisciplinary research that connects *Islamic contract design* with *value-chain mapping*, *market access strategies*, *agro-logistics*, and *digital agriculture platforms*. This integration would help scholars identify precisely where Islamic finance instruments can intervene most effectively to reshape rural market structures.

On the measurement front, research on *maqasid*-based indices remains conceptually rich but operationally limited. Works like Shabbir (2020), Hasbi et al. (2023), and Lestari and Arumi (2024) have proposed multidimensional wellbeing frameworks, yet few have been tested in real rural settings, and almost none have been integrated into institutional reporting systems. A systematic research agenda is required to develop, validate, and pilot *maqasid*-driven indicators—especially those tracking poverty exits, inclusivity, youth empowerment, and ecological resilience—in rural Malaysian districts and other Muslim-majority regions. This could form the basis for a new generation of Islamic development metrics that move beyond GDP and income indicators to capture dignity, equity, sustainability, and spiritual wellbeing.

Another emerging gap concerns Islamic fintech. While studies highlight substantial potential in blockchain Zakat systems, smart Waqf contracts, digital PLS platforms, and halal supply-chain traceability, there remains a lack of rigorous empirical analysis on adoption barriers, regulatory risks, digital literacy gaps, algorithmic biases, cyber vulnerabilities, and cost–benefit dynamics in rural settings. Future research must investigate how Islamic fintech can be localised and culturally contextualised for smallholders, cooperatives, and village institutions—avoiding techno-solutionism and ensuring ethical alignment with Islamic principles.

The global dimension also remains under-explored. Comparative studies on rural Islamic finance across regions—Africa, South Asia, Central Asia, Southeast Asia, the Balkans—are sparse. The concept of a *Global Muslim Rural Belt*, introduced in this study, calls for systematic comparative research on how Islamic social finance, agricultural contracts, cooperatives, and fintech can be adapted across diverse cultural, legal, and institutional ecosystems. South–South cooperation models—still a neglected area—offer fertile ground for scholarship on transnational Waqf funds, cross-border rural *sukuk*, digital Islamic microfinance corridors, and halal export partnerships.

Finally, the field lacks longitudinal studies. Most Islamic rural development interventions are evaluated through short-term project-based metrics, which fail to capture long-term behavioural, social, and intergenerational impacts. Future research must employ multi-year field studies, ethnographic approaches, and grounded theory methods to understand how Islamic finance reshapes rural norms, family structures, entrepreneurial patterns, and intergenerational mobility.

Overall, these research gaps reveal that the transition from *financial Islamization* to *economic Islamization*—and ultimately to *rural Islamization*—is an unfinished intellectual and policy project. A future research agenda must therefore be interdisciplinary, empirically grounded, methodologically plural, and normatively anchored in Islamic moral economy principles. Only through such an integrated scholarly effort can Malaysia, and the broader Muslim world, build the knowledge base required to operationalise a just, resilient, and glocally adaptive Islamic rural development perspective.

5.7 Conclusion

This chapter has served as the conceptual and normative culmination of this book, transitioning from a critical diagnosis of the past and present toward a constructive proposal for the future. It began by confronting a central paradox: Malaysia's undisputed global leadership in Islamic finance has coexisted with a persistent failure to channel that sophistication toward the transformative development of its rural heartlands. Through a critical synthesis of the preceding chapters, we identified the root of this paradox not in a lack of institutions or expertise, but in a fundamental set of glocal misalignments—the privileging of financial Islamization over economic Islamization, legalistic compliance over *maqasid*-driven transformation, and urban middle-class consumption over rural productive empowerment.

The critical diagnosis laid bare the framework of what is best termed "Islamic-friendly capitalism"—a system that, while Shariah-compliant in form, has largely operated within and reinforced the logic of a capitalist developmental state, leaving the ethical core of the Islamic moral economy institutionally marginalized. This has resulted in a landscape where the most authentically Islamic instruments, such as profit-and-loss sharing contracts, remain the least deployed, precisely where they are most needed: in the volatile, real-sector environment of rural Malaysia.

In response, this chapter has advanced a proactive framework—the Malaysian Glocal Islamic Rural Development Model. This model is built on four interlocking principles: a decisive shift from financial to economic Islamization; the vertical integration of Malaysia's dense but fragmented Islamic institutions; the promotion of decentralised, community-rooted finance; and a strategy of glocal adaptation that synergizes global IBF expertise with local socio-cultural realities. These principles were operationalized into a concrete framework comprising four architectural pillars: a consolidated Institutional Framework (spearheaded by a Glocal Islamic Rural Development Council), a re-engineered Financial Framework that rebalances portfolios toward PLS and social finance, a market-smart Real Sector Framework focused on value-chain empowerment, and an evaluative Social-*Maqasid* Framework to ensure developmental outcomes align with Islamic ethical ends.

Looking forward, the potential of this model extends beyond Malaysia's borders. By leveraging its unique institutional density and glocal positioning, Malaysia is poised to emerge as a global hub for Shariah-based rural finance, offering a replicable template for the vast "Global Muslim Rural Belt." Realizing this potential, however, demands bold policy shifts, the strategic deployment of Islamic fintech, and a commitment to South-South cooperation that is dialogical and adaptive.

Ultimately, this chapter argues that the question of Islamic rural development is the ultimate test of Islamic finance's substantive meaning. If Malaysia, with its unique synergy of institutional capacity, regulatory sophistication, and rural social capital, cannot produce a model that uplifts rural livelihoods in accordance with Islamic moral economy ideals, then it is difficult to imagine where else such a model could emerge. The framework proposed here is therefore more than a policy recommendation; it is a call to refocus Islamic finance—from an instrument of capitalist financial deepening to a vehicle for building just, resilient, and flourishing rural communities. It is an invitation to finally bridge the gap between the profound ethical aspirations of Islamic economics and the lived socio-economic realities of the Muslim countryside, thereby restoring the soul of Islamic finance to its foundational purpose.

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Dr. Muhammad Hakimi Bin Mohd Shafiai was born on June 27, 1981, and is a distinguished academician specializing in Social Sciences, with specific expertise in Islamic Economics, including halal economic studies and Islamic Social Finance, particularly waqf. He currently serves as an Associate Professor at the School of Economics within the Faculty of Economics and Management (FEP) at Universiti Kebangsaan Malaysia (UKM) and is an Associate Senior Fellow at the Institut Islam Hadhari at the same university. His academic foundation is built on a Shariah background from Universiti Malaya, where he earned his Bachelor's degree in 2004 and his Master's in 2006, followed by a PhD in Islamic Economics from Kyoto University, Japan, in 2012.

Throughout his academic career, he has combined rigorous scholarship with public service, including serving as a Special Advisor (2019-2022) to the former Prime Minister of Malaysia, Tun Abdullah Ahmad Badawi. His research has attracted substantial funding and led to impactful projects such as the development of the Halal Ecosystem Integrity & Development Index (HEIDI), waqf-based crowdfunding initiatives, and Islamic agricultural finance models. A prolific author, he has published extensively in internationally indexed journals and authored influential books on Islamic finance and development. Dr. Hakimi is also an experienced postgraduate supervisor and recipient of multiple awards for excellence in teaching, research, and service, reflecting his commitment to advancing Islamic economics in both academic and policy spheres.

His standing as a scholar for international audiences is further cemented by his prolific contributions to world-renowned academic publishers. He has authored multiple chapters for Palgrave Macmillan, covering topics such as the efficiency of Shariah-compliant portfolios (2016) and the role of Islamic banking in financial inclusion (2017). Additionally, his research on the progress of Islamic commercial and social finance has been published by Emerald (2019) and Routledge (2020), demonstrating a high level of global peer recognition.

Dr. Muhammad Hakimi's literary and academic portfolio is characterized by a commitment to socio-economic empowerment. His works frequently investigate the intersection of waqf, crowdfunding, and poverty alleviation, making him a pivotal figure in developing the Halal Ecosystem Integrity & Development Index (HEIDI). His excellence in these areas has been recognized through various accolades, including the Excellent Service Award from UKM and the Research Book Publication Award (2024) by the Faculty of Economics and Management, UKM. Through his supervision of over one hundred postgraduate students and his role as an Adjunct Professor internationally, he continues to shape the future of Islamic and halal economic studies.

About the Institute:

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Index

Z

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