



A Case Study of *Pawah* Practice in Terengganu

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KEYWORDS

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ABSTRACT

This study examines the *Pawah* system in Terengganu, emphasizing its history, present functions, and socio-economic significance. Through qualitative research, the study investigates the evolution of *Pawah*, a mutual aid and profit-sharing system supporting livestock farming, which emerged to assist underprivileged community members. Initially, *Pawah* allowed less affluent farmers to benefit from livestock breeding and shared profits, fostering economic inclusion. Despite lacking formal agreements and facing financial risks and modernization pressures, *Pawah* remains a fundamental rural agricultural practice. Findings show that the system enhances agrarian productivity, promotes fair income distribution, and strengthens social bonds. However, its sustainability is affected by income volatility, transparency issues, and modernization needs. Key respondents highlighted *Pawah's* adaptability and community-driven nature, noting the importance of structured approaches to enhance system resilience. The study concludes that addressing these challenges, while preserving *Pawah's* core values, is essential for its longevity and continued impact on rural communities in Terengganu.

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1.0 INTRODUCTION

The agriculture sector continues to play a critical role in Malaysia's rural economy and overall growth trajectory, with recent World Bank analyses underscoring the potential of digital agriculture technologies to enhance productivity and support sustainable rural development. According to the 2025 Selected Agricultural Indicators report from the Department of Statistics Malaysia, the agricultural sector recorded 3.1% growth in 2024, with the livestock sub-sector contributing 16.9% of the agricultural value added, indicating the economic significance of livestock to national agriculture performance. [1]. Animal breeding has long been a crucial part of Malaysia's agricultural

landscape, significantly supporting rural economies and impacting global livelihoods [2]. The livestock sector currently supports around 500 million smallholder farmers worldwide and has become one of the fastest-growing agricultural subsectors, contributing approximately 33% to the agricultural GDP in developing countries [7]. In Malaysia, a historical practice within this sector is the Pawah system, dating back to the 16th century [3,4]. This unique profit-sharing arrangement involves collaboration between a capital provider, who supplies the initial investment, and an entrepreneur responsible for animal care and breeding [5,6]. Profits, including livestock offspring, are shared, with the capital provider receiving the first offspring and the entrepreneur subsequently benefiting [7]. The Pawah system, built on principles of mutual aid and risk-sharing, has proven essential for fostering cooperation and resource sharing within rural farming communities (Febianto, 2010; Salman Ahmed Shaikh, 2003). Despite its benefits, successful partnerships require clear agreements to prevent misunderstandings and enhance the system's functionality [8,9]. Recognizing and preserving this traditional model could allow modern stakeholders to apply its ethical, community-driven values to current agricultural challenges, promoting growth and sustainability [1,10].

This study addresses the underutilization and limited awareness of the Pawah system in Terengganu, a traditional animal breeding profit-sharing model with potential for boosting economic equity and community cooperation. Despite its historical roots and benefits, there is a significant gap in understanding and implementing the Pawah system among capital providers, entrepreneurs, and local communities, leading to missed opportunities in profit-sharing and risk mitigation [1]. Key issues such as asymmetric information, transparency, and moral hazard hinder its broader application, underlining the need for targeted education, collaboration, and structured reintroduction efforts to modernize and optimize the system's benefits [8]. This study seeks to explore these challenges and gaps by examining the socio-economic impacts, historical and current applications, and educational roles within the Pawah system in Terengganu, contributing insights to promote sustainable agricultural practices and community development.

2.0 LITERATURE REVIEW

Five main areas will be discussed in the Literature Review section includes, Definition of *Pawah* system, Benefits of the *Pawah* System, Challenges of the *Pawah* System, Regional Variances and Future Prospects and Innovations in the *Pawah* System.

2.1 Definition of Pawah system

The Pawah system, an agricultural profit-sharing model, emphasizes a cooperative arrangement in which a capital provider supplies the necessary financial resources, while an entrepreneur manages day-to-day operations, such as livestock breeding and farming. Previous studies highlight its functional and ethical benefits, particularly in the context of Islamic financial practices, where both financial risks and rewards are balanced between the involved parties. In this system, the capital provider often bears the financial burden in cases of losses, while the entrepreneur's investment is primarily in time and effort, underscoring a fair distribution of responsibilities [11,1,10]. This shared-risk model fosters a sense of trust and mutual reliance, crucial elements in sustaining community-based agricultural economies. The ethical structure of Pawah is further reinforced by its alignment with Shariah principles, which promote transparency and fairness in all economic activities [2,6].

2.2 Benefits of the Pawah System

The Pawah system presents several advantages, particularly in promoting economic inclusivity and ethical business practices. A significant benefit lies in the risk-sharing mechanism, where the capital provider bears financial risks, while the entrepreneur contributes labor and expertise. This setup fosters resilience and mitigates the adverse impact of losses, as each party's contributions and risks are carefully balanced [12,6]. Profit-sharing arrangements based on predetermined ratios further align the interests of both participants, encouraging collaboration toward business success. Moreover, the system promotes community development and resource mobilization by enabling financially constrained entrepreneurs to access capital, invest in new technologies, and improve productivity [13]. The Pawah system's emphasis on ethical practices and Shariah compliance enhances its appeal, providing an equitable financial model that bolsters community trust and mutual accountability [4].

2.3 Challenges of the Pawah System

Despite its benefits, the Pawah system faces several challenges that impact its effective implementation. A lack of awareness among stakeholders impedes wider adoption, as limited understanding can prevent engagement with its principles and processes [11]. The agricultural sector's inherent volatility also poses risks, such as market fluctuations and environmental uncertainties, which require robust risk management strategies to safeguard both capital providers and entrepreneurs [12,13]. Additionally, transparency in profit-sharing calculations and decision-making processes is crucial for trust but can be challenging to maintain, particularly in rural or technologically limited contexts. Legal and regulatory compliance further complicates implementation, as Pawah agreements must align with Shariah principles and local regulations, requiring continuous oversight to ensure adherence [5,14]. Comprehensive legal frameworks and stakeholder engagement are essential for overcoming these challenges and ensuring the system's credibility [3].

2.4 Regional Variances

The effectiveness of the Pawah system varies significantly across different regions due to cultural, economic, and regulatory factors. Local customs and financial practices can influence how Pawah is perceived and accepted within communities, with some regions exhibiting a higher affinity for cooperative financial models [10,9]. Economic disparities and legal differences also shape implementation, as regions with limited financial access may struggle to establish Pawah models without external support. Geographical factors, including climate and agricultural conditions, further affect its applicability to specific types of farming or livestock breeding, necessitating customized approaches [15]. Enhanced infrastructure and technological resources in certain areas may facilitate more effective adoption and scaling of the Pawah model compared to regions with limited digital resources [13]. Acknowledging these regional differences is essential for adapting Pawah practices to local needs, promoting sustainable agriculture, and fostering economic development through community-centered financial arrangements.

2.5 Future Prospects and Innovations in the *Pawah* System

The *Pawah* system holds potential for growth and adaptation as it aligns with evolving agricultural practices and technological advancements. New methods, such as digital monitoring and financial platforms, are emerging as possible enhancements to traditional *Pawah* practices, allowing

for more efficient management and transparency in rural and agricultural financing. For instance, integrating digital platforms for tracking livestock health, crop production, and profit-sharing metrics could reduce operational challenges while enhancing trust among stakeholders. This digital integration could also facilitate record-keeping, offering greater accountability and easing compliance with regulatory and Shariah standards. In addition, the increased availability of mobile banking and microfinance solutions enables a broader range of entrepreneurs, including those in remote or underserved areas, to participate in the *Pawah* system, fostering inclusivity and financial accessibility. Moving forward, combining the traditional values of the *Pawah* system with technological advancements could promote a more sustainable, transparent, and scalable model that supports both local economies and agricultural innovations.

3.0 METHODOLOGY

3.1 Research Design

Research methodology is a method and procedure for gathering data and knowledge to make decisions. We have used qualitative research techniques in this study to thoroughly investigate the practices of the *Pawah* system. Primary data collection involved interviews with four individuals. These interviews were structured to look into various aspects of the *Pawah* system, including its implementation, challenges faced, potential for improvement. By engaging with knowledgeable informants, the research aims to gather first-hand insights and perspectives on the current practice of the *Pawah* system and its relevance in contemporary agricultural activities. The research design will be further illustrated in Figure 1.

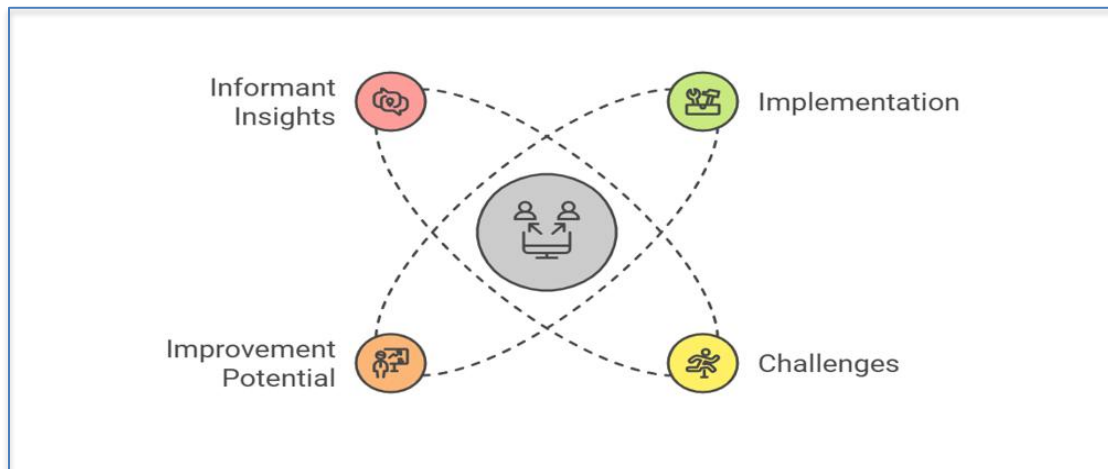


Figure 1: The Insight to *Pawah* system

3.2 Data Collection and Instruments

This study focuses on interviews with four key individuals who offer valuable insights into the traditional *Pawah* system and its modern application in agricultural practices. These individuals serve as primary informants, providing detailed perspectives on the effectiveness and challenges of the *Pawah* system within the fields of economics and agricultural management. Their insights include

how these profit-sharing arrangements influence contemporary agriculture and livestock breeding in Terengganu using the instrument in Table 1.

Semi-structured interviews served as the primary data collection method, striking a balance between pre-determined questions and participant-led insights, thereby enabling a deeper exploration of the *Pawah* system's complexities. During these interviews, participants shared both practical experiences and broader socio-economic implications, enriching the data with diverse viewpoints. Audio recording was used to ensure accuracy, capturing both content and subtleties in participant speech. This method allowed for repeated listening during analysis, enhancing data credibility and supporting a transparent research process grounded in participants' authentic voices.

Table 1: Research Instrument

FACTOR	CODE	QUESTION
Experience and Practice (EP)	EP 1	Can you describe your experience with the <i>Pawah</i> system and how it has been traditionally practiced in your community?
	EP 2	What motivated you to engage in <i>Pawah</i> arrangements as either a capital provider or an entrepreneur?
Establishing Agreements (EA)	EA 1	How do you typically establish the terms and conditions of a <i>Pawah</i> agreement, including profit-sharing ratios and risk-sharing mechanisms?
	EA 2	In your opinion, what are the key benefits of utilizing the <i>Pawah</i> system for individual transactions in animal breeding activities?
Challenges and Solutions (CS)	CS 1	Have you encountered any challenges or difficulties while implementing <i>Pawah</i> agreements, and how have you addressed them?
	CS 2	How do you think cooperation between capital providers and entrepreneurs can be enhanced to promote the use of the <i>Pawah</i> system?
Best Practices (BP)	BP 1	Can you share a successful <i>Pawah</i> transaction that you have been a part of and explain what contributed to its success?
	BP 2	How do you ensure transparency and fairness in <i>Pawah</i> transactions to uphold Shariah compliant practices?
Future and Improvements (FI)	FI 1	What improvements or enhancements do you think could be made to the <i>Pawah</i> system to make it more effective and efficient?
	FI 2	How do you see the future of the <i>Pawah</i> system evolving in the livestock industry or agricultural sector, and what role do you think it will play in promoting ethical business practices?

Trust and Transparency (TT)	TT 1	How is a trust established and maintained between capital providers and entrepreneurs in the <i>Pawah</i> system? What mechanisms are in place to ensure that both parties fulfill their obligations and share profits fairly?
	TT 2	How transparent is the process of profit sharing within the <i>Pawah</i> system? Are there clear guidelines and agreements in place to ensure that profits are distributed equitably and following the agreed-upon terms of the contract?

4.0 RESULTS AND DISCUSSION

The qualitative findings reveal that the *Pawah* system in Terengganu remains a deeply embedded socio-economic institution rather than merely a transactional livestock-sharing arrangement. Respondents consistently described *Pawah* as a community-based mechanism historically designed to enable economically disadvantaged individuals to participate in livestock farming. The system functions within a moral economy framework, where wealth circulation and mutual assistance are prioritized over profit maximization. Interview data indicate that *Pawah* is sustained by intergenerational norms of reciprocity, religiously influenced ethical conduct, and communal responsibility. This socio-historical embeddedness explains its resilience despite modernization pressures.

Beyond its traditional narrative, *Pawah* operates as an informal financial intermediation mechanism within rural agricultural settings. Respondents emphasized that individuals lacking startup capital rely on relational networks rather than formal financial institutions to access livestock assets. By mobilizing community-based capital through trust-based arrangements, *Pawah* reduces entry barriers into livestock farming. This suggests that the system functions as a localized alternative to institutional agricultural credit, particularly in contexts where formal financing may be inaccessible or administratively restrictive.

A central structural characteristic emerging from the interviews is the embedded risk-sharing mechanism. Agricultural uncertainties, such as livestock mortality, fluctuating feed costs, and volatile market prices are distributed between capital providers and caretakers through profit-sharing arrangements. Although financial risk is borne more heavily by capital providers, caretakers also face opportunity costs and labor-related uncertainties. The data indicate that *Pawah* promotes horizontal income redistribution within the community, preventing wealth concentration and facilitating broader participation in agricultural gains. This redistributive function contributes to localized economic stabilization.

However, the system's reliance on trust-based governance simultaneously represents its greatest strength and structural vulnerability. All respondents noted that most *Pawah* agreements remain verbal, with limited written documentation. While this reinforces relational accountability and community cohesion, it also creates potential for disputes in cases of livestock loss or disagreements over reproduction outcomes. Without standardized contracts, conflict resolution depends largely on social negotiation rather than institutional safeguards. This indicates that *Pawah* governance operates through relational norms rather than formal regulatory structures, making it socially efficient yet institutionally fragile.

Finally, the findings suggest that *Pawah* is currently experiencing a transitional phase marked by modernization tension. Respondents acknowledged increasing pressures arising from rising input costs, technological advancements in livestock management, and changing generational expectations. Some participants have begun incorporating basic written agreements and record-keeping practices to enhance transparency. Nevertheless, there remains caution toward excessive formalization due to concerns that it may erode the trust-based essence of the system. This dynamic illustrates an ongoing

hybridization process, where traditional cooperative values coexist with incremental structural reforms aimed at improving sustainability.

To provide a structured overview of the qualitative findings, Table 2 summarizes the key emergent themes, core insights, supporting respondent groups, and their structural implications within the *Pawah* system.

Table 2: Summary of Emergent Themes in the *Pawah* System

Theme	Core Insight	Supporting Respondents	Structural Implication
Socio-Historical Embeddedness	<i>Pawah</i> functions as a community-based moral economy	PM1, PP1	Sustains intergenerational continuity
Informal Financial Intermediation	Provides capital access outside formal institutions	PM2, PP1	Reduces financial exclusion
Risk-Sharing & Redistribution	Distributes agricultural gains and losses across actors	PM2, PP2	Promotes income equalization
Trust-Based Governance	Relational trust substitutes formal contracts	All respondents	Efficient but vulnerable to disputes
Modernization Tension	Gradual shift toward documentation and structure	PM2, PP2	Determines long-term sustainability

The findings position *Pawah* as a contemporary manifestation of profit-and-loss sharing principles aligned with Islamic economic philosophy. Consistent with prior scholarship on Islamic cooperative financing [4,2], the system embodies risk-sharing, ethical wealth distribution, and mutual cooperation. However, this study extends the literature by demonstrating that *Pawah* operates not as a formal contractual *Mudharabah* structure but as a socially embedded rural adaptation shaped by local norms and relational capital.

The study also contributes to the discourse on financial inclusion by illustrating how informal systems can mitigate capital exclusion in agricultural communities. Similar to arguments advanced in research on inclusive Islamic finance [13], *Pawah* bypasses conventional collateral requirements and instead relies on social trust as a form of intangible guarantee. This relational financing structure highlights the importance of community-based capital mobilization in rural development strategies.

Nevertheless, the governance limitations identified in this study echo broader concerns in Islamic finance literature regarding transparency and asymmetric information. The absence of standardized agreements introduces potential moral hazard risks, particularly in environments experiencing economic stress or generational transition. This underscores the need for calibrated formalization introducing minimal documentation mechanisms without undermining relational trust.

The transitional nature of *Pawah* suggests that its long-term sustainability depends on achieving structural balance. Selective integration of documentation practices, financial literacy initiatives, and simple digital monitoring tools may strengthen transparency and resilience. At the same time, preserving its communal ethos remains essential to maintaining participation incentives. Thus, *Pawah* represents a hybrid institutional model situated between informality and formalization, tradition and modernization.

5.0 CONCLUSIONS

The *Pawah* system in Terengganu has long served as a mutual support mechanism in livestock farming, enabling wealthier community members to lend animals to those with fewer resources, fostering economic inclusion and social cohesion. Historically based on trust and profit-sharing, the

system has evolved, with some participants now incorporating written agreements to better formalize practices. This flexibility sustains its popularity among small-scale farmers, though challenges remain. Key issues include the lack of formal agreements, income instability, financial risks, and limited transparency in profit-sharing, all of which can hinder trust and cooperation. Additionally, the system's accessibility is limited by initial capital requirements and difficulties adapting to modern agricultural practices. Addressing these challenges through formalization, enhanced transparency, and financial support could ensure the *Pawah* system's sustainability and relevance in the modern agricultural landscape.

Author Contribution

Norzamziah Afzainizam: Conceptualization, methodology, investigation, Data collection, analysis, writing and editing. Other authors: Supervision, writing and editing.

Conflict of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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