

September 1, 2008

SBP issues Draft Guidelines on Islamic Financing for Agriculture

A Task Force constituted by Dr Shamshad Akhtar, Governor State Bank of Pakistan, on “Islamic Agricultural Finance” has prepared draft Guidelines on Islamic Financing for Agriculture. The Task Force comprised senior State Bank’s officials, Shariah Advisors and heads of agriculture departments of commercial banks.

The draft Guidelines issued by the State Bank today are aimed at facilitating Islamic banks as well as conventional banks involved in agriculture financing and having Islamic banking licence in developing specialized Islamic financing products to meet the financial needs of the farming community.

The draft Guidelines broadly cover Islamic modes of financing like Murabaha, Ijara, Musawamah, Salam, Istisnaa', Musharakah, Diminishing Musharakah, Mudarabah, Musaqaat, and Muzara'at that can be used for meeting the financing requirements of farm and non-farm sector activities including livestock, fisheries, poultry, orchards etc. The draft Guidelines also cover Islamic financing for production purposes i.e. working capital and term finance for purchase of agri implements, farm mechanization & development, transportation, etc. The application and procedure to be adopted under each Islamic mode of financing for agriculture have also been provided in the Guidelines to facilitate the implementation of the Guidelines. The Guidelines will facilitate Islamic Banking Institutions (IBIs), particularly those which are extending their branch network and outreach in the rural areas, to develop their own products to meet the financing needs of agri/rural community in a Shariah-compliant manner. These Guidelines also suggest that the conventional banks with Islamic Banking Branches may offer these products through Islamic Banking Windows by using their conventional branch network.

It may be mentioned here that the farming community at various platforms and individually have always been demanding Islamic financing for agriculture purposes. However, there is lack of awareness of Islamic Modes of Financing among conventional agri. financing bankers and IBIs are also naive to the requirements and business cycles of agriculture sector.

SBP is playing an active role in developing an enabling environment for agricultural financing through conventional banking system and at the same time is committed to support the development of Islamic Banking in the country. The initiatives of SBP have paid dividend in the form of robust increase in agricultural credit disbursements from Rs 39 billion in FY00 to Rs 212 billion in FY08. Islamic banking is also robustly expanding in the country and almost all major conventional banks have opened their stand-alone Islamic Banking Branches (IBBs) in addition to six full fledged Islamic banks operating in the country. So far 313 branch licences have been issued in the country. Islamic Banking Institutions are expanding their network in rural areas through separate branches and windows.

The full text of draft Guidelines can be accessed at SBP website (www.sbp.org.pk) for the review and feedback of stakeholders by 15th September, 2008. Based on the feedback, the Guidelines will be finalized.
