

SBP issues ‘Guidelines on Islamic Financing for Agriculture’

The State Bank of Pakistan today issued “Guidelines on Islamic Financing for Agriculture” to help banks develop specific Shariah compliant products in order to meet the financing needs of the farming community. These Guidelines have been developed in consultation with stakeholders while keeping in view the potential and demand for Islamic banking products in the field of agriculture.

The Guidelines broadly cover Islamic modes of financing like Murabaha, Ijara, Musawamah, Salam, Istisna, Musharaka, Diminishing Musharaka, Mudaraba, Muzara’a, Musaqat, and Mugharasa that can be used for meeting the financing requirements of farm and non farm sector activities including livestock, fisheries, poultry, orchards etc. In addition to these financing needs, IBIs may also refer to SBP guidelines and instructions for crop and non crop sector activities like guidelines on livestock, fisheries, poultry, horticulture, etc to make further progress on this front. Moreover, the Guidelines have also explained the application and procedure of the Islamic modes of financing.

The State Bank has advised all the banks to use these guidelines for developing their own Shariah compliant products for extending finance to agriculture sector according to their policy and operational & market requirements, subject to compliance with SBP regulations and approval from their Shariah Advisor.

The Guidelines will facilitate Islamic Banking Institutions (IBIs), particularly those who 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. The conventional banks with Islamic Banking Branches may offer these products through Islamic Banking Windows by using their conventional branch network.

Under the Guidelines, individuals/ partnership concerns and all types of legal entities engaged in agriculture related activities, having sufficient knowledge and relevant experience are eligible to get financing under the Islamic financing scheme. As per Prudential Regulations for agriculture financing, these guidelines shall not include financing to traders and intermediaries engaged in trading/ processing/ grading/packaging/marketing of agricultural commodities. Such financing will fall under Corporate/ Commercial or SME financing and will be subjected to compliance of corporate/ commercial/ SME regulations. However, financing under the guidelines can be extended to entities (including corporate firms, partnerships, and individuals) engaged in farming activities as well as processing, grading, packaging and marketing of mainly 75% of their own horticulture produce. Financing facilities may be extended, provided IBI is satisfied with the capacity of the customer /sponsor to manage and run the horticulture activities subject to the following conditions:-

- Customer should be a holder of computerized NIC while usual requirements for corporate clients would apply.
- Customer should not be a defaulter of any IBI / financial institution. This condition

may be relaxed in case the IBI is satisfied with creditworthiness of the customer and that earlier default was circumstantial and not willful.

- IBI is satisfied and feels comfortable with the farmer and guarantors (where applicable) identity character, reputation and creditworthiness.

It is advisable that IBI should have detailed understanding and information about the customer, his/her capacity to effectively use and repay the debt from the projected cash flow, and/ or any other possible income streams, according to the Guidelines.

Complete guidelines are available at SBP website www.sbp.org.pk.
