

SBP develops Sharia compliant model product to meet working capital needs of farming community

The State Bank of Pakistan (SBP) has developed a model product based on “Salam” to meet the production finance (working capital) needs of country’s farming community. The model product developed, in consultation with all the stakeholders will facilitate Islamic Banking Institutions (IBIs) in improving the access of agricultural Islamic financing to the farming community.

The product covers the Sharia related aspects as well as business cycle and financing requirements of farm/ crop production activities, says AC&MFD Circular No. 3 of October 18, 2011.

The product based on “Salam” i.e. sale of agri. produce against full payment in advance but deferred delivery on a specified future date, will give necessary flexibility to the farmers to use the funds to meet farming input requirements.

IBIs may adopt the model product in the present form or with some adjustments to suit their organizational & operational needs and market characteristics, subject to compliance with SBP regulations and approval from their Shariah Advisors, the circular added.

IBIs have been advised to ensure that their relevant staff possesses the requisite knowledge and expertise about the product, the circular said, adding that they should also launch awareness campaigns through electronic & print media, seminars, workshops, etc to ensure that their clients/ farmers are fully educated about the product and familiar with the requirements like documentation, loan limit, process flow/ procedure, etc.

According to the model product, the farmers at their discretion may enter into single or multiple ‘Salam’ transactions based on their specific funding needs. Under single ‘Salam’ the total funds needed by the farmer will be disbursed/credited to the farmer’s account in lump sum.

Whereas, under the multiple ‘Salam’ transactions the funds would be disbursed in tranches as and when needed by the farmer by executing various/multiple ‘Salam’. However, the farmer would have the option to choose the single or multiple ‘Salam’ depending upon his/her convenience and preference.

All farmers/tenants/growers involved in raising crops are eligible to get financing from Islamic Banking Institutions (IBIs) under the scheme (‘Salam’). The maximum financing to be extended to the farmer could be 1-3 years average market value of the produce being

purchased under 'Salam'. Preferably, the quantity of the commodity to be purchased under 'Salam' may not exceed 75% of expected production.

'Salam' financing may be allowed as per cropping cycle (as mentioned in 'Salam' contract). However, the financing is usually provided for a period of 6 to 8 months, except for sugarcane crop, which can go up to 18 months.

The complete details of the scheme are available at SBP website: www.sbp.org.pk.
