

Agriculture Financing Through Bay Salam In Islamic Banking Institutions: Theory And Practice

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Abstract

The agriculture sector is backbone of Pakistan economy, but the sector is facing various problems. In this scenario there is a need to find out appropriate alternatives to the existing interest-based system of agriculture credit in the light of Shariah guidelines. With this backdrop, the current study tries to explore suitable financial tool in the light of Islamic Shariah addressing the credit issues and enabling the recovery of ailing agriculture sector. Islamic finance is one of the possible alternatives available to address the burning issues faced by agricultural credit seekers. During the last few decades, the share of Islamic finance has rapidly increased, and it has been accepted as an alternative financial system throughout the world and London (UK) has emerged as a hub of Islamic finance (Wilson¹, 2000). Islamic Banks (IBs) and Islamic Financial Institutions (IFI) have been established both in Muslim and non-Muslim countries. Pakistan has also witnessed a substantial jump in the Islamic finance during last few years and the assets of IBs have gone up from Rs. 477 billion in CY 10 to Rs.1,610 in CY 15 and share in bank deposits during the same period rose from 7.2 percent to 13.2 percent (Pakistan Economic Survey, 2015-16; SBP Annual Report², 2015-16). In the recent years Islamic banks have also initiated agricultural finance and

its share is gradually increasing however, share of Salam financing is still insignificant and some banks are at the planning stage. Although in the private sector some entities consider Salam and Islamic Microfinance a suitable alternative and have taken a successful start.

Keywords: Islamic Finance, Salam, Agriculture, Shariah Guidelines
Economy

Research Questions

There are these major questions which the study aims to investigate. Particularly, it addresses the following questions:

- What are the major agricultural credit issues faced by Pakistani farmers?
- Can Bay' Salam be a suitable financial tool to address the socio-economic issues of farmers?
- What should be the appropriate institutional arrangement for managing Bay' Salam in Pakistan?
- Has the existing conventional agricultural finance failed to bring positive socio-economic change in farmers' life?
- Whether any legal constraints exist in the current conventional agricultural credit policy?
- What agricultural financial models can be constructed in Islamic framework which can address empirically tested evidence in the field? Can various models be developed on the basis of various modes of Islamic finance like Murābahah, Salam, Istisnā', Mushārah, Diminishing Mushārah, Musāqah, Muzārah and Ijārah to full basic requirements of different agricultural sectors, particularly that of local farming?
- How for the newly developed models are viable and practicable at ground level?
- Whether the guidelines, issued by the central bank for financing agriculture, are purely based on principles of Islamic commercial law?

In addition to the above-mentioned major questions various sub-questions have also been asked from the respondents. The sub-questions cover the aspects like; negative impacts of interest on farmers and agriculture sector, collaterals and guarantees, potential socio-economic benefits of Salam, Salam done by Askari Bank Ltd, role of middleman and foreign companies, local governments, education, and political will.

Research Gaps and Significance of the Topic

The subject of agriculture credit and related issues has been discussed by various experts with the major focus on deficiency of credit, lengthy procedures, exorbitant interest rates etc. Some of the contemporary scholars and researchers have also highlighted the issues in the light of Shariah guidelines. However, surprisingly only few studies like; (Kaleem & Abdul Wajid, 2009; Kaleem & Ahmad, 2010; A. Khan, 2010) in context of Pakistan have been found suggesting Bay' Salam as an alternative for the purchase of crops from farmers. However, a number of gaps and limitations can be identified in these studies. Firstly, the primary data has been gathered from one or two districts only, secondly their major focus was on the problems faced by farmers and did not suggest solution to the problem in a comprehensive manner. Moreover, the researchers did not include the point of view of religious scholars, professors, law makers and economists on the subject. Yet, there is a wide scope for a detailed study on the subject to address the said issues and to suggest the long term and sustainable solutions. There is a need to explore the suitability of Bay' Salam in the agriculture sector and potential socio-economic benefits of Salam. There is also a need to investigate how the Salam can be implemented in organized way for sustainable outcome.

Research Methodology

The qualitative method that has been used in this research is more effective as compared to quantitative method of investigation. The qualitative method is better than quantitative method as it enables the researcher to know the original views of the experts and also helps to dig out the intangible factors.

(Creswell, 1994)³ argues that the qualitative method is particularly more appropriate if topic needs a deeper investigation and relevant theories are not there. (Strauss & Corbin, 1998a) suggest qualitative method of research helps the researcher to produce the findings which are not possible to find out through statistical tools. The study reviews the existing literature and carries document analysis and it is also supported with primary data gathered through semi-structured interviews. Due to non- existence of Bay' Salam in the contemporary world it is difficult to estimate socio- economic benefits of Salam. There are only few experts of Islamic finance and only few studies exist, hence there is a dearth of practical examples, knowledge and expertise on the subject. Thus, to fill this gap, the study includes interviews from a sample of 40 respondents comprising of parliamentarians, farmers, scholars, economists, senior government officers and bankers from whole the country to seek their opinion on the said issues. There is a great importance of the interviews from the selected sample of respondents in this study. The purpose of such interviews is to have the views of the respondents on the issues in hand in order to fill the knowledge and skill gap and particularly to evaluate socio-economic benefits of Salam and appropriate institutional setup.

Agricultural Credit and Major Challenges in Pakistan

Agricultural Credit in Pakistan

Agricultural credit in Pakistan is supplied by the institutional (formal) and non- institutional (informal) sources. Both the sources are playing important role in the provision of credit to farmers, nonetheless, both sources have their own merits and demerits. The institutional sources include ZTBL, commercial banks, Punjab Provincial Cooperative Bank Limited (PPCBL), microfinance banks and Islamic banks. The non- institutional sources are middleman, shopkeepers, professional money lenders, relatives, and friends. The share of institutional sources has increased gradually and currently stands between 30-45 percent (SBP Handbook on Best Practices in Agri/Rural Finance). Both the sources of agricultural credit have been discussed below.

Institutional Sources

Pakistan has a good network of financial institutions and banks catering the financial needs of businesses, agriculture sector and individuals. Currently there are 20 banks with around 3,700 agriculture designated branches are facilitating farmers by extending agriculture credit throughout the country and these include five scheduled banks; Allied Bank Limited (ABL), Habib Bank Limited (HBL), Muslim Commercial Bank (MCB), National Bank of Pakistan (NBP) and United Bank Limited (UBL), two specialized banks; Zarai Taraqati Bank Limited (ZTBL) and PPCBL, and 13 private domestic banks (SBP Handbook on Best Practices in Agri/Rural Finance). Formal lending institutions are regulated by the State Bank of Pakistan. The banks provide credit to the farming community for crops, poultry, livestock, orchards, fisheries, forestry etc. ZTBL is the largest public sector financial development institution with a country-wide network. The agriculture sector is broadly divided into crop and non-crop sectors and the financing requirements of both are quite different in nature (SBP Financing Scheme for Small Farmers).⁴ There is a high-powered committee “Agriculture Credit Advisory Committee” (ACAC) formed in 1972 by SBP to facilitate and monitor agriculture financing (Khan 2008). ACAC sets the annual agriculture credit targets for banks, chaired by the Governor SBP and it meets twice a year (ibid).

Non-institutional Sources

Non-institutional or informal sources of agricultural credit also play a vital role and are also more popular for being efficient and better accessibility. Most of the smallholders obtain credit from informal sources and there is a low trend towards institutional sources (SBP Financing Scheme for Small Farmers, n.d), Mahmood and Hussain ⁵(2004). The non-institutional sources of credit are the middlemen, private money lenders, relatives and shopkeepers (Haq et al.,2013)⁶, (Zuberi, 1989)⁷ and (S. Amjad et al., 2007)⁸.

A middleman (in Pakistan also known as Arhti) is a person who purchases crops from farmers generally at very low rates and sells at high rates, provides

credit, also facilitates by coordinating among various parties involved in the production chain. Private money lenders provide credit to farmers on interest basis in rural areas of the country. Other two sources of private credit are the shopkeepers and relatives or friends. Role of rural shopkeepers is also important as they provide direct cash, inputs on credit, and other items of day-to-day use to cash constrained poor farmers. Similarly, the borrowing from relatives or friends is a common practice of course it is a social capital highly helpful for small and poor farmers in time of need.

Problems of Agricultural Credit System

The existing formal and informal sources of agricultural credit are not satisfying the farming community fully. There are number of limitations and irritations faced by the farmers while obtaining and repaying the agricultural credit. Major problems include lack of agricultural credit, interest-based loans and exorbitant rates, difficult access of small farmers, lengthy and complicated procedures, delays and collateral & guarantees.

Overview of the Agriculture Sector

The country is blessed with rich natural resource base which covers various ecological and climatic zones with a great potential for producing all types of food commodities (MNFS&R 2013-14). The vast spread alluvial soils are gift of nature enhancing the agricultural potential. There are a number of rivers, vast hydro resources, oil, gas and coal reserves (Wizarat⁹, 2016). However, the land distribution is skewed towards large owners or big landlords as 2.4 million hectares (11%) of total farms are owned by just around 13,000 landlords. The agriculture sector comprises of crop sector, livestock, fisheries and forestry and with the passage of time share of crop sector is declining as compared to livestock, which is a matter of concern.

Multifarious problems of Agriculture Sector

The agriculture sector is faced with multifarious problems. The major problems include, scarcity of credit, interest-based credit, middleman, non-agri use of agricultural land, failed land reforms, scarcity of water, low yields

etc. One of the hot issues faced by farmers is the deficiency of interest free institutional credit.

Interest (Riba) – in the light of Shariah

In the modern era the demand for credit has increased manifold. But, there are hardly any interest free credit schemes available for individuals, business organizations and farmers. The interest-based financial system was non-existent in Muslim world before 19th century. According to M.N Siddiqi ¹⁰(2004) the interest-based traditional banking system entered for the first time in 19th century in Muslim world and initially few banks were established in Egypt, Turkey and India. The Muslims kept them away from these banks for long time. However, later on as M.N Siddiqi (2004) noted some of the so-called Muslim scholars launched a move for legitimizing bank interest in early 20th century led by Rashid Rada and Sir Syed in Egypt and India respectively.

On the other hand it has also been seen that conventional finance has not been instrumental to promote equitable distribution of resources. It has been noted by Ali, Shirazi and Nabi ¹¹(2013) that finance plays a key role in economic development and equitable distribution of resources, but track record indicates that the traditional finance has not been successful in meeting these goals. They found:

“Traditional finance has failed to prevent crises, encouraged pro-cyclical policy-making and rendered the national financial systems non-transparent and impossible to regulate. It has failed in providing sustainable and equitable growth, reducing unemployment and poverty” (Pp 124).

Moreover, they affirm that:

“The Islamic finance can play a great role in promoting inclusive growth and enabling the considered countries to follow a more equitable development path with the objectives to achieve high income and social cohesion simultaneously” (p.124).

State's Policy and Response for Islamization of the Economy

The purpose of creation of Pakistan was a separate Islamic State where Muslims could live their lives according to the principles laid down by Quran and Sunnah in all spheres of life. The Constitution of Pakistan 1973 in its preamble says: Quaid-i-Azam Mohammad Ali Jinnah, declared that "Pakistan would be a democratic State based on Islamic principles of social justice". The Constitution of Pakistan states: "Islam Shall be the State religion of Pakistan." (Clause I)¹².

The SBP being the regulator of banking institutions is responsible for making policies, rules and procedures for Islamic banks willing to apply Islamic modes of finance (Guidelines on Islamic Financing for Agriculture, SBP). In this regard SBP to some extent has done the needful and guidelines on Salam financing has also been issued. The conditions of Salam have been explained in detail in the Draft Instructions & Guidelines for Shariah Compliance in Islamic Banking Institutions, Islamic Banking Department, SBP. The government of the Punjab took a step in 2011 and passed Bay' Salam Bill to make the agriculture sector of province interest free (H. A. Shahid, 2011)¹³. The major argument for the introduction of Bay' Salam was the existence of the factor of exploitation in the traditional interest-based agricultural credit (ibid). Insufficient supply of credit compels the poor farmers to borrow from middleman who is a source of exploitation, hence the said law has been enacted to favor the farmers and to minimize the role of middleman. However, despite the lapse of several years there is hardly any visible practical step for the enforcement of said Salam law by government of the Punjab. Framing of laws and policies without practical steps for their enforcement cannot be helpful to obtain the desired goals.

Bay Salam: Shariah-based Financing for Farmers

Concept of Bay Salam

Definition of the Salam

'Salam' is an Arabic word that means literally "to advance". This meaning has been incorporated in its technical meaning also. The Muslim jurists, both

classical and contemporary, define this typical transaction of Islamic commercial law according to their own understanding of the concept. In the view of Kāsānī¹⁴, a jurist of the Hanafī school of thought, “it is a sale in which the price is paid on immediate basis while delivery of the commodity is delayed.” According to Imām Shāwkanī “it is the sale of an ascertained property with a delayed delivery.” In the view of ibn Qudāma, a jurist of the Hanbalī School, “it is that kind of sale in which a present commodity is sold for the deferred price related to the liability of the buyer.” Some of the contemporary scholars have defined Salam almost with the same approach as that of classical Muslim jurists. According to Wahbā-al-Zuhaylī,¹⁵ “it is the sale of an ascertained commodity with debt.”. Like other commercial transactions, Sharī‘ah has provided legal justification for Salam. Some of the jurists resort for its validity to the verse of the Holy Qur’ān “O ye who believe when you contract a debt for a fixed term, record it in writing.¹⁶” There are many traditions of the Holy Prophet (SAW) that help in determining rules and regulations, and that provide validation to this mode of Islamic finance. For example it is reported from ibn Abbas (RA) that the Holy Prophet (SAW) said “whoever wishes to enter into a contract of Salam, he must effect the Salam according to specified measure and the specified weight and the specified date of delivery”. There are other Hadith reported by Abdu Rehmn, Abû Saeed, ibn Umar etc related to the concept of Salam.

Rules and Regulations for Salam

Islamic commercial law has described some rules and regulations for Salam, which must be followed in their true spirit otherwise the intended objectives of the transaction cannot be achieved. The most important among these rules is that the buyer must pay the price of the object in full to the seller in advance. This rule should be strictly followed otherwise; the basic purpose of the transaction would be defeated. Similarly, the Salam contract can be affected only on goods that can be weighed, measured and counted. The basic purpose behind this rule is the elimination of any future dispute regarding various specifications of the subject matter. Moreover, using debt owed to the

purchaser by the seller as a price of the Salam commodity is prohibited. This prohibition is recognized because, first, it violates the principle that the price must be received by the seller in advance, and second, and more importantly, it is an exchange of debt for debt which is prohibited. According Muhammad Taqi Usmani¹⁷ Salam cannot be affected on a particular commodity, or on a product of a particular field or garden, as it is possible that the crop of that farm or the fruit and leaves of that specific tree could be destroyed before delivery. Therefore, yield of a specific agricultural land cannot become the subject matter of a Salam transaction. According to Imām Sarakhsī¹⁸ and Imām Ibn ‘Ābidīn, jurists of the Hanafī school of thought, if it is a condition of the contract that the Salam commodity must be a product of a particular village or a particular field then such a contract will be considered invalid. The Hanafī School of thought put a condition that Salam commodity must be in existence at the time of contract. However, by the word ‘existence’ such school means availability of the commodity in the local market from the inception of contract till the time of delivery. The Muslim jurists also put a condition that the time of delivery must be determined and specified at the time of the contract. However, they have difference of opinion over the maximum time period. In addition to the above rules, the Muslim jurists also allow the purchaser to demand any security from the seller in order to secure his debt. According to Imām Sarakhsī, a price becomes a debt which is related to the liability of a person. Hence, if it is a debt, then the purchaser can take surety or pledge or both from the seller to ensure that the latter will supply the required commodity according to the description mentioned in the contract. Being a typical kind of sale, the Salam transaction must have to follow all rules and regulations having indispensable nature for a valid sale. Therefore, the parties must have a legal capacity, free consent, the object and subject of the contract should be lawful, the price must be clear in all aspects, the seller must have ownership of the property or having the authority to sell it as an agent etc.

Salam Financing in Qur'an

According to the Quran:

﴿الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَٰلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ﴾^{[Al-Bakarah 275]¹⁹}

﴿يَمْحَقُ اللَّهُ الرِّبَا وَيُزِيهِ الصَّدَقَاتِ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ﴾^{[Al-Bakarah 276]²⁰}

﴿يَا أَيُّهَا الَّذِينَ ءَامَنُوا أَوْفُوا بِالْعُقُودِ﴾^{[Al-Ma'idah: 1]²¹}

﴿يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا أَمْوَالِكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ وَلَا﴾^{[Al-}

Nisa:29]²²

﴿يَا أَيُّهَا الَّذِينَ ءَامَنُوا إِذَا تَدَايَنْتُمْ بِدِينٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ وَلْيَكْتُبَ﴾^{[Al-Bakarah: 282]²³}

﴿يا أيها الذين آمنوا لا تأكلوا الربا أضعافا مضاعفة واتقوا الله لعلكم تفلحون﴾^{[Al-Imran: 130]²⁴}

Salam Financing in Hadith.

There are complete chapters on Bay' Salam in some books of Hadith, which provide guiding principles for the Salam financing. The classical and contemporary Muslim jurists have inferred the rules and conditions of Salam from these basic sources and explained its various aspects in detail. There is a Hadith (quoted in Sahih al-Bukhari Hadith No.2240)²⁵ about Salam wherein the Holy Prophet (peace be upon him) said; "Whoever wishes to enter into a contract of Salam he must affect the Salam according to the specified measure, specified weight and specified time or date of delivery".

The chapter of Salam in "Sahih Al-Bukhari", most authentic book of Hadith contains various sayings of the Prophet (peace be upon him). Some of the traditions of the Holy Prophet (peace be upon him) have been discussed below. The following Hadith indicates that Salam period of contract may be of two years; "Narrated by Ibn e Abbas: Allah's Apostle came to Medina and people used to pay in advance the price of fruits to be delivered within one or two years, the Prophet (peace be upon him) said, "Whoever pays money in advance for dates (to be delivered later) should pay it for known specified weight and measure (of the dates)" (Hadith No: 2240 Sahih Al-Bukhari, Book of As-Salam).

The next Hadith also includes the specified period for the contract of Bay Salam and it is more important that period is clearly known, it cannot be for indefinite period. The Hadith states; "Narrated By Ibn 'Abbas: The Prophet came (to Medina) and he told the people (regarding the payment of money in advance that they should pay it) for a known specified measure and a known specified weight and a known specified period." (Hadith No: 2242 Sahih Al-Bukhari, Book of As-Salam).²⁶ Following Hadith indicates that Salam is allowed in fruits. "Narrated By Ibn 'Abbas : The Prophet came to Medina and the people used to pay in advance the prices of fruits to be delivered within two to three years. The Prophet said (to them), "Buy fruits by paying their prices in advance on condition that the fruits are to be delivered to you according to a fixed specified measure within a fixed specified period." Ibn Najih said, "... by specified measure and specified weight." (Hadith No: 2253 Sahih Al-Bukhari, Book of As-Salam).²⁷ The Salam is also allowed in eatables, which is evident from the following Hadith quoted by Imam Malik in his famous book "Mawatta Imam Malik": Ibn e Umar says that "it is allowed for a person to do Salam with other person in eatables with specified quality, price and time" (Hadith No.1586).²⁸

Importance of Salam

The basic principles on which all these Islamic financial modes are based can be understood by defining the sale contract and its features which make it valid. A sale (bay') is a contract which involves at least two parties where two homogeneous or heterogeneous products are exchange against commodity or money. If two homogeneous commodities are exchanged, they should be equal in quantity and exchange should be hand to hand, while in case of exchange of heterogeneous products the quantity can be different, but the condition of hand-to-hand exchange remains intact. On the other hand, if the commodity is exchanged with money price will be decided by mutual consent of both contracting parties. According to jurists the contract of sale is permitted from the Quran with supporting evidence from Sunnah and Ijma.

According to Shari'ah the basic conditions for the validity of a sale contract is the object must be in physical or constructive possession of the seller (Siddiqui, 1977). This condition has three ingredients: first, the object must be in existence, second, the seller should have acquired the ownership of the object and third, mere ownership is not enough, meaning that in addition to ownership, the object must be in possession of the seller, either physically or constructively. If the seller owns an object but he has not taken its delivery himself or via agent, he cannot sell it. There are two exceptions to the above-mentioned general principle of Islamic jurisprudence. The first exception is bay' al-Salam (Salam contract) and the other is Bay Istisna' (advance payment and deferred delivery of the product). Both are sales of a special nature and have acquired the status of an exception to the general principles of sale contract (Zaabi²⁹, 2010). Before the prohibition of interest, farmers used to get interest-based loans for growing crops and harvesting. After prohibition of interest, they were banned to take interest-based loans. Because of this prohibition of interest, farmers and specifically small-scale farmers faced liquidity problems. Therefore, in times of the Prophet SAAW, farmers were allowed to take advance price of what farmers are going to grow. This helped them to get money in advance for their needs. The Arabic word Salam is a noun derived from the verb 'aslam', which means to advance. Therefore, Salam contract is a mode of transaction in which price is paid before delivery of product. The word 'Salf' is also used as a synonym for Salam (Zaabi³⁰, 2010). Salam financing is a Shari'ah compliant transaction, approved from the sayings of the Holy Prophet (SAAW). It is a special sale contract in which the subject matter does not exist or has not come into existence at the time of payment of the price (Zaabi, 2010). However, since this mode has an important position in everyday deal- ings, Shari'ah has considered it as an exception to general rule. The testimony to its legitimacy is provided by the Holy Quran and Sunnah, and also from the sayings of companions of Prophet SAAW and Ijma (consensus of the jurists). Allah Almighty Says in the Holy Quran:

﴿يَأْتِيهَا الَّذِينَ ءَامَنُوا إِذَا تَدَايَنْتُمْ بِدِينٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ وَلْيَكْتُبَ﴾³¹ [Al-Bakarah: 282]

In Sunnah, the Prophet (SAAW) has forbidden the sale of everything which is not in the possession of vendor, but he made an exception in the case of Salam.

The Prophet (SAAW) said:

((حدثنا عمرو بن زرارة، أخبرنا إسماعيل ابن عليّة، أخبرنا ابن أبي نجيح، عن عبد الله بن كثير، عن أبي المنهال، عن ابن عباس رضي الله عنهما قال قدم رسول الله صلى الله عليه وسلم المدينة، والناس يسلفون في الثمر العام والعامين أو قال عامين أو ثلاثة . شك إسماعيل فقال " من سلف في تمر فليسلف في كيل معلوم، ووزن معلوم))³² [Sahih al-Bukhari 2239]

Abdullah Bin Abi Uffi says that “in times of the Holy Prophet (SAAW) and Abu Bakar (R.A), we used to sell wheat, barley, dried dates, and dried grapes on ‘salf’”. Salam financing mode is unanimously declared legitimate mode of transaction by all schools of thought, with mere differences in duration issues. According to all schools of thought, a transaction in which price is paid in advance for the later delivery of goods is Salam (Zaabi³³, 2010). The person who pays the price in gold, silver, or currency is called Muslim or Rab-ul-Salam. The person who delivers the goods after a fixed period is called “Muslim Alaya”. The goods sold are “Muslim Fae” and the price paid is known as “Raas- al –Maal” of Salam. If a man enters into a contract of sale of wheat with another person and makes a prompt payment of price to him upon promise of delivery of wheat later, the transaction would be called Salam.

Legitimacy of Salam

As per the Islamic principles of finance the sale of a non-existent commodity having no ownership and possession is not allowed. However, there are two exceptions to this rule and these are “Salam” and “Istisna”. There is a consensus among all schools of Islamic Jurisprudence that Salam is allowed as an exception. In this regard Zuhayli ³⁴(2012, p 212) quoted Ibne Manzar saying that there is consensus among the Muslim Ummah regarding permissibility of Bay’ Salam. The scholars have tried to prove permissibility of Salam in the light of the Quran and Hadith teachings. Marghenani (n.d) says the legitimacy of Salam is proved from Quran, Hadith and consensus

(Ijma e Ummah) and quoted Ibn Abbas who says the justification for Salam is based on the verse 282 of surah al-Baqara

﴿يَا أَيُّهَا الَّذِينَ ءَامَنُوا إِذَا تَدَايَنْتُمْ بِدَيْنٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ وَلْيَكْتُب بَيْنَكُمْ كَاتِبٌ بِالْعَدْلِ وَلَا يَأْب كَاتِبٌ أَنْ يَكْتُبَ كَمَا عَلَّمَهُ اللَّهُ فَلْيَكْتُبْ وَلْيَمْلِكِ الَّذِي عَلَيْهِ الْحَقُّ وَلْيَتَّقِ اللَّهَ رَبَّهُ وَلَا يَبْخَسْ مِنْهُ شَيْئًا فَإِنْ كَانَ الَّذِي عَلَيْهِ الْحَقُّ سَفِيهًا أَوْ ضَعِيفًا أَوْ لَا يَسْتَطِيعُ أَنْ يُمِلَّ هُوَ فَلْيَمْلِكْ وَلِيَّهُ بِالْعَدْلِ وَاسْتَشْهِدُوا شَهِيدَيْنِ مِنْ رَجَالِكُمْ فَإِنْ لَمْ يَكُونَا رَجُلَيْنِ فَرَجُلٌ وَامْرَأَتَانِ مِمَّن تَرْضَوْنَ مِنَ الشُّهَدَاءِ أَنْ تَضِلَّ إِحْدَاهُمَا فَتُذَكَّرَ إِحْدَاهُمَا الْأُخْرَىٰ وَلَا يَأْبَ الشُّهَدَاءُ إِذَا مَا دُعُوا وَلَا تَسْمَعُوا أَنْ تَكْتُبُوهُ صَغِيرًا أَوْ كَبِيرًا إِلَىٰ أَجَلِهِ ذَٰلِكُمْ أَفْسَطُ عِنْدَ اللَّهِ وَأَقْوَمُ لِلشَّهَادَةِ وَأَدْنَىٰ أَلَّا تَرْتَابُوا إِلَّا أَنْ تَكُونَ تِجَارَةً حَاضِرَةً تُدِيرُونَهَا بَيْنَكُمْ فَلَيْسَ عَلَيْكُمْ جُنَاحٌ أَلَّا تَكْتُبُوهَا وَأَشْهِدُوا إِذَا تَبَايَعْتُمْ وَلَا يُضَارَّ كَاتِبٌ وَلَا شَهِيدٌ وَإِنْ تَفَلَّحُوا فَإِنَّهُ فُسُوقٌ بِكُمْ وَاتَّقُوا اللَّهَ وَيَعْلَمَكُمُ اللَّهُ وَاللَّهُ بِكُلِّ شَيْءٍ عَلِيمٌ﴾ [Al-Bakarah: 282]³⁵

Then Ibn Abbas further said I testify that Allah has allowed Salam. Umar³⁶ (1995) has quoted the following Quranic verse and a Hadith of the Prophet (peace be upon him) proving the Salam's legitimacy; "while Allah has permitted sale, and prohibited Riba". (The Quran (2:275)³⁷ "He who makes a Salam should do that for a specific quantity, a specific weight and a specific period of time" (Hadith).

According to Al-Saif (2010) legitimacy of the Salam contract is based on the Quranic verse that forbids usury and allows trade. Quran Says; "Those who eat Riba will not stand (on the Day of Resurrection) except like the standing of a person struck by Satan leading him to insanity. That is because they say: trading is only like Riba, whereas Allah has permitted trading and forbidden Riba". (Quran, 2:275). "o ye who believe! When you deal with each other, in transactions involving future obligations in a fixed period time, reduce them to writing". Then Ibn Abbas further said I testify that Allah has allowed Salam. Umar (1995) has quoted the following Quranic verse and a Hadith of the Prophet (peace be upon him) proving the Salam's legitimacy; "while Allah has permitted sale, and prohibited Riba". (The Quran (2:275). "He who makes a Salam should do that for a specific quantity, a specific weight and a specific period of time" (Hadith). According to Al-Saif³⁸ (2010) legitimacy of the Salam contract is based on the Quranic verse that forbids usury and allows trade. Quran Says;

﴿الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ۗ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا ۗ وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا ۗ فَمَنْ جَاءَكُمْ مَوْعِظَةٌ مِنْ رَبِّهِ ۖ فَانْتَبِهْ ۖ فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ ۗ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ ۖ هُمْ فِيهَا خَالِدُونَ﴾ ٢٧٥. ³⁹(Quran, 2:275) ﴿يُرِيدُ اللَّهُ بِكُمْ الْيُسْرَ وَلَا يُرِيدُ بِكُمْ الْعُسْرَ وَلِتُكْمِلُوا الْعِدَّةَ وَلِتُكَبِّرُوا اللَّهَ عَلَىٰ مَا هَدَيْتُمْ وَلَعَلَّكُمْ تَشْكُرُونَ﴾ (Quran, 2:185)⁴⁰

Another strong argument for the permission of Salam is that Allah wants to remove hardship from mankind and does not want difficulty for mankind. Allah Says in Quran; (translation “Allah intends (to provide) ease for you and does not intend (to create) hardship for you”). The Muslim farmers would have great difficulty in meeting their agriculture financial needs, but the permissibility of Salam has provided them great relief in shape of interest free credit in advance.

Salam as a Financing Tool for Agriculture

The Salam transaction is more useful than other modes of Islamic finance for financing agriculture. The reason for this usefulness is the very nature of the transaction that is originally structured and mechanized for financing agriculture. Majority of the respondents (farmers) have approved the usefulness of such transaction for the development of agriculture sector. (See figure No.40). The historical background of this archetypal kind of Islamic commercial transaction, described by Muhammad Taqi Usmani⁴¹, shows the same fact. Salam was allowed by the Holy Prophet (SAW) subject to certain conditions. The basic purpose of this sale was to meet the needs of the small farmers who needed money to grow their crops and to feed their family up to the time of harvest. After the prohibition of Ribā they could not take usurious loans. Therefore, it was allowed for them to sell the agricultural products in advance. Similarly, the traders of Arabia used to export goods to other places and to import some other goods to their homeland. They needed money to undertake this type of business. They could not borrow from the usurers after the prohibition of Ribā. It was therefore, allowed for them that they sell the goods in advance. After receiving their cash price, they could easily undertake the aforesaid business. This illustrates how the contract of

Salam existed and was employed by the people of Madina before the advent of the Holy Prophet (SAW), who later recommended the use of such a contract. The application of Salam to the agricultural sector is indispensable and inevitable. A survey conducted recently reveals that 64.5% of families belong to categories where one and two members are engaged fulltime in the agriculture industry. Farm income on an average represents 65% of total family income. Only 10.1% of families are fully dependent on agricultural income. The State Bank of Pakistan, reporting on rules of financing⁴² (2002) confirms that 70% of the agricultural credit requirements are met by informal credit providers who charge high interest rates. The survey shows that 46.5% of the total respondents return their loans after the sale of their crop while 45.5% return their loans whenever they receive money from other sources. About 61.5% of the farmers admit they face financial problems during the cultivation of their crops.

Before presenting, a viable Salam based model for financing agriculture, it is appropriate to list those needs of farmers that can be met through such a transaction. These needs include the following.

1. Farmers, particularly those related to the lower class, are always in need of funds to purchase agricultural inputs like seeds, fertilizer and pesticides, etc. They also have a need of their own transport facility to bring their agricultural products to the local market so that the portion of their profits, normally used to pay others to transport their goods, may also accrue to them. These needs are usually required in local farming particularly that exists in rural part of the country which is a hub for majority of farmers.
2. Farmers are also in need of some capital for maintenance of their farm machinery and other agricultural implements. They have to pay labor charges, water charges, utility charges etc.
3. The practical study of the agricultural sector reveals that farmers, especially those belonging to the poorer class, are facing many problems when trying to fulfill their agriculture needs. One of the

major hurdles faced by the farmer of rural areas relates to irrigating their crops, both for fruit and non-fruit crops. If this problem is not solved properly then it may affect the agricultural production negatively in short term and may cause food shortage in future.

4. There are some problems faced by the farmers of local farming, particularly in rural parts of the country. For example, such farmers face problems at the time of selling their crops. They, of course, have no option but to sell their crops to the person with whom they have taken out the loan. In such a situation, the moneylenders commit exploitation by giving less price to the farmers for their agricultural products against the loan advanced. Similarly, due to the lack of proper transport facilities they are not in position to transport their crops to the nearest markets. Likewise, they also complain that they are unable to find customers who can give them ready cash, causing them to be without available funding for other requirements. In addition, improper auction tactics and dishonesty with weight assessment also create problems for these farmers. Finally, they complain that the buyers of their crops make their payments late; making it difficult for them to recover their profit once the crop is sold. The solution of all these problems is mandatory for the smooth development of agricultural sector.

Benefits of Bay Salam

Bay' Salam is different than other trading modes, it is allowed as an exception to support the needy therefore, Islamic jurists also call it **بيع المحتاج** the trade of the needy and **بيع الفقير** trade of poor or resource deficient (Mahmood, Tirmizi and Anas, n.d). Zuhayli ⁴³(2012) says Bay' Salam has been allowed to fulfill the financial needs of farmers and traders; hence the economic factor is the major factor for its permissibility. Ali⁴⁴ (1429 H) says in his Jami ul Fatawa Salam is although allowed for everyone but its major objective is to facilitate the resource deficient farmers and the poor. Hasanuzzaman (1984)⁴⁵ says the reason for the permission of Bay' Salam is to facilitate the farmers

and to remove their hardships in the time of need. Similarly, other contemporary scholars like; M. F. Khan (1995)⁴⁶, Ayub (2007) and Usmani⁴⁷(2012) agree that the Salam has been allowed as an exception and to provide a system of interest free credit to fulfill the farming needs of farmers. According to Kahf (2006) the purpose of Salam is to finance the farmers in need of cash thus enabling them to purchase the inputs required for farming. The Salam financing has the ability to create plenty of opportunities. Poor farmers would get the opportunity to empower themselves financially and socially as they would not be dependent on the exploitative sources of credit. Along with direct economic and social benefits the Salam financing would strengthen the backward and forward linkages. The Islamic finance industry would get a boost. The Mudarabah and Sukuk markets would get opportunity to invest in Shariah compliant mode of finance. Moreover, the upstream industries like; fertilizers industry, seed suppliers, tractors etc. and the downstream industries like; import/export sector, mills, cold storage, food processing are likely to flourish. Thus, the Salam as a mode of finance would not only support farmers but the buyers or investors would have the opportunity to invest their money in Shariah compliance manner to earn profits.

Conditions of Bay' Salam

Salam being an exceptional trade contract must follow certain conditions to avoid any sort of Gharar or Riba. The fiqh literature discusses the conditions of Salam mainly in respect of three basic aspects of Salam like; Al-Muslam fihi (purchased commodity), Ra'a sul Mal (price of commodity) and time of delivery. In the light of discussion carried out by Marghenani (n.d), Kasani⁴⁸ (1997), Sarakhsi⁴⁹(1978), Zuhayli⁵⁰(2012), Al-Saif⁵¹(2010), Ali (1429 H) and Sahih Al-Bukhari (Bab uSalam) and some of the contemporary scholars like; Usmani (2012), Mansoori⁵²(2011) and Ayub (2007)⁵³ the conditions of Salam have been briefly presented below;

- I. "The buyer must pay full price in advance to the seller, because in the absence of full payment, it will be the same as a sale of debt against debt,

which is strictly prohibited in Islam.

2. Quality and quantity of the object should be specified exactly. The goods whose quality or quantity is not determined by the specification cannot be sold through the contract of Salam.
3. The exact date and place of delivery must be specified in the contract.
4. Salam cannot be affected on a particular commodity or on a product of a particular field or farm or in a rare commodity which is out of supply. Or commodities whose value depends on subjective assessment like precious gems, antiques, landscapes etc. It should not be specific item like this tractor, fruits of specific trees, land, gold silver, currencies and antiques.
5. The quantity of the commodity must be agreed upon in unambiguous terms.
6. For the Salam contract it is not necessary that the seller himself is the producer of goods.
7. It is not permissible for al-Muslam fihi to be an amount of currency or gold or silver, if the capital of Salam contract was paid in the form of currency or gold or silver.
8. Al-Muslam fihi must be available under normal circumstances and it should not be rare commodity.
9. It is permissible for the capital of Salam to be in the form of fungible goods (such as wheat/cereals) in which case the parties must make sure that they do not fall into Riba.
10. Both items of exchange are not identical, like wheat for wheat, gold for gold etc.
An outstanding loan due on the seller cannot be fully or partially fixed as price nor a loan outstanding on third party can be transferred to the seller in future adjustments towards price.
11. Salam in animal is not allowed as per the Hanafi, Maliki and Hanbali school of thought but allowed by Shafii.
12. If commodity is not delivered by the specified date by the seller then it is

not permissible to take more amount than the paid amount or take another commodity. The buyer can wait or he can take whole the amount back from seller.

- I3. Imam Malik supports the minimum period for contract but not less than 15 days, but Imam Shafi and some of the Hanafi jurists oppose this view as the Holy Prophet ﷺ has not specified a minimum period.
- I4. Any claim to 'interest' or other opportunity cost on the Salam capital because of late delivery of the sale object mars the contract (International Islamic Fiqh Academy as quoted in Al-Saif, 2010⁵⁴)”.

Bay' Salam in the contemporary world.

In current world, though not at vast scale, but still the Salam is being practiced as an alternative Islamic mode of finance in Sudan, Pakistan and Indonesia in agriculture sector. Successful Salam financing for farmers in Sudan and by Wasil Foundation in Pakistan in the recent years reflect the utility of Islamic modes of finance in the modern world. There are various examples of informal Salam financing being carried out including Pakistan.

There are few banks in Pakistan they are planning to initiate Salam financing with farmers. In this regard the Meezan Bank and ZTBL are going to start soon the Salam with farmers. In the private sector Bay' Salam is non-existent with the exception of the Wasil Foundation. Wasil Foundation formerly known as Centre for Women Co-Operative Development (CWCD) a Non-Governmental Organization was formed in 1992, situated in Lahore, Pakistan (Wasil Foundation, n.d.). Its major objective is poverty alleviation through enterprise development. Wasil Foundation extended its operations to Islamic Microfinance in 2009 and then discontinued conventional microfinance in 2010. The modes of Islamic finance offered are; Murabahah, Bay' Salam, Ijarah, Istisna, Diminishing Musharakah (ibid). Wasil Foundation introduced first Salam in district Gojra, province of the Punjab (Pakistan) in 2009 and paid Rs 2.3 million to 43 clients as advance payment and purchased 2530 Mound of wheat from farmers (Wasil Foundation,

n.d.). Now this number has reached to 430 farmers and it has built its own warehouses having the capacity to store up to 800 tons of crops, with potential to expand to 2,300 tons (Chehade⁵⁵, 2016). The Wasil Foundation adopts the following methods for the disposal of crops (Wasil Foundation, n.d.):

- a. Directly sells the crop in market
- b. The client sells the crop as an agent for Wasil Foundation
- c. Parallel Salam

The impact of Salam financing by Wasil Foundation on the farmers seems positive

Features of Bay Salam in Modern Era

Bay' Salam has been found as a time tested best alternative having the potential to cater the credit needs of borrowers in the modern era as well. Its application is possible in the contemporary world provided it is managed through a suitable institutional set-up and sustainable policies (Gulaid⁵⁶, 1995 and Elhiraika⁵⁷, 2003). Hence, there is a need to introduce Bay' Salam on modern lines keeping in view the current and expected future needs.

One of the major objectives of the study was to propose a "Salam Model" with an institutional set-up capable of implementing Salam financing on modern lines. In this regard, after in depth discussion on the subject, current Salam practices and respondents' feedback, the study proposes a "Salam Model". The distinctive feature of this Model includes a separate managing body, Salam pricing method, tackling the issues of defaults and moral hazards through the use of social capital. The chapter presents details about how the Salam Model would work, structure of proposed "Salam Authority Pakistan". Salam Authority Pakistan, the organizational set-up and expected economic linkages to be created through Salam financing.

Proposed Salam Model in Modern Era

The study has noted various key factors which are essential for the success of proposed Salam Model in the country.

Bay Salam Legislation through Lawmakers

It may be recalled that the Council for Islamic Ideology⁵⁸ ((1992, P 59-60) had also recommended the enactment of a law to ensure the fulfilment of the conditions of Salam in all respects; hence an independent agency should be established for exercising proper control on the price fixation in respect of Bay' Salam. In this regard, it is worth mentioning that some of the members of the parliament as respondents, showed their willingness to table the bill when needed. The creation of SAP would require a law to be passed by the parliament. After the law is passed the concerned quarters would take necessary formal steps for the initiation of Salam in the country.

Establishment of Salam Authority Pakistan

After passing the law from parliament the “**Salam Authority Pakistan**” would be established. This name is suggested in the light of respondents' feedback. The passing of law would pave the way for the start of administrative and operational activities necessary for initiating the Salam. At initial stage the government may assign the base work to the Cabinet Division. The Cabinet Division would take further necessary steps to make the Salam Authority operational.

Salam Financing: Modification of the existing Rules

The existence of comprehensive rules is one of the basic conditions necessary for sustainable outcome. Kemal (2002)⁵⁹ emphasized on need for a well thought and clear-cut set of rules and regulations for best outcome. It is re-asserted that in the case of “Public Procurement Regulatory Authority” (PPRA) Pakistan, it has been noticed that the presence of clear-cut rules and regulations enabled the Authority to control the procurement violations substantially since its inception. Similarly, the existing Mudarabah Rules and “Shariah Compliance Audit Mechanism” are serving the *interests* of stakeholders in a satisfactory way. The Salam Authority would make Salam rules and regulations to carry out the Salam financing in Pakistan in consultation with SBP, SECP and Law Division. Moreover, study suggests consultation with successful organization like PPRA, Akhuwat Foundation

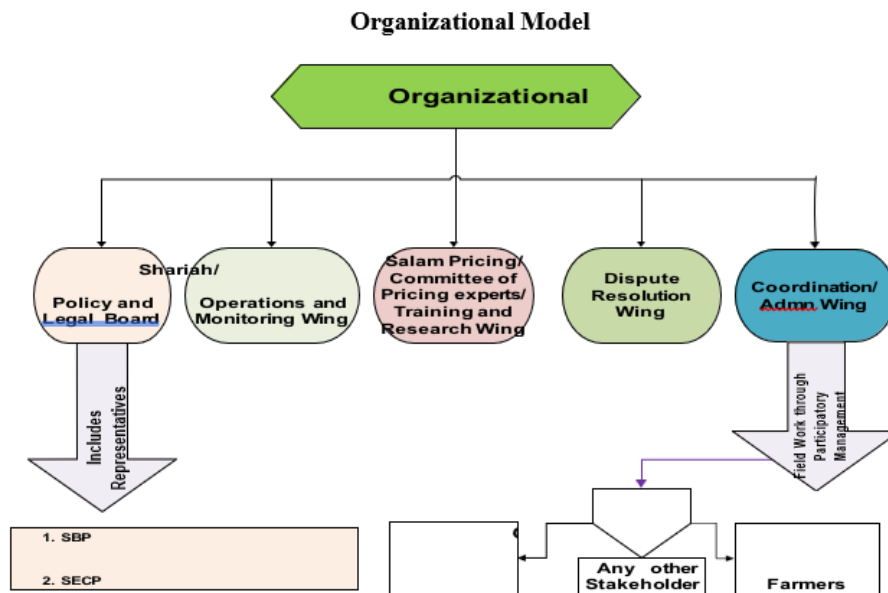
and other private entities working in Islamic finance for preparation of Salam rules.

Public Awareness about Bay Salam Financing

Currently there is a lack of knowledge and skill-gap particularly relating to Islamic financial tools including Bay' Salam. The culture of Islamic finance is not prevalent at large scale thus, the common man, business community and farmers do not know about the concept of Salam, its requirements and its expected benefits. This issue has been observed in the literature review as Dar ⁶⁰(2004) and Gulaid⁶¹ (1995) noted the lack of awareness and training created problems. The Council of Islamic Ideology has recommended training and education in Islamic finance.

Organizational Model of Salam Authority Pakistan

It is also important that the proposed organization works efficiently with clear mandate and tasks. For this purpose, study proposes an organizational set-up to manage the Salam Financing in the country. The proposed Organizational Model of Salam Authority Pakistan is depicted in the



following figure:

Salam Authority Pakistan Funds

As it has been discussed that Salam Authority will charge a nominal fee from new members and per contract fee from the contracting parties. The accumulated amount can be used for the compensation of the buyers/sellers in case the above mentioned two sources are not sufficient to cover the losses. This will be a reliable and sustainable mode as with the passage of time the business will expand, more players would join the Salam financing, hence Salam Authority can accumulate a huge amount. This amount would be at the discretion of the Salam Authority and during the emergency the funds can be utilized immediately on the Islamic principles of mutual help and brotherhood.

Salam Pricing Mechanism

Salam pricing is one of the key features of Salam financing. The difference between the price of commodity on the day of contract and on the day of delivery, determines the profit of investors or buyers. Generally, the price of Salam commodity is fixed at lower rate than the prevailing market price, because the farmers are satisfied with the lower prices for obtaining *interest* free loans in advance without harsh conditions. The fixing of price, along with other factors, also depends on the bargaining power of the buyer and seller. Most of the scholars clearly state that price means a known sum on the day of contract and not the future price or price at the time of delivery and if not paid at the time of agreement that would be the sale of debt for debt, which is haram as per Islamic principles (Marghinani⁶², n.d.), (Kasani⁶³, 1997) (Sarakhsi⁶⁴, 1978) and contemporary scholars (Al-Saif, 2010), (Ayub, 2009) and (Al-Masri⁶⁵, 2003).

The Process Flow of Salam agreement.

- I. Agreement between Salam Authority and Farmer or Farmers' Organization [a single farmer can make agreement, or more than one farmer can make agreement with Salam Authority through their organization]. Each farmer as an individual or in the group would be bound to fulfill his contractual requirements regarding the

commodity.

2. Salam Authority agrees to buy 160 mounds of wheat from the farmers on 15th October
3. Salam Authority takes any guarantee [may be LG representative] or collateral through mutual understanding among the parties or government guarantees. The government's guarantee can be through standing instructions or through a Rule to compensate the loss of greater scale.
4. Disbursement: Salam Authority pays Rs. 300,000/ to the farmer in cash or in his account or farmers' organization's account or pays to FO's leader.
5. The farmer agrees to deliver crop on 15th April
6. Salam Authority Disposes of the purchased wheat through;
 - a parallel Salam contract with third party
 - may make an agency contract
 - may store the commodity and sell it at later stage

Conclusion

The study finds the Bay' Salam as the most suitable financial tool compliant to the principles of Islamic finance, having potential to address the credit issues of farmers. The study concludes that Bay' Salam, a centuries old mode of Islamic finance allowed by Shariah as an exception, can successfully replace the existing *interest-based* agricultural credit system in the modern era. The study noted various socio-economic benefits of Bay' Salam. It would be appealing mode of finance for farmers as it is *interest* free, no exploitation by landlords and middlemen, no lengthy procedures and better returns for their crops. Salam financing would enhance and integrate the forward and backward linkages in the economy. It will help the Islamic finance industry to foster in the country. The study also explored some of the preconditions essential for the success of proposed structure of Bay' Salam. These are; strong political will and support, a good collateral system in place, awareness and education, starting Salam through a pilot project, a separate institutional

setup. Moreover, the availability of sufficient water, effective use of academic and research institutes, more governmental patronage and good policies would be supportive for the Salam financing. The study concludes that the educated farmers can play more useful role for the development of the sector. To make sure the Shariah compliance it would be essential to follow Precautions of Salam Contract as pointed out in the study.

Recommendations

The following are the recommendations to improve the Agricultural Sector Performance:

- **Interest free loan for farmers through Bay Salam**

For best and sustainable outcome Bay' Salam should be implemented through a separate managing body having clear-cut rules and roles to play. Salam through a separate body, other than banks, would be more appealing for the stakeholders. Therefore, the study recommends the initiation of Bay' Salam for the purchase of crops from farmers on urgent basis as per the proposed Model.

- **Agricultural Sector – a top priority for the Government**

The government of Pakistan should give top priority to the agriculture sector with strong resolve and sufficient budget allocation. There is a need to revisit the priorities, existing agricultural policies and programs in order to make a fresh policy in consultation with stakeholders to tackle the burning issues effectively.

- **Providing Knowledge and Training to farmers**

It is recommended to arrange the education, training and awareness of relevant staff and farmers for enforcement of Bay' Salam and compliance to Islamic principles in true sense.

- **Reducing the role of International Stakeholders**

To safeguard the national interest, it is recommended to take necessary steps to curtail the role of such foreign companies.

- **Collaboration between Private Sector in Islamic Finance**

It is suggested to create a nexus among the public and private organizations involved in Islamic finance. The nexus will create synergies and would be helpful in promoting Bay' Salam, better products and service delivery.

- **Increasing efficiency of the institutes**

Allocation of more budgets for research and development, infrastructure and human resources can be instrumental for the better outcome of the existing institutions and the growth and development of agriculture sector. The ministry of agriculture has to play active role and should devise a mechanism for the regular monitoring of performance of these institutions.

- **Role of OIC, AAOIFI and Council of Islamic Ideology**

It is recommended the bodies like OIC Fiqh Academy, AAOIFI and Council of Islamic Ideology need to play more dynamic role in shape of more coordination, regular meetings and consultations with stakeholders and IFIs. They should also conduct studies on the impact of Islamic financial services being provided by the IBs and IFIs on regular basis.

Some alterations suggested in the existing institutions

The intended results from all modes of Islamic finance option can be achieved with a condition if some alterations (in the light of survey conducted) are made in the existing structure employed by the Islamic banks and other Islamic financial institutions.

1. Ground realities are against the provision of securities as majority of farmers belong to lower class, and consequently, are not in position to provide securities and other forms of collaterals. Therefore, some other techniques should be followed by the financial institution for the protection of their liquidity. The best possible solution in this regard may be the provision of personal or group based securities.
2. Very simple and accurate procedure will be followed for the provision of financing facility and the best possible efforts will be made for the reduction of transactional costs.

3. Majority of farmers (respondents) do not accept the arrangement of customer agency and unwilling to become agent of the bank. The possible solution is that any other farmer, not the customer, of the same locality can be appointed by the bank as its agent. The appointment of such farmer, other than the customer, is the ideal solution in the sense that the bank will not have to buy the commodity itself, and will also avoid customer's agency, which is not advisable from Sharī 'ah perspective.
4. Being a regulatory body, the State Bank should strictly bar the Islamic financial institutions not to charge interest in any form; and in case of violation, some serious actions should be taken against them. Such actions may start from pecuniary punishment to the extent of cancellation of registration. As a matter of fact, the advisory type of guideline may not be a successful strategy to prevent Islamic financial institutions from indulging in interest-based transactions, directly or indirectly. They may simply change the term "interest" with "profit" and the term "rescheduling" with "penalty for the default of payment".
5. The eligibility and creditworthiness criteria should be relaxed to a great extent so that poor farmers may get more benefit from all financing schemes offered by the Islamic financial institutions.

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