

# Islamic Agricultural & Rural Finance

تحت رعاية  
Under the auspices of



تنظيم  
Organized by



بالتعاون مع  
In cooperation with



## مؤتمر أيوفي البنك الدولي الحادي عشر «المالية الإسلامية في اقتصاد ما بعد النفط»

يومي الأحد والاثنين ٧-٦ صفر ١٤٣٨هـ يوافق ٦-٧ نوفمبر ٢٠١٦م في فندق الرتزكارلتون مملكة البحرين

**AAOIFI – World Bank 11<sup>th</sup> Annual Conference**  
**Islamic Finance in the Post Oil Economic Scenario**  
6 & 7 November 2016, Ritz Carlton Hotel, Kingdom of Bahrain

MUHAMMAD ZUBAIR MUGHAL

CHIEF EXECUTIVE OFFICER

CENTRE OF ISLAMIC BANKING AND ECONOMICS



# Contents

- Why Islamic Agricultural and Rural Finance ?
- Source of Islamic Agricultural and Rural Finance Product.
- Compatibility of Islamic Financial Products with Conventional Rural Credit lending Models.
- Opportunities, Challenges and Innovation.

# Why Islamic Agricultural & Rural Finance?

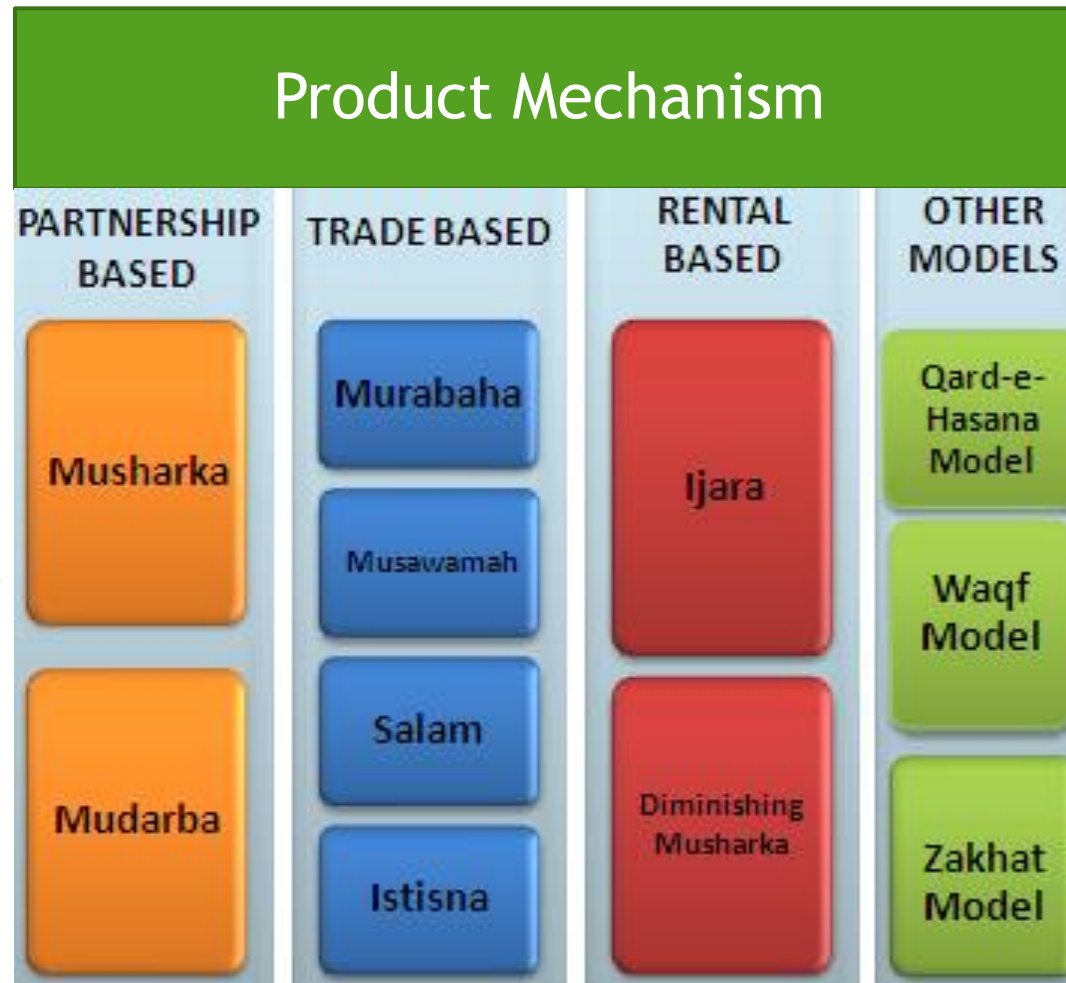
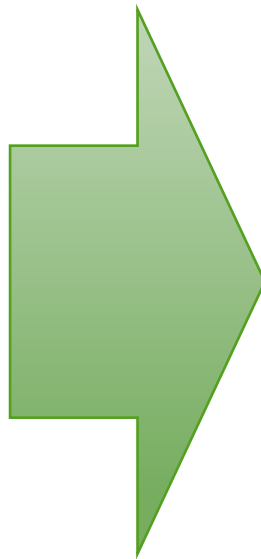
- ❑ Prohibition of Interest – Financial Inclusion
- ❑ 53% of population in the OIC countries live in rural areas - SESRIC - OIC
- ❑ 20% Financial Inclusion in Muslim World – World Bank.
- ❑ OIC countries occupy 29% of the world agricultural land.
- ❑ Asset Based Financing & Risk Sharing – Impact.
- ❑ Takaful ( Islamic Insurance) – Crop, Livestock and Rural Economy supported Product



# Source of Islamic Agri. Finance Products

## Sources of Islamic Finance

- Quran
- Sunnah
- Ijma'a (jurist consensus)
- Ijtihad & Qiyas (analogy)



# Islamic Agricultural Finance Products

## Murabaha - Cost Plus Sale

Murabaha means a sale on mutually agreed profit, also known as cost plus sales, it is one of the most widely used instruments for short-term agricultural financing where the Bank/MFI undertakes to supply specific goods or commodities at mutually agreed profit to the client.

### Utilization :

Murabahah can be utilize for Purchase of seed, fertilizer, harvesting and planting equipments, agri. Inputs, tractor, pesticides, farming goods, Solar Tube-wells etc.

### Currently Practiced:

MBL and some other Banks, NRSP - KPK, Al Amal Bank, Islamic Bank Bangladesh, FINCA-AF, Islamic Relief, BMT's in Indonesia etc.



# Islamic Agricultural Finance Products

## Salam - Forward Sale

Salam means a contract in which advance payment is made for goods to be delivered later on. The seller undertakes to supply some specific crop/goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract

### Utilization

Salam is ideal product for Agricultural Financing, through which a farmer can fulfill all the financial needs of whole crop circle e.g. liquidity, seed, pesticide, fertilizer, harvesting, irrigation, transportation, market linkages etc.

### Currently Practiced:

Wasil Foundation, Albarakah MPCs, MBL etc.



# Islamic Agricultural Finance Products

## Istisna - Manufacturing contract

A pre-delivery financing instrument used to finance projects where commodity is transacted before it comes into existence. It is an order to manufacture and payment of price, unlike Salam, it's flexible, where price may be paid in advance, or in installments or on delivery of good.

### Utilization:

Istisna May Utilize for small manufacturing Business, dairy or Agri. production, Construction of warehouses and cold storage, Rural entrepreneur Development etc.

### Currently Practiced:

AlBaraka MPCs, Ghana Islamic Microfinance bank,  
Al-Amal Bank, Bank of Khartoum etc.



# Islamic Agricultural Finance Products

## Ijara - Islamic Lease

Ijarah Means Operating lease. It is an arrangement in which the Islamic Bank lease Agri. equipments, Tractor & light vehicles, Agri. Instruments, buildings or other facilities to a client, against an agreed rental.

### Utilization :

Leasing of Tractors, Agri. Equipment, Threshers, Tub wells, small production unit lease, Sugarcane planter, Rice planter, harvesting vehicles etc.

### Currently Practiced:

Al-Amal Microfinance Bank, NRDP, Wasil Foundation.

Amanah Islamic Bank - Philippines.





# Islamic Agricultural Finance Products

## Diminishing Musharakah

Diminishing Musharakah is a form of Musharakah where the Bank/MFI and the client participate in a joint commercial enterprise or property. This attains the form of undivided ownership of both, Over certain period the equity of financier is purchased by the client

### Utilization:

It can be utilize for Rural housing, forest development, agri. Inputs, farming, sprinkler/drip/solar pumps, tube wells, Refrigeration vans etc.

### Currently Practiced:

Islamic Bank Bangladesh, some Islamic banks etc.



# Islamic Agricultural Finance Products

## Musharakah & Mudarabah- Partnership

Musharakah & Mudaraba means a relationship established under a contract by the mutual consent of the parties for sharing of profits and losses in the joint business.

### Utilization :

Musharkah and Mudarabah can be used for Microenterprise & SME'S setup's, Agricultural Joint venture projects, Dairy and livestock development etc.

### Currently Practiced:

BOK, Amanah Islamic bank, AlBarakah MPCs etc



# Islamic Agricultural Finance Products

## Some other and Charitable Models of Islamic Agri. Finance

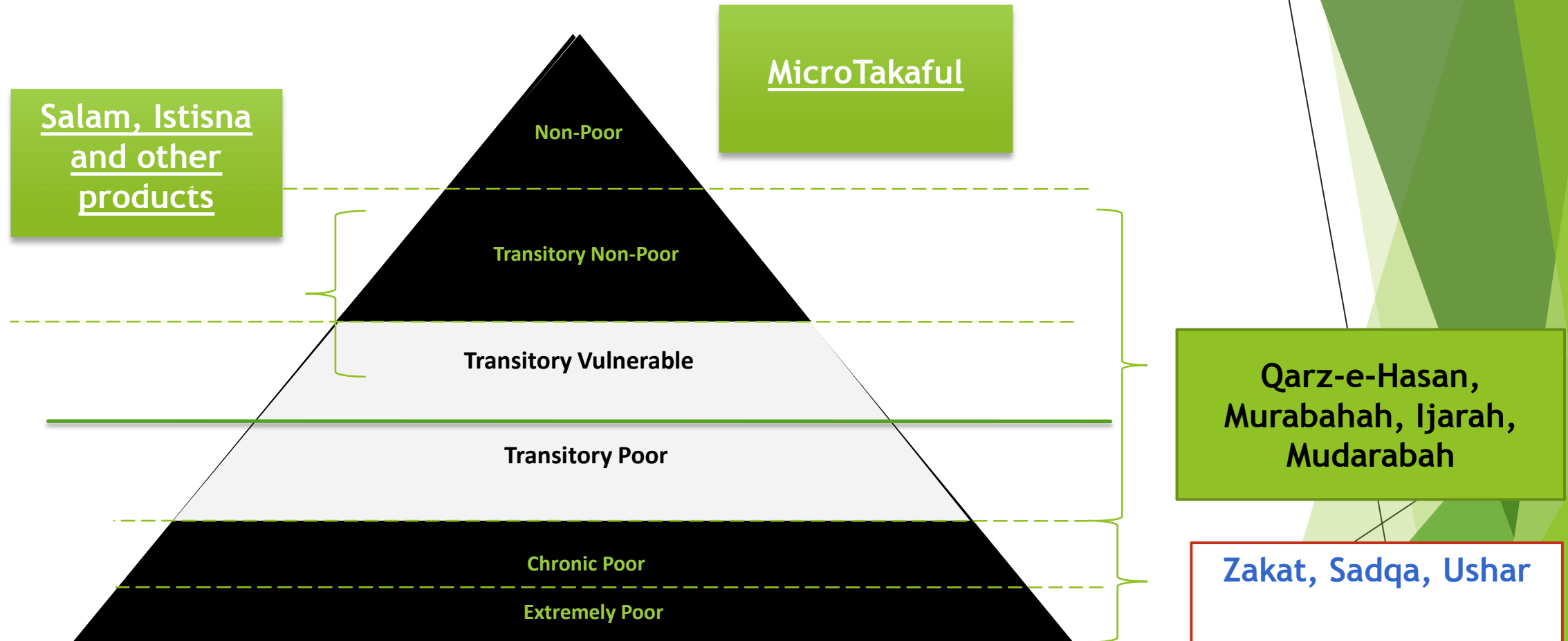
- ▶ Muzahara ( Crop Sharing )
- ▶ Musaqaa ( Irrigation Purposes )
- ▶ Mugarsaa ( Orchard Financing )

### Charitable Models :

- ▶ Qarz e Hassan
- ▶ Zakat Model
- ▶ Waqf Model



# Islamic Agri. And Rural Products



# Compatibility with other Rural Finance Models

- ▶ **Grameen Model:** Amna Iftikhar – Malaysia, Islami Bank Bangladesh Limited etc.
- ▶ **Village Bank Model:** Sanadiq program -Jabal al-Hoss, Syria, FINCA - Afghanistan etc.
- ▶ **Credit Union Model:** Muslim Credit Union (Tobago), The Amwal Credit Union etc.
- ▶ **Cooperative Model:** AlBaraka MPCs – Mauritius, Al- Khair Coop. – India, Muslim Community Coop.– Australia, Karakorum Cooperative Bank – Pakistan.
- ▶ **Self-Help Group:** Aameen Society - India
- ▶ **For Profit Banks/MFIs** Ghana Islamic Microfinance Banks – Ghana, Al – Amal Bank, Bank Islami - Pakistan

# Size of Islamic Agri. & Rural Finance

- **Total Islamic Finance Industry size is 2.1 T. USD**
- **More than 2,000 Islamic Financial Institutions are working in 100+ Countries.**
- **Islamic Banking have 1.5 T. USD Share**
- **Sukuk (Islamic Bond) have about 400 Billion USD.**
- **While rest belong to Islamic Insurance, Islamic Funds, Islamic Leasing etc.**
- **The Share of Islamic Micro and Rural Finance is Less than 1% within IF Industry.**
- **Big Potential in African Countries**

# Islamic Micro/Rural finance Institution Worldwide

## •United States: 3

- Helping Hands
- ISNA
- Lariba

## •UK: 5

- HSBC Amanah
- Muslim Aid
- Islamic Relief
- Faith Matters
- The Halal Mutual Investment

## •Germany: 2

- Muslim Society

## •Switzerland : 2

## •UAE: 4

- Dubai Islamic Bank
- Abu Dhabi Islamic Bank
- HSBC Amanah

## •Kuwait: 2

- Kuwait Finance House

## •Bahrain: 2

- Family Bank

## •Afghanistan 9:

- FINCA , WOCCU
- CHF
- Ariana

## •Iran: 8

## •Pakistan: 11

## •India: 3

## •Bangladesh: 9

## •Turkey: 2

- Faisal Finance Institution
- Ikhlas Finance House

## •Egypt: 3

- Alwatany Bank of Egypt
- Egyptian Saudi Finance

## •Malaysia: 11

- 2 - Pure Islamic Banks (Bank Islam, Bank Muamalat)
- Rest - banks

## •Sudan: 13

## •Yemen: 05

- Al- Amal
- Al Kuraimi

## •South Africa

- Awqaf SA

## •Indonesia: 133

- BPRS , BMT.

## •Muaritius

- AlBaraka MPCS

**IMFI's Worldwide: 300\***  
**in Countries: 32**  
**Market Size: 1 billion USD**

# Some Islamic Microfinance Institutions - Worldwide

Countries	Islamic Microfinance Institutions
Indonesia	BPRS, Islamic Financial Cooperatives referred as bait Maal wat Tamwil (BMT)
Bangladesh	Islamic Bank Bangladesh, Social and Investment Bank, Al-Fallah and Rescue
Afghanistan	FINCA (Qard Hasan), WOCCU, Ariana Financial Services , IFIC, etc.
Pakistan	Akhuwat , Farz Foundation, ASASAH, Muslim Aid, Islamic Relief, CWCD, ,HHRD , NRSP, NRDP, Naymet etc.
Malaysia	Amina Iftikhar, Tabung Haji etc
India	AICMEU, BASIX, Sahulat, Bait-un-Nasr , Al-Khair Co-operative, Marwar Shariah Credit
Egypt	Mit Ghamar Project
Syria	Sanadiq project Jabal al Hoss
Lebanon	Mu'assat Bayat Al-Mal
Yeman	Hodeidah Microfinance Program, Al-Amal Microfinance Bank etc.
South Africa	Awqaf South Africa
U.K	Faith Matters, Islamic Relief, Muslim Aid, HSBC Amanah etc.
Tanzania	Hajj Trust, Four SACCOS



# Factors to be considered while doing Islamic Agri. & Rural

Moral

Ethical

Social

Poverty Alleviation  
Element and more....

## A Misconception removed

*Islamic Finance is a system not the Religion, it can be utilized & operated by both Muslims and Non-Muslim Communities for Poverty Alleviation, Social & Economic Development.*

Micro Takaful

Free from Interest Financing

Free from Gharar

Ensure Shariah Compliance

Islamic Micro Finance

Shariah Compliant Funds

Trainings & Quality HR

Shariah Vetted Products

Shariah Compliant Investments

# Challenges for the Development of Islamic Agri. & Rural Finance

- ❑ Non - Availability of Donor/Shariah Compliant Sources of Funds
- ❑ Need to develop a uniform regulatory and legal framework for the Islamic Agricultural Finance.
- ❑ Accounting & I.T systems., Rating Agencies.
- ❑ Lack of Quality HR in Islamic Agri./Rural Finance Sector.
- ❑ Standardization of Products.
- ❑ Reluctance in Research & Implementation of new Products, as only (Murabahah) is serving almost 80% of Islamic Agri./Microfinance Industry.
- ❑ Introduce new product line on the basis of Musaqqa, Muzara'a & Mugharasa
- ❑ Development of Shairah Expertise towards the Growth of Islamic Agricultural Finance.

# Opportunities

- ❑ IDB - Microfinance Development Program (MDP )
- ❑ I.T Integration of Islamic Rural & Agri. Finance Products
- ❑ Supportive role of Government.
- ❑ Expansion of Market where the Conventional Agri. Finance Products face limitations especially in Muslim Majority Countries
- ❑ AlHuda Centre of Excellence in Islamic Microfinance is offering Services for the development of Islamic Agri. Finance Products
- ❑ Islamic Banking and Finance is emerging in South Asia, Central Asia & MENA region which will strengthened the Islamic Agri. Finance products effectively.



# Centre of Excellence in Islamic Microfinance

**Islamic Microfinance**  
A Real hope for the Poor ...



Islamic  
Microfinance  
Product  
Development

Training &  
Capacity  
Building

Innovation  
and  
Research

Networking  
and  
Awareness

Publication of  
Islamic  
Microfinance

Distance  
Learning  
Program on  
Islamic  
Microfinance

**ALHUDA CENTRE OF EXCELLENCE IN ISLAMIC MICROFINANCE**

*AlHuda Centre of Excellence in Islamic Microfinance is a subsidiary of AlHuda CIBE*

[www.alhudacibe.com/imhd](http://www.alhudacibe.com/imhd)

JazzakAllah  
Thank you for listening with  
patience



**Muhammad Zubair Mughal**

*Chief Executive Officer*

**AlHuda Centre of Islamic Banking and  
Economics**

**[Zubair.mughal@alhudacibe.com](mailto:Zubair.mughal@alhudacibe.com)**

**[www.alhudacibe.com](http://www.alhudacibe.com)**