**Salam and Parallel Salam (REHBAR) – Financing small Farmers**

**Rural Enterprising Help in Bai for Agriculture - REHBAR**

1. This module has been prepared for implementation in ***agriculture sector*** for small and poor farmers by IFIs basing on ***Shariah Standard 10 of AAOIFI***. Majority of farmers(84%) –i.e. small farmers remain under served or don’t receive any credit help from banks due to one of the following reasons:-
2. The inability of small farmers to provide collaterals to ***banks/IFIs***.(As small farmers are scattered all over the Pakistan, the cost of administration of credit and lending risks for ***banks/IFIs are also high)***
3. Nearly (almost all) small farmers (250,000 small farmers according to post flood report) in Sindh were denied access to bank credit from financial institution.
4. If proper funding facility of credits are offered to these poor farmers that too in pure Islamic attire than these farmers would certainly bring green revolution in ***cash: crop yield ratio***, as this will raise the yield production; which is inverse relation to farms and yield per acre. Axiom is, smaller the farmer greater the precaution adopted ultimately greater the yield. As these small farmers have peculiar characterized devotion for higher crop yield in relation to small farmland; thereby making them; labor intensive to urge for a high yield crop.
5. This Islamic financial system of bai on “***Salam and Parallel Salam***” has never been practiced by IFIs, thus ignoring a large percentage of down trodden farmers as potential target customers. (3/4 population of Pakistan lives in rural area depends on agriculture.) due to following reasons:-
6. **First party risk** The farmer may default after taking the advance(s) from the banks.
7. **Commodity Price risk** The price expected may dip (lower) from the original price at the time of delivery of commodity to Islamic banks. (in case of parallel Salam)
8. **Quality assurance risk** Goods received/delivered from the farmer(client) might not match with the pre-agreed specs(Khiyaar-e-Ruyaat) thus may lead to rejection or low return from potential buyer (in case of parallel Salam).
9. **Replenishment of commodity** In case bank has to purchase the commodity (asset) from open market for parallel Salam, when first party failed (Farmer- Al Muslam-illah) in supplying the requisite goods for parallel Salam for 3rd party.
10. Problems/hiccups being faced by Islamic banks in case of Salam and Parallel Salam contract.
11. Misconception in implementation of Salam and Parallel Salam by I. Banks as a pure Islamic banking module in agriculture finance sector.
12. Salam and Parallel Salam have been developed in combination with Shariah STD on the rulings of AAOIFI. This newly developed product can very easily be practiced in agriculture sector-as Shariah rulings given in AAOIFI has been followed thus making more interactive, user friendly with high profit earnings.
13. ***Working Procedure*** Salam operating cell (SOC) will be working independently for all Salam contracts, this cell will be fully backed and supported by the sister IFIs. Depending upon the stature of client(s) different offerings will be bundled and offered to clients into a wholesome package. Each district will be having One SOC, under which all the tehsil/villages will be incorporated/linked for all sorts of business activities. As SOC, will be operating in midst of client surroundings thereby problems of collaterals/securities can very easily be verified on ground (in-situ) by relevant district administrative authorities for quick credit execution by the IBs.
14. ***Under SOC an Ijarah for various agriculture/farming equipments***, Heavy/small agri equipments will be offered to farmers under ***Ijarah*** “The Islamic leasing” system, moreover, technical services required for farming on ***Juala*** (services) can also readily available to farmers like, ***fertilizers, seeds, corporate farming can be provided to farmers/parties under “SOC” one roof operation.***
15. ***Advantages of SOC***
16. It’s a separate cell which will do business at tehsil/village level. Capable of making own decisions as per the arising needs/situations. ***SOC*** will be fully backed by IFIs under whom it’s operating.
17. This product can be easily marketed in rural sector (reason being people are more inclined towards religion) thus shariah based module would be readily accepted by the inhabitants than obtaining loans on Interest (riba)
18. The awareness related to Islamic banking facilities are lacking in rural areas of country thus, will be welcomed by the locals. Thereby, this product can easily be marketed and executed by Islamic banks.
19. Due to its unique placement of head office at district level and branches working at tehsils /villages thereby the entire operations could be effectively monitored and operate.
20. Securities/collaterals provided by farmers against their advances will be verified there and then as Salam microfinance facilities will be established to work at farmer’s doorstep. (respective village)
21. Risk of default for delivering goods in future would be eliminated as Salam micro finance system would be monitoring the crop development right nearby the farmers.