

Exploring the Scope and Socio-Economic benefits of Bay' Salam for the Agriculture Sector in Pakistan

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Exploring the Scope and Socio-Economic Benefits of *Bay' Salam* for the Agriculture Sector in Pakistan

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Abstract

The socio-economic conditions of a vast majority of small farmers in developing and poor countries are miserable. There are various factors which hurt poor farmers like the shortage of water, costly seeds and fertilizers, poor patronage from the government, olden cultivation techniques, illiteracy and lack of training. These problems no doubt hurt the farmers at large. The lack of credit is one of the most serious issues which not only impedes the agricultural performance but also the welfare of farmers. The existing credit schemes for farmers in Pakistan have many demerits. Among them are exploitative conditions, interest-based, access-difficult and cumbersome procedures. Islam, in the form of *Bay's Salam*, provides an alternative credit system that is not only much easier but also free from exploitation and many ills of conventional forms of credit. With the exception of the last century, *Bay' Slam* had been practiced widely in many Muslim countries and had served the poor farming communities effectively. This paper analyses the potential and scope of *Bay' Salam* as a substitute to the existing forms of agricultural credit using secondary and primary data.

Keywords: agriculture, *Bay' Salam*, credit, socio-economic benefits of *Salam*

Introduction

Flow of funds from the rich to the deficient sectors of economy opens the doors of a variety of economic activities ranging from job creation, production, exports and development of infrastructure, industrial growth, poverty alleviation and welfare. On the other hand, idle money seldom helps the individuals and economies to grow and flourish. Economists therefore, recommend investing extra money for the expansion and growth of economic activities. Generally, the supply of credit to the resource deficient sectors, credit seekers and investors has

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been helpful in promoting investments. The supply of credit helps in promoting economic activities, which ultimately results in growth and development.

The economic conditions of resource deficient countries are usually miserable. Poverty in rural areas is severe which appears in the shape of unending indebtedness, poor health conditions and illiteracy. Resultantly, not only the farmers remain poor but growth in agriculture and in national economy are also compromised. Thus, credit in agriculture based economies is lifeline for poor farmers. The provision of interest free agricultural credit can change the scenario particularly in the rural sector. It will not only help the agriculture sector to grow but would also uplift economic conditions of the farming community. Therefore, agricultural credit would need more attention and focus from the policy makers and economic managers. Thus, a prudent credit policy ensuring sustained availability and easy access to small farmers and investors is needed for overall betterment of the agriculture sector and poverty alleviation.

Poor farmers need credit but generally they face severe difficulties in accessing it. Currently, there is hardly any interest free credit scheme available for credit seekers and particularly for the farmers. The supply of interest based credit to farmers has augmented their socio-economic problems. Poor farmers are under immense pressure, they are suppressed and socially and economically excluded. The suicide rate among farmers has increased manifold. In this regard, India is the worst example, where more than 18,000 farmers commit suicide every year (National Crime Records Bureau India).

Islam discourages the concentration of wealth in few hands and encourages spending extra money for the welfare of people or for investment purposes. Islam has offered its own financial system, free of interest (*Riba*) and exploitation. Some of the acceptable and tested tools as per the *Shariah* guidelines are *Musharakah* (joint enterprise) and *Mudarabah* (partnership between entrepreneur and financier)⁴, *Ijarah* (type of lease), *Murabaha*⁵, *Bay' Salam* (advance sale), *Istisna*⁶ etc. *Bay' Salam*, where payment is made in advance for the commodity to be delivered later, is a mode of finance allowed as an exception for farmers and it remained in vogue in various Muslim societies for centuries, successfully. The revival of *Bay' Salam* can be helpful in addressing the credit issues of farmers and also to uplift the dying agriculture sector.

⁴ A type of partnership wherein one person provides capital to other for investing on profit sharing basis.

⁵ A person/party purchases a commodity for cash and sells to a second person/party on deferred payments.

⁶ A contract for specific made items such as furniture.



2. Literature Review

2.1. *Bay' Salam*: Concept and Bases of its Legitimacy

Bay' Salam has been discussed thoroughly by the four Islamic schools of thought, that is, *Hanafi*, *Shafii*, *Hambali* and *Maliki* schools in their books of Islamic *Fiqh* (Jurisprudence). Marghinani (n.d) says the words “*Salam*” and “*Salaf*”(lending) have similar meanings. The buyer will be called *Rab ussalam*, the seller *Muslim ilaih*, the purchased commodity *Muslim fih* and the price *Raas ul Mal*. Explaining further Marghinani (n.d) says *Salam* is the name of such a trade where price is (*Muajjal*) paid immediately for the delivery of goods later. Kasani (1997), a well-known *Hanafi* jurist, says if a commodity is sold for immediate possession on capital (price), it is called *Bay' Salam*. Zuhayli (2012, p 212) defines *Salam* as payment of a known commodity for deferred delivery. Sarakhsi (1978) also discussed in detail various aspects of *Salam* including *wakalah* (agency), *eqala* and conditions of *Salam*.

There is a famous hadith (quoted in all famous books of *ahadith*) about *Salam* wherein the Holy Prophet (peace be upon him) said (Sahih Al-Bukhari, Volume 3, p/558),

من أسلف في شيء فليسلف في كيل معلوم ، ووزن معلوم إلى أجل معلوم

“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 following hadith indicates that the *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 the period is clearly known. Moreover, it cannot be for an indefinite period. The hadith states that:

“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).

The 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 the 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: 2254 Sahih Al-Bukhari, Book of As-Salam).

Salam is also allowed in edibles, 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 another person in edibles with specified quality, price and time” (Hadith No.1586).

It is not necessary that the peasants have standing crops at the time of contract as the following hadith clarifies this matter in these words,

“Narrated by Muhammad bin Abi Al-Mujalid: Abu Burda and 'Abdullah bin Shaddad sent me to 'Abdur Rahman bin Abza and 'Abdullah bin Abi Aufa to ask them about the *Salaf (Salam)*. They said, "We used to get war booty while we were with Allah's Apostle and when the peasants of Sham (Syria) came to us we used to pay them in advance for wheat, barley, and oil to be delivered within a fixed period." I asked them, "Did the peasants own standing crops or not?" They replied, "We never asked them about it." (Hadith No: 2256 Sahih Al-Bukhari, Book of As-Salam).

With respect to collateral, it is allowed in *Salam* contract to mortgage something and it is evident from the Hadith given below.

“Narrated By Al-Amash: when we were with Ibrahim, we talked about mortgaging in deals of *Salam*. Ibrahim narrated from *Aswad* that 'Aisha had said, "The Prophet bought some foodstuff on credit from a Jew and mortgaged iron armor to him." (Hadith No: 2387 Sahih Al-Bukhari, Book of As-Salam).

In the contemporary world, *Bay' Salam* although not practiced at a large scale, has captured the attention of experts of Islamic finance and *Fiqh* explaining



the concept of *Salam*. Some of these contemporary definitions are presented below.

Salam is “a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange for an advanced price fully paid at spot” (Usmani, 2012. Pp 186).

“In Arabic the word *Salam* means to advance. This is contract whereby the purchaser pays the price in advance and the delivery of subject matter is postponed to a specified time in future” (Mansoori, 2011).

“The word *Salam* is synonymous to word *Salaf* (lending) and to make *Salam* is to give or to lend something to somebody” (Abdul Halim Umar, 1995). He explains that the word ‘*Salam*’ was used in *Hijaz*, whereas the term ‘*Salaf*’ was used in Iraq, otherwise there is no difference of concept.

2.2. History

Bay’ Salam was practiced before the advent of Islam in *Makkah*, *Madinah* and in other parts of Arabia. According to Muhammad N Siddiqi (2005), Abbas the uncle of the Prophet (peace be upon him) was a well-established trader before the advent of Islam and he did different businesses including *Bay’ Salam*. According to Mansoori (2011), *Salam* was prevalent before the Prophet Mohammad (peace be upon him) with different arrangements. When people of Madinah brought this mode of finance in the notice of Prophet Mohammad (peace be upon him), he called it *Salam* and allowed it with some conditions (Sahih Al Bukhari, Hadith No.2241).

Marghinani (n.d) noted that people in *Madinah* used to do *Salam* in dates for a period of two to three years. Lay people used to borrow interest based loans from wealthy ones and generally from the Jews. The form of *Salam* prevalent in *Madinah* contained elements of *Gharar*. The Holy Prophet (peace be upon him) removed the elements of *Gharar* by asking the buyers and sellers to do *Salam* for known quality, specified time and weight.

Johansen (n.d.) states that *Salam* along with other Islamic modes of finance starting from Madinah remained in vogue in Muslim empires for centuries. The following hadith *indicates* that the practice of *Salam* continued after the Holy Prophet (peace be upon him),

“Narrated By Shu'ba: Muhammad or 'Abdullah bin Abu Al-Mujalid said, "Abdullah bin Shaddad and Abu Burda differed regarding *As-Salam*, so they sent me to Ibn Abi Aufa and I asked him about it. He replied, 'In the life-time of Allah's Apostle, Abu



Bakr and 'Umar, we used to pay in advance the prices of wheat, barley, dried grapes and dates to be delivered later. I also asked Ibn Abza and he too, replied as above." Hadith No: 2243 *Sahih Al-Bukhari*, Book of As-Salam.

Since the early period of Islam, Muslims were able to establish an interest free financial system for resource mobilization to finance commercial and consumer needs (Chapra and Khan, 2000). They further added that interest free system including *Salam* worked quite effectively during the peak of Islamic civilization and for centuries thereafter. However, when Muslim empires became weak in 19th and 20th centuries, they lost control over their financial system and interest based financial system had the opportunity to enter into the Muslim World? Muhammad N Siddiqi (2005) says that throughout Islamic history interest was prohibited both on consumption and production loans. The Islamic modes of finance were not only prevalent for centuries but had been very effective as well (Udovitch, 2011). However, it appears that with the end of Ottoman Empire and political hold of Muslims, its interest free financial system also disappeared. This point of view has been endorsed by M.N Siddiqi (2004) who says that modern interest based banking institutions for the first time entered the Muslim world in the 19th century.

The resurgence of Islamic finance in the late 20th century has again opened the doors of new opportunities. Interest free economic system has captured the attention of the governments, policy makers, educational institutions and financial managers in various Muslim countries (Memon, 2007). Bay' Salam, as one of the important Islamic financial tools, has great potential to cater the credit needs of borrowers in the modern era. The studies of Gulaid (1995) and Elhiraika (2003) indicate that *Salam* financing is possible in the modern era provided it is managed and controlled through suitable institutional set-up and sustainable policies.

2.3. Socio-Economic Benefits of Bay' Salam

Islam has categorically prohibited interest for being an exploitative system and it also provides an alternative system of finance. In this regard, Bay' Salam is one such alternative available for farmers. A number of scholars have highlighted *Bay' Salam* covering aspects like socio-economic benefits, its legitimacy, conditions, *Salam sukuk* and *Salam* practices. Murghnani (n.d) has highlighted the aspects of *Salam* in animals, fish and meat. He is of the opinion that *Salam* has been allowed to facilitate the poor, hence it can create ample economic opportunities in livestock farming as well. According to Minai (2016), *Salam* has been allowed as it is beneficial both for buyers and sellers. The buyer gets the commodity at a reasonable price and also gets the opportunity to invest his idle money and the seller obtains interest free credit. According to Umar (1995), *Salam* has a wide scope and potential for just distribution, countering inflation,



enhancing and stabilizing production and prices. Umar (1995) asserts that *Salam* satisfies many needs in the fields of finance, investment, production, and marketing and it constitutes along with other Islamic financing techniques a rich field of operations for Islamic banks. *Bay' Salam* has the potential to bridge rich-poor gap specifically in the rural economy.

Salam can open plenty of opportunities in the field of “futures and future markets”. In this regard, M. F. Khan (1995) while comparing *Salam* with the contemporary futures and future markets, says that *Salam* or forward trading is a fourteen hundred years old concept adopted in the Islamic world and basically used in the agriculture sector to support small farmers. The concept of forward trading was introduced in Western economies during 18th and 19th centuries, which eventually with the passage of time was converted into the current future markets based on gambling, speculation and exploitation (*ibid*). Kaleem and Wajid (2009) explored the viability of *Bay' Salam* as an alternative workable mode of financing for farmers. They believe that *Salam* has the capability to solve the credit issues of farmers, thus recommend the banks to opt *Salam* for the purchase of crops.

There are various scholars and researchers who are of the view that *Salam* is beneficial and applicable in the modern era as it was beneficial in the past. Al-Saif (2010), Gait and Worthington (2007), Ayub (2007) and M. F. Khan (1995) are of the view that it can be an appropriate replacement of interest based agriculture credit system. El-Gamal (2000) foresees good economic potential of *Salam* financing in modern society. Siddiqui (2008) is of the view that *Salam* is beneficial if Islamic Banks (IB) sell goods in open market by themselves. The direct selling of commodity by IBs is a clean and *Shariah* compliant method as compared to parallel *Salam*, hence this method can attract more *Salam* clients to IBs. Udovitch (2011) endorses the usefulness of the Islamic modes of finance for farmers. Dhumale and Sapcanin (1999) conclude in UNDP's Technical Note that Islamic modes of finance including *Salam* are more beneficial. In fact, the acknowledgment by an institution like UNDP carries weight and also indicates that serious efforts can create a bundle of opportunities in future. Ali et al. (2013), while highlighting the benefits of *Bay' Salam*, recommended it for the cotton sector in Tajikistan. They assert that its use for export financing, pre-shipment financing, storage and transport will not only attract FDI in the cotton sector but would also end the double exploitation of farmers and would enhance cotton exports.

M. F. Khan (1995) says that *Salam* reduces the risk of producer and provides credit to farmers which is the major problem of poor farmers. Thus *Salam* resolves the liquidity issue in a legal way conforming to *Shariah*. *Salam* financing is also useful in long term for gardens, tube wells and purchase of machinery. It is



beneficial as it provides long term investment opportunities (Hasanuzzaman, 1984). Several Muslim countries are dependent on agriculture, therefore, application of *Salam* can develop their agriculture sector, reduce poverty from rural economy and help the economies as a whole to grow rapidly. Hasanuzzaman (1984) also says that *Salam* based future markets can serve as an institution and can contribute a lot in improving the economic conditions of the rural poor. Rahman (2003) has pointed out another important aspect and says that *Bay' Salam*, both on the demand and supply sides, can ensure stable markets with reasonably perfect competition. Thus *Salam* not only ensures perfect competition but also stability in demand and supply markets. Ishtiaq, Nihal, and Mukhtar (2015) say that *Salam* promotes an equitable system and has the ability to eradicate the exploitative role of the middleman. AAOIFI *Shariah* Standard No.10, describing the benefits of *Bay' Salam*, states that it facilitates farmers and businessmen when they need money. Thus, the issue of credit crunch is solved through the application of *Salam*. Moreover, it is beneficial for buyers as they acquire goods at a lower price.

On the basis of above discussion and arguments, the benefits of *Salam* can be summarized in the following words.

2.4. Benefits to the sellers or farmers

1. Farmers get interest free credit.
2. Farmers are relieved from the traditional burden of debt.
3. More concentration on work by farmers, thus enhanced production, higher returns.
4. It curtails the role of the middleman and so the exploitation of farmers by him.

2.5. Benefits to the Buyers

1. It hedges against price volatility and counters the inflationary pressures.
2. Buyers refrain from interest based transactions thus abide by the *Shariah*.
3. It gives sufficient time to buyers to make future business plans and do effective marketing in local and global markets.
4. Expected higher exports.

Apart from the above mentioned scholarly views, not too many but some successful practical examples have also been witnessed in the modern era. In this regard, the experience of Wasil Foundation in Pakistan has shown the promising future of *Salam* financing for the agriculture sector (Chehade, 2016a). The above mentioned arguments and evidences suggest that *Salam* financing carries a



number of socio-economic benefits and it may have a wide scope for the agriculture sector if applied in the modern era.

3. Methodology

This paper analyses the potential and scope of *Bay' Salam* as a substitute of the existing forms of agricultural credit using secondary and primary data. The primary data was collected through a questionnaire by using expert sampling method and the total sample size is 40. The sample survey was based on the expert sampling method which was used to collect primary information from scholars, bankers, farmers and parliamentarians. This method was used because the researcher needed the opinion of people who had a higher level of specific experience/skill/knowledge. Thus, the gathered opinion carries more weight, value and more credibility as well. Farmers were selected from all over Pakistan including the Balochistan province, where the author also visited few districts in person. Out of these ten farmers/landlords one was PhD from UK, another was MSc in agriculture, yet another one was MSc in economics from IIU and finally, one was MA in education. The respondents were asked various questions, however, the paper focuses on the questions about the issues in the existing credit system and socio-economic benefits of *Bay' Salam*.

Scope: Salam financing is a vast subject with various dimensions. It can be applied to industrial sector, small businesses, agricultural crops, agricultural machinery, fertilizers, livestock, poultry, fishery and futures market. However, the scope of this study is limited to the purchasing of agricultural crops from farmers under Salam financing.

4. Findings

4.1. Perception about the Existing System of Credit

More than 70% respondents from all categories agreed that the existing interest based credit system has failed to address the credit issues of the agriculture sector and there is a need to replace it with an interest free system. Except the respondents from the bankers' category, majority of the respondents from other categories were of the opinion that the most serious problem is the involvement of interest (Figure 1).

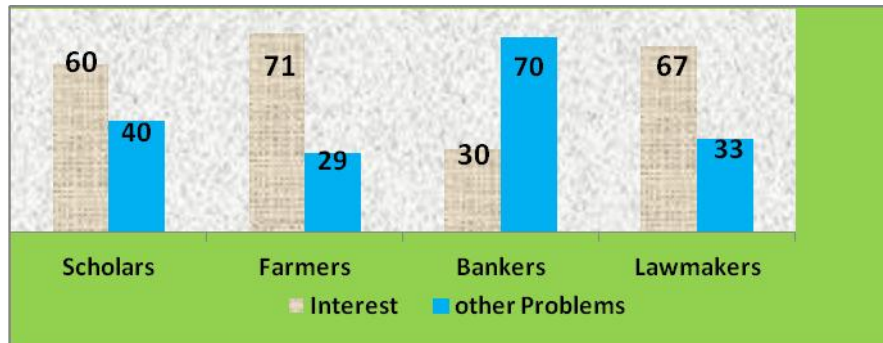


Figure 1. Agricultural Credit related Problems – Opinion of Respondents

Note: Other problems include: deficiency of formal credit, lengthy procedures, middleman, exorbitant rates, collaterals and scarcity of water

The respondents belonging to the category of scholars fully agreed that the existing interest based credit system has failed to help the poor farmers. Hence, they demanded an interest free system of credit for farmers. The respondents were of the view that “keeping in view the exploitative nature of interest based agriculture financing in Pakistan, there is a need to replace the existing credit system with an interest free system of finance”. The interest based system should be replaced as it has been declared haram (illegal) by Islamic *Shariah* and its negative impacts are evident from the poor performance of the agriculture sector. Moreover, no positive change is expected with the current system of interest based financing. The responses of scholars, farmers and parliamentarians strongly indicate that interest is the basic problem and other problems of the agriculture sector are linked with it. Therefore, the elimination of interest would minimize other problems as well. However, contrary to this opinion, the majority of bankers believe that problems like scarcity of water, deficiency of credit and lengthy procedures are major challenges.

The farmers and landlords are the direct consumers of agriculture loans. Hence, their feedback is discussed in detail. Responses of the farmers from four provinces are simple and straightforward as all the interviewees said that the existing system of finance must be replaced with an interest free system. They want a credit system free from hurdles, easy access, no collaterals and guarantees, simple and short procedures without much documentation. It shows that farmers are not satisfied with the existing credit system which is lengthy, cumbersome and difficult to access.

In response to some additional questions, very useful feedback was received from farmers. Most of the farmers said that although borrowing helps them but this relief is temporary and not long lasting. Problems aggravate when crops are not good, repayment is delayed and interest rate increases. More than 90%



farmers said that they experience depression because of debt burden and repayment with exorbitant interest rates.

There is a need to pay due attention to the credit related issues of the agriculture sector. Farmers need uninterrupted interest free credit to carry out their farming needs comfortably. The satisfaction of millions of farmers would boost the agricultural performance substantially.

4.2. Perception about the Socio-economic Benefits of *Bay' Salam*

According to the feedback of the respondents, more than 75% respondents from all categories agreed that *Bay' Salam* can be a suitable choice to replace the existing system. The category wise responses indicate that 90% scholars, 79% farmers, 67% lawmakers and 40% bankers favor *Bay' Salam* as a suitable mode for farmers, having plenty of socio-economic benefits (Graph 2).

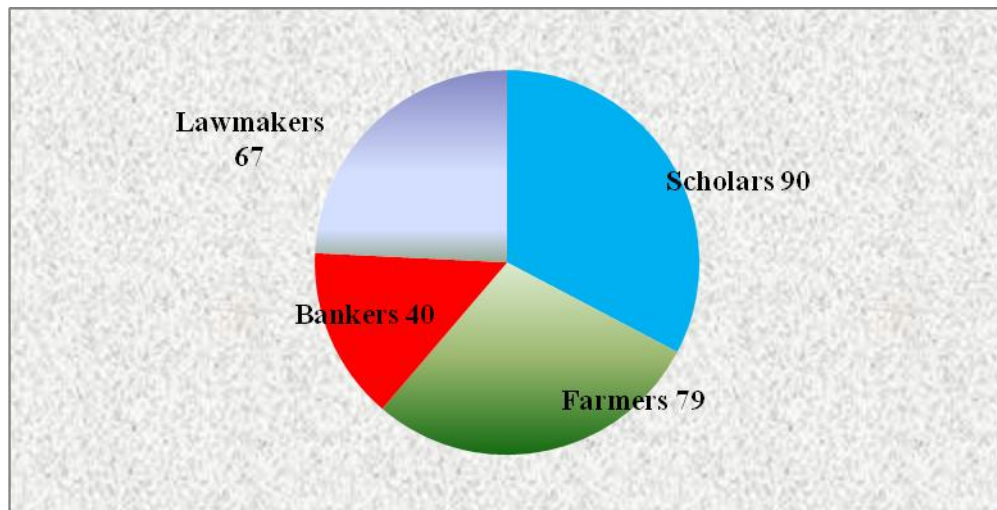


Figure 2. Socio-economic benefits of *Bay' Salam* [%age of respondents who agree]

Most of the farmers and landlords agreed that *Bay' Salam* can be a useful substitute as there is ample scope to benefit both the farmers and the economy. Farmers would welcome a substitute which would save them from exploitation by institutional and non-institutional sources of agricultural credit. The meetings and discussions with farmers left no ambiguity about the existence of the factor of exploitation in the current credit system.⁷ When the concept of *Bay' Salam* and its expected benefits were explained to them, farmers showed great eagerness for this

⁷ The author has met several farmers and discussed *Bay' Salam* and its possible benefits.



Islamic mode of finance. Following excerpts show the farmers' perspectives about *Salam*:

“Yes it will enhance efficiency in the agriculture sector, production level, agriculture related exports, will reduce poverty and the burden on import bill as well. But this will happen only if *Salam* financing is patronized by the government sincerely”.

“*Salam* will help increase exports of agro-food items and will also reduce dependence on the middleman. In fact, this will change the agricultural scenario altogether in the country”.

“*Salam* was allowed as an exception to benefit the farmers, I am sure *Salam* would be effective in the modern era as well as it has the capability to enhance efficiency, boost production, increase agriculture related exports, reduce poverty and dependence on middleman”.

“*Bay' Salam* should be introduced and keeping in view the existing problems, specifically the scarcity of interest free credit, it is hoped that *Salam* would bring efficiency in the agriculture sector and would enhance production. Moreover, it is expected that farmers' dependence on the middleman would be reduced. They will be empowered and if due attention is given by the government, the reliance on imported agro-foods would also be minimized”.

Apart from the above questions, for deeper analysis few more specific questions were asked, such as if they were paid in advance in shape of *Bay' Salam* would they accept the offer? In this regard, most of the farmers were of the view that they would welcome this substitute. Similarly, their view point was also sought on growing specific crops under the *Salam* arrangements which are imported currently. In this regard, concurrence was also found and farmers said that they are ready to grow such crops which are deficient in the country and there is a heavy reliance on their import. They were of the view that *Salam* financing has the potential to address the socio-economic issues of farmers effectively. They highlighted that the possible socio-economic benefits of *Salam* are reduced dependence on the middleman, empowerment of farmers, availability of interest free credit, higher production and efficiency, lesser dependence on imports of agro-foods etc. The positive response of farmers indicates that it would not take a long time for *Salam* to become a popular mode of finance.

The respondents from the categories of bankers and parliamentarians were also asked about socio-economic benefits of *Salam*. Interestingly, the responses of bankers were mixed as some of them were indifferent, some disagreed with the idea of *Salam* as an alternative mode of finance. Few of them considered *Salam* as



a suitable alternative and these bankers believed that *Salam* has a wide scope and capacity to address the credit related issues. A further division was seen among the bankers, as the respondents from Islamic Banks were relatively more inclined to Islamic modes of finance as compared to the respondents from SBP and commercial banks. The respondents from the parliamentarians' category showed consensus on the point that *Salam* can be a possible option for farmers having the capacity to solve credit issues and to uplift the economic conditions of poor.

The feedback obtained from some of the farmers doing *Salam* financing with Wasil Foundation in Pakistan is presented in Box-1 below.⁸

Box-1 [Socio-economic benefits of *Salam* reaped by the Farmers]

Some of the farmers involved in *Salam* financing with Wasil Foundation were interviewed and their feedback is given below.

Farmer-1: He owns eight acres of land and says that before *Salam* financing with Wasil Foundation he was unable to cultivate the land easily. Rather, he was exploited by the middleman and after all the hard work he was only able to get a small quantity of wheat to feed his family. However, *Salam* financing with Wasil enabled him to have sufficient cash needed for cultivation. Most importantly, *Salam* financing saved him from the middleman's exploitation as he is no more dependent on him.

Farmer-2: He was very happy after getting cash on *Salam* basis, as his past was full of harsh experiences with the middleman. He said that before *Salam* agreement with Wasil Foundation he was under continuous financial pressure and could manage only some wheat for his family. He informed that the borrowing was most of the time in shape of kind like supplying pesticide, diesel and fertilizers of substandard quality but he had no option. However, he got Rs 66,000 from Wasil Foundation which enabled him not only to cultivate the land easily but he could also manage to cater his kitchen.

Farmer-3: He is a wheat grower and it is his second consecutive year doing *Salam* with Wasil. He said after *Salam* financing from Wasil Foundation, gradually the situation improved. He got rid of the middleman. He is happy as this mode is an Islamic mode and he has to pay no interest. Being a useful mode, other farmers are also attracted to the system of *Salam*.

Farmer-4: He was satisfied with his performance after *Salam* financing. He explained that during the 1st year there were nine farmers doing *Salam* with Wasil and they supplied 525 *maunds* of wheat. In the next year there were 52 farmers

⁸ Available at <http://www.wasil.org.pk/>
<http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=45530&Cat=5&dt=5/7/2011>



and they supplied 2,500 *maunds* of wheat which clearly shows that the popularity of *Salam* financing is increasing rapidly. He said that there is a likelihood of reduction in the price of wheat and flour because of *Salam* financing, thus easing out the inflationary pressures.

5. Discussion

The potential socio-economic benefits of *Salam* were highlighted in the literature review. Scholars like Usmani (2012), Zaman (1984), Al-Saif (2010), Ayub (2007), Rahman (2003), Umar (1995), Gait and Worthington (2007), El-Gamal (2000), Gulaid (1995) and Elhiraika (2003), Udovitch (2011) endorse the usefulness and wide scope of *Salam* for farmers. Kaleem and Ahmad (2010) and Kaleem and Wajid (2009) also see a promising agriculture sector with *Salam*. The major argument for passing *Bay' Salam* Bill by Government of the Punjab was to save farmers from exploitation by providing them interest free agricultural credit. Similarly, *Salam* financing creates opportunities in upstream and downstream industries. The respondents' feedback on the socio-economic benefits of *Bay' Salam* to a great extent seems aligned with views noted in the literature review except for bankers who had a different opinion. However, as a whole the majority of the respondents strongly feel the need for an alternative interest free system in shape of *Salam* and see a big potential and greater socio-economic benefits in it.

On the basis of Wasil's experience of *Salam*, it appears that there is a wide scope for an alternative interest free system in the agriculture sector. The response of farmers is encouraging and there is a strong likelihood that *Salam* would be welcomed by the farming community in rest of the country as well if introduced properly. Poor farmers who are generally financially excluded, would find it an easy, accessible and interest free mode of financing for their farming needs. As compared with the interest based agricultural credit, *Salam* has proved itself as a useful mode of finance since farmers are rid of exploitation and are able to earn profit. They are able to feed their families in a better way, purchase inputs at cheaper rates and get rid of undue pressures from the middleman, shopkeepers and input suppliers. Most of the respondents except some of the bankers are of the view that there will be several socio-economic benefits of *Salam*. These include social and economic empowerment of farmers, poverty alleviation, higher efficiency and production, lesser reliance on the import of agro-foods, thus saving of foreign reserves. Therefore, on the bases of discussion it can be concluded that *Salam* would benefit the farmers, the agriculture sector and the economy as a whole. Moreover, there would be a lot of scope of *Salam* in the agriculture sector as there is a large population of poor farmers and the outreach to formal agricultural credit is limited to the extent of about two million borrowers only, the rest of them find may *Salam* as an opportunity to address their credit problems.



6. Conclusion

The paper concludes that the agricultural credit, a lifeline for farmers, has suffered from various problems. First of all, there is a huge gap between the supply of institutional credit and demand. Moreover, the involvement of interest, high rates of interest, lengthy procedures and collaterals make the access of poor farmers to formal credit more difficult. Resultantly, not only the farmers suffer but the agriculture sector remains inefficient, which ultimately affects national economy adversely. The study concludes that in the presence of existing interest based system there is hardly any chance of improvement. Hence, there is a need for an interest free system of agricultural credit.

Bay' Salam has been found as the most suitable financial tool, compliant to the principles of Islamic finance, having the potential to address the credit issues of farmers. It is a centuries old mode of Islamic finance allowed by *Shariah* as an exception and it can successfully replace the existing interest based agricultural credit system in the modern era. There are a number of socio-economic benefits of *Bay' Salam*. It would be an appealing mode of finance for farmers as it is interest free; no exploitation by landlords and middlemen, no lengthy procedures and more importantly better returns to farmers. The reliance on imported food items would be reduced and moreover employment would increase in agriculture and also in downstream and upstream industries. *Bay' Salam* would benefit the farmers and buyers in many respects. Farmers would get interest free credit and thus would be relieved from the traditional burden of debt, would be able to pay more attention to work leading to enhanced production and higher returns. The advance payments to farmers in shape of *Salam* would help to curtail the role of the middleman, substantially. Similarly, *Salam* financing would play the role of hedging against price volatility and would also counter the inflationary pressures. The buyers will have sufficient time to make business plans and do effective marketing in local and world market, thus enhance exports as well.

There is scope for researchers to look into the benefits of *Salam* in small businesses, livestock, fisheries, poultry etc. Moreover, *Salam* can be a possible replacement of futures and future markets. A thorough study on future markets can open the windows of new opportunities. Researchers can also enhance the scope of their research by extending the primary data collected from a larger sample of respondents from each district of Pakistan. Research can also be carried out in the area of *Salam sukuk*, and how *sukuk* can be utilized for *Salam* financing without violating the *Shariah* principles. Similarly, researchers can conduct a detailed and exclusive study on the possible role of local governments in *Salam* financing. Moreover, the application of *Salam* financing in Pakistan can be a sigh of relief for policy makers and fiscal managers in shape of lesser burden on the import bill and allocation of lower traditional agricultural credit for farmers.



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