

Agriculture Financing-Based Product Guide

Policy	Person / Function
Accountable Executive	Islamic Banking Division
Policy owner	Head of Islamic Banking Division

Approved by DAB Shariah Supervisory Board :	Date:
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1 Introduction

1.1 Purpose

- 1.1.1 This Agriculture Financing-Based Product Guide ("the Guide") is an integral part of the overall Shariah Governance Framework ("SGF") developed by the Islamic Banking Division ("the IBD") of Da Afghanistan Bank ("DAB"), the Central Bank of the Islamic Republic of Afghanistan and sets out guidance for the application of some relevant contract to various products and services for use by any Islamic Finance Institution ("IFI"), Islamic Window Operation or an Islamic Unit operating in Islamic Republic of Afghanistan (collectively referred to as "the Bank") in developing products and services to support the financing activities in the sector of agriculture.
- 1.1.2 The Guide shall, however, be read in conjunction with other related internal and external policies, manuals and guidelines and specific/general transaction documentation issued by DAB from time to time.
- 1.1.3 All relevant staff in the Bank are expected to be familiar with the policy and understand their roles and responsibilities with respect to application of the certain contracts relevant to agriculture based financing and investment activities.

1.2 Review and Update of Policy

- 1.2.1 This Guide shall be reviewed periodically by the Head of the IBD of DAB to ensure that it is in line with the leading industry practices and caters to the customer requirements as well as ensure that the Guide is in line with other applicable changes introduced by DAB and other regulatory authorities.

1.2.2 Amendments to the Guide may be required as a result of one or more of the following reasons (not exhaustive):

- i. Changes in laws and regulations;
- ii. Changes in functions and activities of the Banks in the Islamic Republic of Afghanistan;
- iii. Changes in business processes;
- iv. Changes in the organizational structure of the Bank;
- v. Changes in job roles, duties, and descriptions;
- vi. Any other changes, where the management deems necessary to update the Bank's policies and procedures; or
- vii. Any significant modifications arising out of the review shall be recommended by the Head of IBD reviewed by the Supreme Council of DAB and presented to the DAB Shariah Supervisory Board (the "SSB") for their approval.

2 OBJECTIVES AND SCOPE OF APPLICATION

2.1 Objectives

2.1.1 The objective of this Guide is to describe the features and the characteristics of certain Shariah contracts which are relevant to agriculture nature of financing and investment to assist Banks in developing and offering Shariah compliant products for agriculture.

2.1.2 The Guide is a framework which shall ensure that the process of product development and product offerings of agriculture products is governed by a set of clear guidelines to be adopted by the Bank staff.

2.1.3 The Guide shall outline and communicate the key guidelines for the application of the contracts to agriculture products. More specifically, the primary objectives of the Guide is to:

- i. Provide concept and legitimacy of the contracts under Shariah;
- ii. Provide features of the contracts; and
- iii. Provide guidelines on the application of the contracts.

3 RELEVANT SHARIAH CONTRACT TO FINANCE AGRICULTURE SECTOR

3.1 Application

3.1.1 Essentially, there are three (3) main contracts which are associated with agriculture financing in Islamic commercial law. These contracts are:

- a) Muzara'ah;
- b) Musaqah;
- c) Mugharasah.

3.2 Contract of Muzara'ah

3.2.1 Muzara'ah refers to a partnership between the owner of a land and the manager who will work to cultivate the land whereby any crop will be shared between the two parties based on an agreed ratio or percentage.

3.2.2 It is imperative that both parties must decide the party to provide the seeds of the plant and the equipment or both. If this is not agreed upon, the customary practice will dictate on this arrangement.

3.2.3 Essential elements of Muzara'ah contract are as follows:

- a) The land is identified and suitable for farming;
- b) The type of the plantation should be determined and the type of the seeds or the manager can choose as he seems fit provided this is documented in the contract;
- c) The type of plantation is compliant to Shariah;
- d) The share of each party in the crop must be of percentage or ratio proportionate to the crop production; and

- e) The period of the partnership must be sufficient to produce the crop and to harvest it. Both parties may agree on any period which may serve the purpose above.

3.3 Contract of Muqasah

3.3.1 Musaqah refers to a partnership between the owner of the orchard/trees and the manager who will work to cultivate the orchard whereby any agriculture products produced by this orchard/trees will be shared between the two parties based on an agreed ratio or percentage.

3.3.2 Essential elements of Musaqah contract are as follows:

- a) The share for both parties in sharing in the fruit/produce of the trees should be of percentage or ratio;
- b) The trees must be of the type that produces fruit during the period of partnership;
- c) The period must be determined. If the period expires before the production of fruit/produce, the contract will continue until the production and harvesting of the produce; and
- d) The manager is given the permission and capacity to work on the trees.

3.4 Contract of Mugharasah

3.4.1 Mugharasah refers to a partnership between the owner of the land and the cultivator who will plan certain tree and maintain it whereby both parties will share the produce of this particular tree based on an agreed ratio or percentage.

3.4.2 Essential elements of Mugharasah contract are as follows:

- a) The partnership must be on trees which last long such as date trees or olive tree and is not permissible on tree which needs plantation from time to time such as corn, etc.;
- b) The type of tree must be determined from the very beginning;
- c) The period of partnership must be sufficient to produce and harvest the produce.

3.5 Other Contracts

In addition to the above three contracts which are peculiar to agriculture financing and investment based contract, agriculture financing may only be made available via other common contracts such as ijarah, mudarabah and musharakah.

4 Custodian of the Document

This Guide shall be under the safe custody of the Islamic Banking Division ("IBD") of DAB. Any changes to this Manual shall be made by the IBD with prior consultation with the SSB, as reviewed by the DAB Executive Board and upon approval by DAB Supreme Council. A copy of the amended Guide shall be made available to all stakeholders and SSB members for reference and implementation.

5 Effective Date of the Document

The Effective date of this Guide is the _____ day of _____ 20____