

Article Information

Received date: May 28, 2020

Published date: July 07, 2020

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Keywords Salam financing; Agriculture
financing; Farmer; Inputs; Inflation

New Model of Salam sale for Agricultural Development Finance

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Abstract

The new financial economic model derived from the traditional Salam situation. This scenario is based on the idea behind the treatment of risks facing traditional Salam applications, which includes high rates of inflation and the exit of financing from its approved aspects, which cannot enable the farmer or producer to disburse this monetary benefit in the fields of agriculture. Then Banks and financial institutions lose huge amounts of money that are wasted. In addition, lack of understanding of the process of obtaining loans between farmers and producers, this new model can solve many problems and risks in the classic sales of Salam, which rely mainly on granting cash loans.

The paper works to monitor and limit the risks posed by the traditional Salam and pushes that agricultural financing loses. It is most important input to financing and then corrects the paper and it relies on this innovative model, which aims to provide the necessary inputs to farmers and producers. This paper attempts to solve this problem by providing inputs directly by updating production through regular and timely operation of modern scientific inputs.

The study identified the structural equation model to analyze the results of the analysis of descriptive statistical data, which resulted in the preferred cash financing for farmers as a desirable situation. However, farmers carry unpaid loans, achieve multiple losses faced by the bank, and make it give up its leading role in agricultural financing, and rely on other formulas with purely commercial outcomes. The new innovative financial model is suitable for developing agricultural finance in all countries of the world and making it more appropriate with the requirements of agricultural financing strategies put forward by countries and international institutions.

Introduction

The Salam has great potential to be one of the most important forms of financing and investment in Islamic banks or even at the state level, especially as it has the ability to apply to various agricultural, service and industrial sectors. The widespread use of this tool is constrained by the high risk associated with this contract. This makes the search for precautionary methods and techniques to manage and reduce these risks as much as possible if we are to expand the use of Salam.

This innovation is established new model of practices of Salam sale mechanism and modern commodity future trading contracts internally and externally targeting, and consolidate the transfer of funding by granting cash loans to the delivery collection of goods and services planning to finance only the direct production rather than cash loans experience. This boom works to overcome all the risks and threats that have been created which resulted a lot of disadvantages. This new model is intending go directly towards through real road map to be sure to its true appearance and numerous economic benefits can be realized. Classical Salam is a forward financing transaction, where to pays cash in advance for buying specified assets later, but this new model is innovate its practice with components of real production inputs are officially approved by Islamic sharia.

Literature Review

There are many studies that have been exposed to the concept of the contract of selling Salam in several ways and will be presented here some of them:

- a) Salam contract with credit risk model by partial differential equation approach- the discuss the risk ((In managing risk, all Islamic financial institutions need to ensure that the risk management technique employed is complying with the shariah principals, that has no riba, rishwah, gharar, maysir and jahl. Due to these prohibitions, Islamic finance has a very limited risk management tools as compared to conventional. For Islamic finance to remain competitive as the conventional, there is a need to develop a shariah-compliant product such as Islamic derivative that is useful to manage the risk. This study has proposed a traditional Islamic contract namely salam that can be built as an Islamic derivative product. The condition offull advance payment at the beginning of the salam contract will eliminate the maysir (speculation) element Moreover, the full advance payment also helps to finance the seller with working and extension capital, reduce leverage by minimizing speculation and no default risk from the buyer. By considering the commodity as the underlying asset, this study has taken into account another important variable which is the storage cost. This consideration helps to reduce the uncertainty (gharar) of not delivering the commodity in certain quantity and quality at the maturity of the contract Nevertheless, the condition of the prepayment at the beginning of the contract poses another problem which is the credit default risk from the seller. Therefore, in modelling the commodity salam contract, an appropriate credit risk model should be considered. Since there is lack of quantitative study on salam contract. This study has introduced a mathematical model that can evaluate the commodity salam contract with credit risk. The structural model is chosen to describe the commodity salam contract since the default event of a salam agreement only occurs at the maturity of the contract However, because of the unique structure of salam contract, some adjustments regarding the collateral and terminal boundary condition are made. The structural model is chosen to describe the commodity salam contract since the default event of a Salam agreement only occurs at the maturity of the contract. However, because of the unique structure of salam contract, some adjustments regarding the collateral and terminal boundary condition are made. In constructing a partial differential equation that describes the



dynamic behavior of the commodity salam contract with credit risk, the risk-neutral valuation is employed. In general, there are three steps in risk neutrality approach. First, the real diffusion process of state variables are transformed into risk-neutral process. Then, the process of state variables is identified. Finally, the replication portfolio is constructed to eliminate the uncertain element by considering no risk and no arbitrage argument.

- b) This study has proposed a traditional Islamic contract namely Salam that can be built as an Islamic derivative product, Nevertheless, the condition of the prepayment at the beginning of the contract poses another problem which is the credit default risk from the seller. Therefore, in modelling the commodity salam contract, an appropriate credit risk model should be considered. Since there is lack of quantitative study on Salam contract, this study has introduced a mathematical model that can evaluate the commodity Salam contract with credit risk. The structural model is chosen to describe the commodity Salam contract since the default event of a Salam agreement only occurs at the maturity of the contract. However, because of the unique structure of Salam contract, some adjustments regarding the collateral and terminal boundary condition are made. In constructing a partial differential equation that describes the dynamic behavior of the commodity Salam contract with credit risk, the risk-neutral valuation is employed. In general, there are three steps in risk neutrality approach. First, the real diffusion process of state variables are transformed into risk-neutral process. Then, the process of state variables is identified. Finally, the replication portfolio is constructed to eliminate the uncertain element by considering no risk and no arbitrage argument.
- c) Application of Islamic banking instrument (Bai Salam) for agriculture financing in Pakistan -) The purpose of this paper is to explore the possible application of Bai Salam contract (forward sale agreement) as an alternative financial instrument in the agriculture sector of Pakistan. Design/methodology/approach – A survey was conducted in four districts of the Punjab with a specifically designed questionnaire. A convenient sampling technique was used to gather farmers' concerns related to crops inputs, output and credit requirements. Findings – Empirical findings conclude that agriculture income represents only up to 60 percent of the income of an average farm household. About 70 percent of farmers participate in the credit market. They need money to purchase crops inputs, to pay the labour and to hire rental machinery. Farmers believe that they can save up to 25 percent in costs if they purchase inputs on cash. The survey also discloses that intermediaries are the larger financiers and buyers of crops in the rural economy whereby only 10 percent of transactions are conducted on a purely cash basis. Farmers usually return the money after the sale of the crop. Research limitations/implications - The concept of the paper can be extended to areas where large property owners dominate the scene. Alternatively, it can be extended towards non-farm activities such as cattle raising and poultry. Originality/value the paper is a first comprehensive effort to explore the possible application of an Islamic banking instrument in the agriculture sector of Pakistan. It also suggests three possible models for financing under a Bai Salam contract. Some policy recommendations are also given.
- d) Risk analysis of the sale contract and hedging techniques Abdul Karim Ahmed Kunduz. The expansion of the use of the Salam contract in the Islamic financial industry prevents the high degree of danger in this sale contract. Therefore, one of the best approaches to search for methods of activating the formula of Salam in practice is to strive to develop and develop precautionary tools and techniques to deal with its risks, The use of the Salam contract in the banks is very similar to the Tawarruq contract. The goal is to finance the customers' cash, and its image is that the customer signs a Salam agreement with the bank, selling a commodity with specific specifications at a specified time.
- e) Islamic Modes of Finance and Associated Liquidity Risks Salman Syed Ali - Tehran – February, 2004 (It is an advance payment commodity sales contract where the delivery of the commodity is deferred, even if the commodity becomes available it may not have an active market. This is a source of primary or direct liquidity risk associated with this finance .then he add the types of Salam risk the credit risk with this contract is that the seller may not be able to deliver the commodity on the specified date. If it does happen, then the liquidity problem of the bank extends beyond the maturity date which having not received the commodity it cannot sell it in the market to convert it into a liquid asset. Another example of indirect liquidity risk is if the commodity is delivered but the quality or quantity or some other attribute
- f) Development of the Salam contract in the Sudanese banking industry - Driss Ali Abdul Rahman - banking expert (Khartoum 2013) Selling the ladder since it was known to deal with it outside the banking system and within it was subject to the occurrence of jealousy and injustice because the price is based on an estimate

approach when signing the contract and receipt of the price, which opens the door to exploit the party to the other party and often the party that is exploited is the seller by exaggerating the price by Will be low in what is happening injustice, which will invite the Islamic legal and legal interventions to work to remove it, The estimated calibrations currently applied between banks and farmers in determining the sale price of the Salam does not provide adequate protection for each of the parties to the contract from the dangers facing the agricultural production, in which the financier - the bank - is at risk of falling prices on delivery because of the increase in production quantities Natural, environmental or otherwise, where farmers - recipients of financing are at risk of rising prices due to possible low production rates - poor supply of natural and environmental conditions

- g) Bai Salam Islamic Future Contract - An Effective Tool for Liquidity & Strategic Risk Management-Abdulla Mohamed Seidu (Jeddah 2007)
- h) Bay Al Salam concept as an alternative to Non-Shariah element in modern future trading
- i) Salam sale is important as it includes agricultural products and all that can be covered by that description. Moreover, it is not necessary that the seller of a Salam product be the producer of that product, [1].

Bay, al-Salam contract is a sale of an object, which is not in the existence at the time of the contract, but will be delivered to the buyer in the future date. The price of the object is however to be paid in advance during the session of contract will be [2] Bayal - Salam can also be defined as a sale for an agreed price with immediate payment for a determinate thing, to be delivered in the future on a fixed date [3].

Most of these writers add that there were different types of risk. All of them have proved that the sale of peace is linked to various and different risks. But our approach to dealing with this phenomenon is different in principle and aim. We seek to address this phenomenon to formulate an integrated body to build a number of practical indicators to reach the achievement of comprehensive economic development through several axes and homogenization aimed at an integrated approach to agricultural finance across the world through an integrated proposal to use Agricultural inputs as an effective tool for total development and construction.

Conditions of Bay' al-Salam

- a) Bay' al-Salam cannot be applied on a certain commodity or on a product of particular field or farm. For example if the seller undertakes to supply barely of a particular field or fruit of particular tree, the contract of bay' al-Salam would be valid. This is because the fruit or crops of that particular field might be destroyed before delivery. Hence the possibility of delivery remains uncertain [4]. It is compulsory for the buyer to pay the amount of the commodity in advance at the time of contract because in the absence of the payment it will be a tantamount to sale of debt, which is prohibited by Shariah [2].
- b) It is necessary that the quality of the object of sale is thoroughly specified. It should leave no ambiguity that may lead to a dispute between the contracting parties [3].
- c) Bay' al-salam contract cannot be affected on those commodities the quality and quantity of which cannot be specified such as precious stones because they differ in quality, shape and size etc.
- d) It is compulsory for the buyer to pay the amount of the commodity in advance at the time of contract because in the absence of the payment it will be a tantamount to sale of debt which is prohibited by Shariah [2].
- e) It is necessary that the quantity of the object of sale is agreed upon in unequivocal terms. If the object of sale is quantifiable then its exact measures should be given but what is normally weighted cannot be quantified in measures [3].
- f) The risks to Islamic banks have increased and their nature has changed in light of the developments in financial liberalization, the growing use of new financial instruments and the strong entry of the technology factor, which has increased the risk management of banks. Therefore, Islamic banks sought to search for methods and methods of hedging different from the traditional model, which does not serve the nature of its work Reasons for model the different.

Risk of Salam Classical mode

As for the Salam Classical mode contract, there are a number of risks on the part of the customer, from non-delivery of the item purchased at the time or not even delivery of its origin, or failure to deliver what was agreed upon as and how. Moreover, the risk of selling peace is not limited to factors under the control of the supplier, but to factors



beyond its control, such as natural disasters, climatic and other causes. Through the multiple applications and practices of the traditional model and according to a multiple survey of farmers and producers, it became clear that advanced financing or cash purchase methods highlight many financing risks and liquidity risks, which lose the real role of finance and investment [5-8].

The types of risks and uncertainties in agriculture and animal husbandry can be classified into six categories. These include Uncertainty in production. Uncertainty in prices, disaster risk, uncertainty in technology and uncertainty resulting from interacting with others such as individuals, companies and institutions and finally personal uncertainty. The classical Salam sale model is one of the most risky forms of financing, and therefore it is linked to agricultural finance. These risks are highlighted in: 1- Risk of non-payment in the form of inability to deliver goods purchased from the seller with the pretext of insolvency or failure of the season. The quality of the crop is reduced. The failure of the bank to market the product and its inability to provide the appropriate stores (talha 2006).

Islamic banks need to take special care in Salam operations. They face a number of risks. Counter-party Risk is one of some common risks in Salam-based financing, in fact, the client may default after taking the payment in advance. Commodity Price Risk, where at the time the goods received the price may be lower than the price that was originally expected, is another risk associated to Salam. There is also Quality Risk, low investment Return or Loss, which occurs when goods received are not of desired quality or unacceptable for the potential buyer. The bank might also not be able to market the goods in time, resulting in possible asset loss for the unsold goods and locking funds in the goods until they are sold, this is Asset-Holding Risk that implies possible extra expenses on storage and Takaful. In addition, in case the Islamic bank has to purchase goods from the market in parallel Salam, where the third party fails to supply the specified goods under the parallel contract, the bank faces an Asset-Replacement Risk. Finally, parallel Salam, if original Salam seller has not delivered the goods as expected, it is considered as Fiduciary Risk [9-11].

In order to manage and mitigate the above risks, Islamic banks need to take proper measures. In fact Islamic banks purchase only goods that have good marketing potential. They take proper security and a performance bond they require from the prospective buyers a sufficient amount of earnest money in deposit and a binding promise to purchase these goods. They also insert a penalty clause in the Salam contract to protect themselves from a late delivery from the supplier and they accomplish the responsibility of parallel Salam by purchasing similar goods from the market on spot to supply these to the buyer and recover the loss, if any, from the seller in the original.

Market Risks in the Salam Sale Model

Market risk is defined as the correlation between the market value of the budget and its book value (Kunduz 2016).

Price risk

The entry of the Islamic financial institution into a peace contract. The fact that the company owns the commodity at the end of the term of the contract and that without a parallel contract it will attempt to sell. When it is received directly involves price risk (market risk) and that keeping the commodity in the hope of selling it at a higher price exposes it to future commodity price fluctuations. It is clear that a parallel peace reduces this type of risk and prevents the institution from including its debt in commodity debt while the origin of the enterprise's activity is money.

Quality Risk

Potential risks of quality are meant to achieve a low rate of return on investments in Salam sale, and this occurs when the contracted assets are less than agreed or undesirable for the buyer in the parallel ladder.

Asset-Holding Risk

These risks arise in the Salam sale contract due to the inability to market the contracted asset (recognized) in a reasonable time, resulting in the disabling of funds on investment on the one hand with additional costs such as storage costs and the cost of insurance.

Asset-Replacement Risk

The risk of replacing the asset in the place of the Salam contract (if recognized) is shown in the case of the purchase of the asset by the financial institution through a parallel Salam contract. The failure of the third party to deliver the asset on time in which case the institution will have to seek the asset from the market and deliver it to the buyer on the original Salam.

Fiduciary Risk

Is the probability that the seller will not deliver the goods as expected.

Areas of application of the Salam sale contract

The sale Salam can be used to finance short-, medium- and long-term economic activities. Various economic sectors, such as agriculture, industry, trade and services, can also be financed. Funding can be channeled through Salam to finance operating expenses or capital expenditures, whether small, medium or large. In general, the Salam formula (despite the constraints of the Salam sale) is characterized by high flexibility in use and a strong response to cover various economic needs.

Study Procedures

We would like this innovation to be a real addition to the monitoring of documentation and scientific research at the level of the agricultural finance industry in accordance with the discussion of a formula aimed at an important area of economic efficiency, which is directly related to the objectives of economic development in the world. This study aimed to formulate a modern and renewed model for real interaction in the areas of agricultural finance around the world by urging the banking sector to finance the largest segment of producers in the world to work in the training of banking and administrative staff.

On the other hand, this model highlights the real advantages of the sale of real peace because it is against inflation because it funds real production through the consensus of Muslim jurists and expanded its various models, most notably the financing of the eye to be payment in kind and not in cash. It is therefore possible to finance agricultural producers by providing various agricultural inputs to them according to their request, which presents a new discovery to revolutionize agricultural finance worldwide.

Agricultural finance study was carried out in response to a request made in for support for a study on the key constraints in agricultural finance. Technical and financial support was specifically requested.

- The producers receive the money, which facilitates their circulation in other non-productive area and distributed liquidity cash wrongly.
- Agricultural production requires in-kind inputs such as tools and other inputs to carry out the required production processes.
- Pesticides, tractors, workers etc.
- The agriculture sector lacks financial resources in most countries; the primary reason behind the lack of financial inclusion in the agricultural sector is unavailability of such financial products.
- The similarities and further compared agriculture financing between under classical Slam and interest-based financial systems which both of them grand cash fund only.

Objectives

- This new slam model of finance can covers different type of economic sectors like agriculture, industry, animal production, mining etc.
- Providing of these needs for production emerging new cultural behavior between Producer sectors.
- The replacement of cash credit with the different types of input can decreases the rate of inflation
- This way the technique of Salam model remains simple, clean, and more compatible with the Shari'ah rulings.
- The importance of the new model is to avoid default in economic finance.
- Bank can be responsible to capable Provide high-demand production inputs.
- Producers were low-income groups, usually small farmers and others who are engaged in small income-generating activities are more, relatively stable source of income.
- This new product will push and encourage various countries to develop agricultural production.

Research Methodology

This new model of Salam adopts qualitative research based on several literature works on Islamic finance and agriculture. The model uses the structural equation model



(SEM). This model uses a method to estimate the linear relationship between qualitative variables to become easy to measure by deriving the results of the relationship between the dependent variable and the independent variables, to reflect. It also allows us to trace a series of assumed cause and effect relations between a set of variables. Every sale in which the price is urgent and the commodity purchased future is the Salam mode of a particular, however different names. The Salam mode treaty was excluded from the rule of non-sale of the non-profit, in order to achieve an economic interest, a license to the people, and to facilitate them.

Governments can also encourage the revival of this medium, support its spread among the members of the Muslim community, and use it as a tool of fiscal policy to provide short-term loans to real investment projects. Thus repairing the balance of payments by replacing imports by encouraging them and stimulating internal finance Development, reduce external loans, and raise the level of real production and the consequent positive economic effects.

Economic Impacts of The Salam mode Sale

In the beginning, we find the salam mode has come to manage the matter and deal with the members of the Islamic community in a way that does not contradict the sectarian framework and what is in line with the legitimate objectives. To a Muslim who does not have a production for sale at the time, which weakens his purchasing power and reduces the flexibility of his choice. It reduces the areas of alternatives to him to be committed to dealing with a source or specific sources, which affects the prices and quantities and types of purchases and reduce its preparations to prepare for the next production.

Parallel Salam

It is not allowed for buyer in Salam contract to sell the commodity before he takes the possession of that commodity. However, it is allowed for buyer in salam contract to make a parallel salam contract for the same goods. The following two conditions must be observed in this type of arrangement.

First, there must be two independent and separate contracts. They cannot be tied up in a manner that the performance of one contract is dependent on other. For example, if A purchased 100 tons of rice from B thorough Salam contract. The rice will be delivered on future date. Now A can enter into another Salam contract with C in which he sells the same amount of rice at the same date. The parallel salam transaction is permissible with the condition that delivery of rice to C would not be conditioned on delivery from B. In other words, A has responsibility to deliver the 100 tons of rice to C on due date whether he gets the rice from B or not. A cannot make an excuse if B fails to provide him the commodity on due date.

The second condition for parallel salam arrangement is that it cannot be used for buy back facility. In other words, it is not allowed that the seller in first contract is the buyer in the second contract. This facility of parallel salam is only allowed for third party.

Mechanism of Parallel Salam in Islamic Banks

The problem with ordinary salam is that Islamic banks and financial institutions receive commodities from their clients rather than receiving money. Therefore, they can manage their risk to enter into a parallel salam contract with another client. The price in second transaction may be a little higher than the price in first transaction. Therefore, the difference between two prices would be the profit for Islamic bank or financial institution.

The following steps are involved in a parallel salam contract:

- The bank (as buyer) enters into a salam contract with the customer and pays full cash in advance for the commodity which will be delivered on future date. (for instance, 100 tons of rice on 30 May 2018).
- The bank (as seller) enters into a parallel salam contract with another customer (buyer) to sell the commodity specified in the first salam contract. The customer pays the price fully at the time contract and the commodity will be delivered on future date. (100 tons of rice on 30 May 2018)
- On 30 May 2018, the commodity is delivered to the Islamic bank.
- Islamic bank delivers the commodity to his client on pre-agreed date (30 May 2018 in our case according to parallel salam contract).

The problem of the Study

The concept of granting capital in cash pushed the model of the traditional contract to the exit of the formula of its basic objectives

- Most customers took the liquid money and practiced contrary to the original

contract objectives

- Marriage, health, education, etc. are areas outside the original financing process.
- All these practices lead to increased financial stumbling rates in agricultural banks

All these practices lead to increased rates of non-payment of money in agricultural banks.

The relation between traditional Salam sale & rate of interest finance

The traditional Salam contract permits the purchase of the good in a future time with an advance reduced payment. So far, Islamic banks have not been able to put in place a real framework to determine the appropriate mechanism to determine peace prices in the markets. Conventional finance, based on the classical loan contract.

New Trends in Agricultural Finance

The engineering of the new product.

Agricultural finance is crucial to support the growth of the agricultural sector. Indeed, it is essential for food security, job creation, and overall economic growth. The proposed wording of the new Bai-Salam -selling product represents a real vision for the emergence of new agricultural finance, based on effective and meaningful developments. The modern project is based on a different style of conventional Bai-Salam after it was clarified through the study and analysis that accompanied the process of replacing the pumping cash to farmers and fishermen and other producers and replacing all of this by handing them. The tools and elements of agricultural production necessary so that banks are committed to applying an innovative and effective way to replenish new funding Agricultural projects with real ingredients.

In addition, reviewing the history of using the mechanism of applying the traditional peace-selling experience, which has achieved a number of successive and multiple financing risks, which depended on injecting cash into the markets of agricultural products, which exacerbated the high inflation rates. The wisdom is to formulate and present this new and modern approach to agricultural finance through agricultural finance institutions throughout the world in the short and long term together through the provision of various productive and agricultural inputs. It encourages real and sustainable growth and productivity, while achieving real profits. The survey showed the views of many producers in some countries that apply the classical financing model in Libya, Sudan, Pakistan, Bangladesh, Malaysia and Jordan, stressing the necessity of adhering to the new mechanism, which depends on the ownership of producers of multiple production inputs.

All of which stimulates and drives the development of modern agricultural finance mechanisms and thus eliminate the increasing financial stumbling blocks that have been associated with agricultural finance from previous times. The modern product, which complies with a number of fatwas issued by the Shari'a Supervisory Board, is approved to approve the possibility of granting funding in kind by stimulating and developing agricultural production of various kinds.

The disadvantages of selling classic Salam operation

- The only problem in Salam, which may receive certain commodities from their clients, and will not receive money. They cannot sell those commodities before they are actually delivered to them, considering that the most important risks associated with the Salam contract are market risk and credit risk.
- This, financial institution makes advance payment, but the delivery from the seller is set at a future date. The different types of risks, including credit, operational, market about commodity price fluctuation and mark-up risk. Liquidity financial institutions face by providing Salam contracts be shown.

Different approaches on how to manage the above-mentioned risks are also featured. The structure and risk issues of the Isti ((Risk Management Issues in Islamic Financial Contracts- Ioannis AkkizidisSunil Kumar Khandelwa- Financial Risk Management for Islamic Banking and Finance Published 1991 – 2012.

Results of Analysis of the Descriptive Statistics Data

A chart showing the preference of farmers for the type of funding and the form of funding- The table shows the average trend of priorities for disbursement of farmers from the financing of peace- Graphs show the ratios of the rate of distribution of cash disbursement from financing peace. For the above table, the descending order of priorities for the channeling of disbursements from the financing indicates that the items for agricultural inputs are priority in directing the disbursement of funding. The activities of the initial preparations for the soil are considered the most important items, followed by the leasing of labor for cleaning before and after agriculture (Figure 1). The most recent of



Table 1: Distribution of the sample in favor of the type of funding.

Best Agricultural Finance	Frequency	Percent
Finance by Salam	30	75.00%
Finance by other Islamic modes	2	5.00%
Finance by both types	8	20.00%
Total	40	100.00%

Table 2: Distribution of the sample in favor of the type of cash and in-kind funding.

Which the type of finance you prefer	Frequency	%Percent
Cash finance	22	55.00%
In kind finance	2	5.00%
Cash finance& In kind finance	16	40.00%
Total	40	100.00%

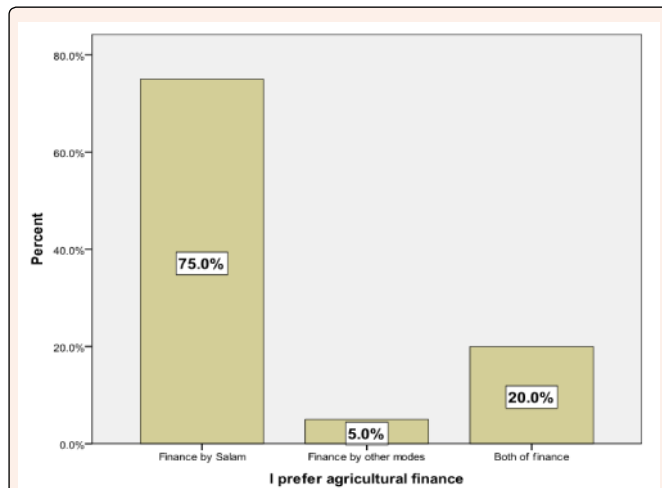


Figure 1: Figure shows that 75% of the sample of farmers prefer to finance the peace while 20% prefer funding in the financing formula with the other financing formulas. The distribution of the sample in favor of the type of funding, and notes from the results of the table that 75% of respondents prefer funding in the form of the ladder, while 20% of them prefer funding for

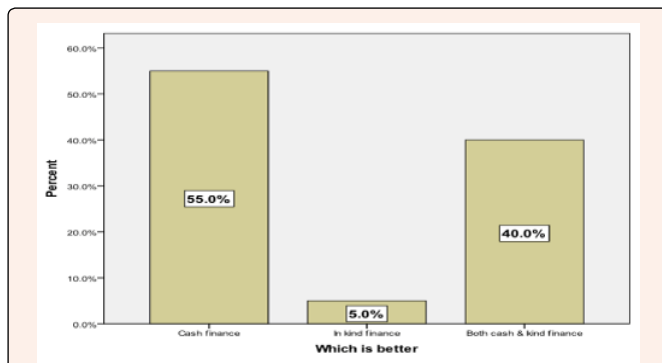


Figure 2: Figure shows the distribution of the sample in favor of the type of cash and in-kind funding. The results of the table show that 55% of the farmers prefer the type of cash financing, while the in-kind financing is not desirable at all.

Table 3: The Arithmetic mean of the priority rate for channeling disbursement items from financing.

	Rank	For the table above, the descending order of disbursement priority guidance from the descending order of priority for channeling disbursements from funding shows	Std. Deviation
The table above shows the descending order of priorities for the routing of drainage items on the initial preparation of soil	1	4.85	0.66216
For the above table, the descending order of priorities for directing disbursement items from rental of labor to hygiene before and after agriculture is shown	2	4.25	1.00639
Buy jute and burlap	3	3.9	1.05733
Purchase of pesticides of all kinds	4	3.8	1.2237
Maintenance of mechanisms and cables	5	3.8	1.38119
Purchase of fertilizers	6	3.7	1.06699
Payment of fees for crop markets and others	7	3.25	1.27601
Other	8	2.85	0.92126
Between 90% and 75% of the financing loan for the peace process is allocated according to the contract and the rest for other fields	9	2.4	1.7067
Other	10	2.3	1.11401
Treatment fees	11	2.3	1.3625
Education fees	12	1.95	1.37654
Financial assistance to relatives	13	1.75	1.10361
Holiday occasions	14	1.7	1.15913
Conditions of marriage	15	1.7	1.15913
Between 75% and 50% of the financing loan for the Salam process is allocated according to the contract and the rest for other fields	16	1.45	0.81492
I do not allocate the loan to peace according to the contract and use it in other fields	17	1.4	0.87119
I allocate between 50% to 25% of the financing loan for the peace process according to the contract and the rest for other fields	18	1.3	0.4641
I allocate less than 25% of the financing loan for the peace process according to the contract and the rest for other fields	19	1.1	0.30382
I have allocated the loan to invest in other fields other than those mentioned in the contract and bought the crop later from the market	20	1.1	0.30382



which is the purchase of fertilizers and the payment of fees for crop markets and others. In general, the agricultural inputs are the first level in the exchange, followed by items of social and family benefits from the financing of peace, where treatment is one of the scarcest items in the needs of farms followed by the exchange of farms in education and help relatives (Figure 2).

Through the results of the economic analysis, which targeted a sample of the customers of agricultural finance in Sudan. According to one of the first countries that have preferred to apply Islamic finance systems and the establishment of Islamic banks since 1981 where the transfer of all Sundance has specialized banks, led by the Agricultural Bank of Sudan, which is the first government bank to be established in Sudan, which was founded in 1957. It represents the unique model of agricultural development banks in the third world countries has encouraged the Agricultural Bank of Sudan, agricultural and mechanized irrigation. The aim of the establishment of the Agricultural Bank of Sudan was to support Sudanese agriculture and natural resources, and to equip them with the money needed to meet the requirements of agricultural inputs and various mechanisms. The financing of the Agricultural Bank was characterized by the entry into financing according to the salam contract according to the stages of the agricultural process: - Agriculture contract- Holding the cleanliness of the land- Harvest contract.

The choice of the State of Sudan as a model for the study of the experience of Islamic finance, according to one of the first countries, which sought to complete the banking system and turn it 100% into the Islamic model. In addition to it has a large agricultural land and thus distinguish it by producing many crops and various agricultural products including cotton, corn, wheat, Millet in addition to the availability of millions of heads of livestock include sheep, goats, cows and camels. Through the economic and statistical study, the questionnaire was distributed to a random sample of farmers and producers, which included many branches of the Agricultural Bank. This results in supporting the concept of the study, which aimed to identify the customer's fabric and their treatment of cash and eye financing models, which resulted in a number of indicators. The vision of the study, which seeks to test an innovative product for a comprehensive formulation addressed to the agricultural banks and development banks in the world according to the funding of the sample, which has been approved by the Islamic Shariah Supervisory Board and was adopted in accordance with the output of the International Islamic Jurisprudence Institution.

- a) The results of the Table 1 show that 75% of the respondents prefer the financing in the Salam format, while 20% prefer financing the Salam with the other formulas ,that means the easiest style let farmers accept to take finance for the in case of others sort of finance
- b) The Table 2 show that the farmers prefer cash than in kind finance. Because the cash provided by the liquid is one of the advantages that farmers can spend in many different areas,which is has nothing to do with agriculture or production.
- c) The Table 3 shows the descending order of prioritization of disbursement items from financing. It is noted that the items for agricultural inputs are priority in directing the disbursement of funding. The activities of the initial preparations for the soil considered the most important items, followed by the leasing of labor for cleaning before and after agriculture.
- d) The most recent of which is the purchase of fertilizers and the payment of fees for crop markets and others. In general, the agricultural inputs are the first level in the exchange, followed by items of social and family benefits from the financing of Salam, where treatment is one of the scarcest items in the needs of farms followed by the exchange of farms in education and help relatives.
- e) All these items refer that the farmers Preferred Cash financing as advisable mode , This explains and highlights that agricultural finance is not conducive to its positions and approved areas, which leads to the achievement of losses to the bank successive and pays the bank to reduce the importance of funding according to the formula of Salam.
- f) Therefore, the Agricultural Bank has faced many recurring losses, which has reduced the size of its funding to farmers is the lack of funding for farmers under the pretext of insolvency.
- g) The Bank's successive losses have made it abandon its leading role in agricultural finance in the country.

New Product Developer

There is a heavy demand for investment capital and providing sustainable financial services for rural areas and agriculture in order to address the growth and food security needs of the world. Agricultural finance is crucial to support the growth of the agricultural

sector. This is essential for food security, job creation, and overall economic growth, this well lead to reach for New international Innovation in Agriculture Finance by using a new type of agricultural finance through make progress for sustainable agricultural economic development by using Salam sale of production.

This new method through the introduction of the concept of accreditation model selling the peace ladder to finance agriculture to achieve growing production rates in many areas of vital and effective. The most important concepts of the project are to rely on the delivery of basic producers and real production inputs to support and develop agricultural production in all its aspects. This project is based on a fundamental role played by the financing institutions worldwide using innovative technology by providing the required inputs and benefiting from the granting of cash loans, which proved to be null and void in the role of the finance institutions through the successive ages. The new product, which depended on the granting of producers with real production inputs instead of cash loans, which serves and does not support production. Especially that the old method has caused the societies many different risks in increasing inflation rates on the one hand and increasing the various unemployment rates in addition to increasing the rates of default and difficulty in paying cash debts in its exact time. Covariant risks are also a problem for financial institutions and input suppliers, since they can be faced with widespread defaults on loans and unpaid bills.

These new model can be benefit to develop agriculture production through the following inputs should be provided through funding institutions and operating banks, that Why Are Agricultural Inputs Important?

- a) This model can subject to the Principal cash crops are cotton, sesame, peanuts, sugarcane, dates, citrus fruits, mangoes, coffee, etc.
- b) The principal subsistence crops are sorghum, millet, wheat, beans, cowpeas, pulses, corn, and barley
- c) Spending on the initial preparations for soil.
- d) These financial institutions can imported most agricultural inputs.
- e) These agricultural inputs range from improved seeds, fertilizers and crop protection chemicals to machinery, Fertilizer supplies nutrients to the soil that are essential for growth.
- f) Seeds, insecticides
- g) Combine harvesters
- h) Soil enhancers

The backbone of any agricultural revolution is access of farmers to modern agricultural inputs, irrigation and knowledge. Seeds are critical to successful crop production and inevitably, farm productivity and profitability. Increased use of fertilizer and improved seeds are partially credited with the large increases in agricultural productivity growth in Asia during the Green Revolution in the 1960s. Irrigation is also essential for growth as it enables off-season farming, provides the potential for multiple harvests per year, and brings additional land under cultivation. Crop protection chemicals (pesticides, herbicides, insecticides and fungicides) control weed species, harmful insects and plant diseases that afflict crops. Finally, technical knowledge and machinery enhance human labor effectiveness and increase farm productivity.

Why Agriculture is Important

For decades, agriculture has been associated with the production of essential food crops. At present, agriculture beyond farming includes forestry, dairy, fruit cultivation, poultry, bee keeping, mushroom, arbitrary, etc. Today, processing, marketing, and distribution of crops and livestock products etc. are all acknowledged as part of current agriculture. Thus, agriculture could be referred to as the production, processing, promotion and distribution agricultural products. Agriculture plays a critical role in the entire life of a given economy. Agriculture is the backbone of the economic system of a given country. In addition to providing food and raw material, agriculture also provides employment opportunities to very large percentage of the population. Below are the importance of agriculture.

Conclusion

In addition, in view of the above, it has approved the Salam agreement to achieve the desire of the contractors, for the sake of economic interest. It does not understand the wisdom of the legislation of a contract of approval, although it is a kind of cooperation and attach. Salam is a contract of charity because it started the need for the seller - the need is not in the sense of destitution and lack, but the purpose of the need to facilitate dealing



and the management of funds and access to goods at a lower price.

This new product attempts to present applicable models of Islamic Banking keeping in view of agro-sector, by applying innovation and can be of importance for strategic decision making of Islamic Financial Institutions. For future prospective, Bai-Salam is a trade-based instrument, and against advance full payment, that we reach to that farmers hardly afford to purchase the inputs on cash, the Islamic agricultural finance can be listed as tool of Financial Inclusion in Muslim countries.

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