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The Viability of *Salam* Finance In The Growth Of Agricultural Production In Kano State, Nigeria

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Abstract : *Salam finance (sales contract) is a Shariah product used by Islamic financial institutions. It is a transaction in which the payment of the sold commodity is to be made at a spot or immediately after signing the sales contract, while the delivery of the commodity is at the agreed future time. The paper intends to study this Islamic mode of financing agriculture in order to see the way and manner it can enhance the agricultural output of Kano state, being the most populous and agrarian state in Nigeria. This study explores the potentialities of Salam finance. It's role in the growth of agricultural output to meet the demand level of the state population and provide raw materials for industries. It highlights the historical background of Kano state in terms of agriculture and agribusiness. Almost, 70 percent of the population as is solidly dependent on agriculture and agribusiness as their main source of livelihood. Agriculture contributes a higher percentage to the state revenue before the discovery of petroleum. This paper recommends that, the Kano state micro finance banks, mostly the ones in rural areas should adopt Salam mode of financing. It is expected that the adoption of Salam finance will improve the supply of agricultural output, create more employment opportunities and improve local and modern industries and commerce. It will also promote sustainable growth of the Kano state economy and Nigeria in general. This is a qualitative paper in terms of methodology.*

Keywords: *Salam finance, Micro finance banks, agricultural output, Kano state, Nigeria*

1. Introduction

Salam finance refers to *bay' Salam* or *bay' salaf* and its originated from the Shariah mode of transaction which means forward sales or future sales of good with an agreement of delivery of the goods at the prescribed future time with the respect of the conditions of the contract (Bagheri, 2014; Ibrahim & Kamarudin, 2014). The literary meaning of *salaf* or *taslif* means that it is a loan or debt from *al-musalamilaehi* (forward seller) (Ogunbado & Ahmed, 2015). The term *Salam* finance is a terminology of *Bay Salam* by the Islamic financial institutions in order to differentiate their financial products such as: *musharakah* finance (equity partnership), *murabahah* (cost-plus sale contract), *musharakahmutanaqisah* (diminishingpartnership) *mudaharabah* (silentpartnership), *ijarah* (lease), *istisna'* (commissioned or pre-ordered production) *qardhassan* (benevolent loan), among others (JinjiriRingim, 2014). Islamic banking uses *Salam* finance in financing agricultural production and investment (Saddiqi, 2006). Equally, *Salam* financing is a good product for improving trading and agricultural output (Khaleequzzaman & Shirazi, 2012).

On the other hand, agriculture is the main occupation of a country called Nigeria, which is located in the western part of Africa. It is the most populous

country in Africa and black nations with 181,748,044 estimated populations in 2015 (National Population Commission (NPC) 2015). Additionally, Kano state is one of the most important agrarian places in Nigeria based on the population density and productivity. 70 percent of the population remains on agriculture and agribusiness (Bello, 2006). The state agricultural production is divided into food crops and export products. The varieties of food crops in the state include: maize, rice, guinea corn and beans, etc. Whereas, cash crops include: Groundnut, cotton, hit and skin for exportation. The state is the second largest industrial and commercial centre in Nigeria and the largest in the northern states. Kano city has been known as an ancient and significant location of agribusiness and agro allied industries in northern Nigeria and West Africa (Mohammed, Ibrahim & Abubakar, 2014).

Based on that, Kano state government spends a lot on providing agricultural input such as fertilizer, tractors and planters among others to the farmers. Equally, the state government established and collaborating with public financial institutions in order to improve agricultural output in the state (The servant, 2012).

After the introduction, the study discussed problem statement, research questions, research objectives and research methodology. Additionally, to aid the

comprehensive understanding of the study, definition of *Salam* finance, its permissibility and condition of the financing are communicated. More so, the application of *Salam* finance in Kano agricultural production. Finally, the conclusion and recommendation of the study is discussed.

2. Problem Statement

Empirical studies have shown that agricultural output or agricultural sector in Nigeria as a whole faces a lot of problems which includes, inappropriate financing, low farm productivity, farmer's illiteracy, insufficient modern farm machineries and equipments, poor transportations and communications network among others (Anthony, 2010; Awe, 2013; Ogunbado & Ahmed, 2015). Kano state is not in Isolation in these general problems.

Furthermore, the available agricultural financing of the state is through conventional banking system which the majority of the Muslim agriculturalists of the state are so reluctant and conscious in taken, due to its exuberant interest rate, non compliance with their religion among others. As a result of that, there is declining in farm output. The Kano government established micro finance banks in all its local government with an expectation of improving agricultural output in the state. Having said that, the researchers look into the ways in which agricultural activities will benefit from the establishment of the newly state micro finance banks through one of the Islamic financial products called *Salam* finance.

3. Research Questions

- 1- What is *Salam* finance?
- 2- What is the Shariah legality on *Salam* finance?
- 3- How to apply *Salam* finance in micro finance banks of Kano?

4. Research Objectives

The study intends to achieve the following objectives:

- 1- To analyse the concept of *Salam* finance
- 2- To examine the Shariah legality on *Salam* finance in Kano.
- 3- To determine the application of *Salam* finance in micro finance of Kano state.

5. Research Methodology

This study is a based on library materials. Statistics were not involved. This indicates that the methodology used is the qualitative research approach.

6. What is *Salam* finance?

Salam finance is originated from the word *bay' salaf* or *bay' Salam* which is a *Shariah* mode of transaction as mentioned at the beginning of this study. *Salam* finance is being observed as a sale agreement which the seller of the commodities promise to deliver the commodities to the purchaser in a future period of time (Aburaida, 2011). *Salam* finance can also be seen as a sale contract in which the price (s) of the commodity to be paid on the spot, while the delivery

of the purchased commodity to be delivered in a future agreed time later (Umar, 1995). Equally, *Salam* finance is a forward sale of a commodity (originally an agricultural output) which the payment is on the spot and the delivery of the commodity is being made on a specific future date and time as it's stipulated in the contract (Kaleem & Ahmad, 2010).

Salam finance is an Islamic financial product which refers to forward sale or contract. It refers to sale of a commodity with the spot payment while the delivery of the commodity at the future agreed time and condition of the contract (Ogunbado & Ahmed, 2015). Maliki school of thought defines *Salam* as "a sale in which the capital sum (price) is paid in advance and the object of sale is deferred to a specified term" while, Hambalis's and Shafi' school of thoughts defines *Salam* "as a contract over described merchandise sold as a deferred liability on one party in exchange for a price that is received during the contract session" (Alzuhayli, 2007. 1:238). There are two types of *Salam*: ordinary *Salam* financing, which is between farmer and Bank while, parallels *Salam* and is also a contract from bank and whole-seller that is another independent transaction with the same bank. This is done in a situation bank is a buyer and seller of the commodity under different contracts.

7. Legality of *Salam* Finance

Salam finance is an Islamic financial product and its permissibility is confirmed by the Qur'an where it says: "O you who believe! When you contract a debt for a fixed period, write it down" (Qur'an, 2:282). Ibn Abbas, said that it "was revealed to address the *Salam* finance in particular." We should note that debt is comprehensive of whatever is owed and therefore may take the form not only of monetary loans but any objects like foodstuffs (e.g. Wheat and barley), manufactured articles (e.g. Paper, cars, machines) or raw materials (e.g. copper, iron, petroleum, etc.), duly specified as to quantity and quality. This explains the tafsir attributed to Ibn Abbas, that the Qur'anic verse 2:282 was revealed to address *Salam* finance is a permitting lending. The verse has also permitted *Salam* finance regards to agricultural financing (Kaleem & Abdulwajid, 2009; Putri & Dewi, 2011).

Equally, *Salam* finance is originated from the Sunnah as Putri and Dewi (2011) found that:

Ibn Abbas has said: "The Prophet came to Medina and the people were paying in advance, the tolls of the fruits which would be handed over within one or two years. The Prophet said [to them] "The one who buys fruits by paying their prices in advance, he should purchase them according to a fixed specified weight, within a fixed specified period".

Based on the above Hadith, *Salam* was approved by the Prophet as a part of *Shariah* oriented public policy

(Ayub, 2007). The most underlying cause of initiating *Salam* contract was to aid the small scale farmers (poor farmers) who lack money to sustain crops and take on their daily needs before the time of harvest (Umar, 1995). Additionally, “*Salam*” allows them (farmers) to sell forward their expected farm produce for immediate cash and defer delivery of the produce to its buyer for specified future (Kaleem & Wajid, 2009).

More so, the holy prophet (P.B.U.H) has allowed “*Salam*” subject to certain conditions. Usually this type of sale was conducted by farmers who needed money for growing crops. This series has allowed the poor farmers to sell the agricultural products to traders on advance payments (Muhammad & Chong, 2007).

Conditions of *Salam* Finance

Ayub (2007) said the validity of *Salam* transaction was subjected to the following conditions:

- The product type of sale must be pinned down by calling names.
- It is necessary that commodity (IEs) must be distinct and specified the type, colour, kind or number among others.
- The payment of the purchase price should be in strong currency at the time of undertaking the sale of *Salam*.
- It is necessary that the gauge of the commodity (IEs) of sale is quantified in weighing as initially agreed by all the parties.
- The time and site of delivery must be agreed upon specifically in the contract.
- The commodity (IEs) should be marketable from the day of the contract up to the delivery or at least till the day of the month of legal transport.
- *Salam* cannot be limited to a particular region or farm accepts on specified commodity (IEs).

Ayub (2007) stated that, the principle ingredients and quality of *Salam* financing are explained by different Islamic school of thoughts. The Islamic jurist of Maliki, Hanbali and Shafii comes out with three main elements with respect to the contracting bodies, making six principal factors of the *Salam* mode of funding.

- A. The undertaking bodies; the seller and buyer
- B. The undertaking; the monetary value and the sale commodity (ies)
- C. The formula; (the buyer) affirmation and (the seller's) acceptance.

8. Agricultural Productivity

Agriculture is the backbone of the global food security, animal rearing and supplier of raw material to the industries for poverty reduction and socio-

economic advancement (Anthony, 2010). Ibn Khaldun (1967) defines it as: “Cultivation and growth of plant through irrigation, proper treatment, improvement of the soil (observance of) the suitable season and care for them by applying these things in a way that will benefit them and help them grow” (Qur’an, 3:151). Agriculture is a productive entity that provides opportunities for a large number of people either directly or indirectly with the aim of: food supply, earning income and investment among others (Ador & Farhah, 2014; Hendriks & Lyne 2009). Agriculture is a science and business of crop growing, farm animal, poultry and fishes caring base on the Shariah guide for household and marketing activities in order to amend the economic growth and development (Khan, 1996).

Islamic economic sees agriculture as an Islamic style of business and investment (Khan, 1996) This is in line with the assertion that, Prophet Adam is the first person practiced agriculture and Prophet Muhammad also, engaged in trading and pastoral activities (Ogunbado, 2011). Similarly, it is one of the legitimate earning and activity as stated in the Holy Qur’an verses in which include:

*It is He who sendeth down rain from the skies, with it We produce vegetation of all kinds, from some We produce green (crops), out of which We produce grain, heaped up (at harvest); out of the date-palm and its sheaths (or spathes) (come) clusters of dates hanging low and near: and (then there are) gardens of grapes, and olives, and pomegranates; each similar (in kind) yet different (in variety): when they begin to bear fruit, feast your eyes with the fruit and the ripeness thereof. Behold! In these things are signs for people who believe.
(Al-Qur’an, Surah Su-rah al-‘An‘am (6):99).*

Also:

And the earth We have spread out (like a carpet); set thereon mountains firm and immovable; and produced therein all kinds of things in due balance. And We have provided therein means of subsistence, - for you and for those for whose sustenance ye are not responsible (Al-Qur’an, Surah al-Hijr (15):19-20).

Also:

It is He Who has spread out the earth for (His) creatures: There in is fruit and date-palms, producing spathes (enclosing dates). Also corn, with (its) leaves and stalks for fodder, and sweet-smelling plants. Then which of the

favours of your Lord will ye deny? (al-Qur'an, Surah al-Rahman (55):10-13).

Kano as a state is primarily an agrarian area, as it was initially mentioned. The agricultural sector of Kano state, however, is drastically, decreasing due to the problem of inadequate agricultural financing. If the sector is financed by free interest financial product, most of the problems will be solved. For example, *Salam* finance will solve the problems that associated with: fertilizer, insecticide, herbicide and storage facilities, etc. *Salam* finance as an Islamic Financial product for financing agricultural output. It can also, serve as a substitute for agricultural financing in Kano state Nigeria.

Undoubtedly, *Salam* finance is an Islamic financial product utilizes by Islamic banking industries to finance agricultural output and investment for economic growth and development (JinjiRingim, 2014). *Salam* finance is a good product for improving agricultural output as well as addressing problems of agricultural output. It equally, provides full advance payment and future delivery of the agricultural output at the agreed time (Becirovic, 2011). Therefore, *Salam* finance serves as an agricultural financing under the Shariah economic system (Mohsin, 2005). Since, it has been used for over 1400 years in Medina (Ogunbado & Ahmed,

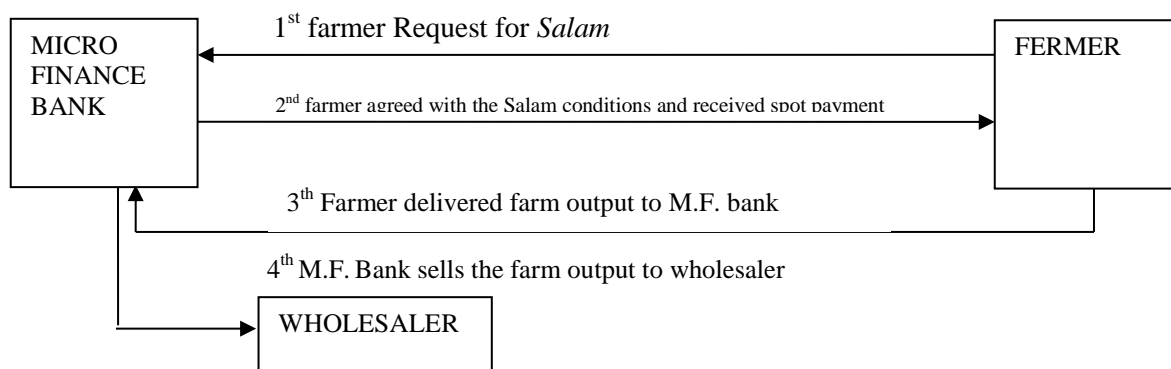
2015). Therefore, introducing *Salam* finance in Kano state newly established micro finance banks mostly is very necessary.

9. Application of *Salam* finance in the Agricultural Sector of Kano Nigeria

The *Salam* finance transaction is operating between two parties micro finance bank can be a *Rabb salam*, which is entitle to finance *muslamilehi* (farmer) with *ra's al-mal*(cash) with the aim of delivery the commodity at the agreed condition and time. This indicates that both the buyer and seller will be benefited from the transaction. That is to say, buyer will purchase at cheap price. Likewise, famers will benefit from getting capital to purchase seeds, fertilizer for more production.

The micro finance can also engage in “parallel *Salam* contract” (Hilmy, 2013). Figure 1 below demonstrates the operation of *Salam* finance in relation to financing agricultural output in Kano state. *Salam* financing has a potentialities of poverty eradication, employment opportunities, improve marketing activities, provision of education and training among others (Ogunbado, 2011). The availability of the agricultural output in the state is leading to the socioeconomic stability of the needy farmer and economic growth of the state.

APPLICATION OF SALAM FINANCE IN KANO STATE AGRICULTURAL SECTOR



Source: Researcher design.

Figure.1

As indicated in the above figure 1, the first stage demonstrated that, the farmer is seeking for *Salam* finance from the m.f bank. Second stage shows that m.f. bank and farmer enter the contract based on the condition of *Salam* financing. Thirdly, Farmer settled the M.I. Bank by deliver the farm output. Fourthly, the m.f bank sells the farm output to the wholesaler.

Equally, the bank can enter into Parallel *Salam* financing through another dimension and relevant transaction that is allowed by Shariah. It at once functions as different channel of trade between m.f. bank, farmers and merchandised in the market. m.f. bank can also obtain a parallel *Salam* sale of the

commodity to be delivered even in the period of delivery of the initial *Salam* contract. The two different agreements must be categorically stated as two independent contracts. In the first class of contract, bank is a buyer and the second category bank is a seller. Then the two difference contracts must be categorically separated in a way that the conditions of one contract will not be tempered by another independent contract. And each agreement must have its own separate conditions. This is another way of improving agribusiness and agro allied industries which will result in job creations, grows of trading and means of exportations of agricultural

output (Muneeza, Yusuf & Hassan, 2010; Hassan, Sattar, Tousif, Nasir, Sadiq & Yasmeen, 2012).

10. Conclusion and Recommendations

This study is crucial to the current situation of Kano state agricultural output; it is highly significant to introduce *Salam* finance to restore the past glory of Kano state. Since, agriculture has been the main source of income, food supply, job opportunities and market and industries among others. The Kano state agricultural output declining is coursed by poor agricultural financing from conventional financial institutions. The declining resulted in a high rate of poverty, unemployment, food shortage and fall in farmer and government income, the collapse of the agribusiness and agro allied industries among others.

After a lot of discussions Kano state established micro finance in 44 local government of the state in

order to tackle problems of agriculture, trade, commerce and industries. Then, it will sound well if the banks introduce *Salam* finance to substitute the conventional mode of financing agriculture in the state. It is hoped that, rural farmers, traders, investors, Kano state M.F banks, Ja'is bank (Islamic bank), Keystone bank and Stanbic ITBC bank window operators) branches in Kano state will be benefited. It is hoped that this will lead to eradicate state problems such as: food insecurity, poverty, unemployment, fall in farmer and government income, among others. More so, this study will be an additional value to the existing literature in a discipline of agriculture and trade in relation to Islamic economics and finance. Finally, this study is applicable to Kano state, but it can be used in any part of Nigeria more especially other agrarian states or even countries with either directly or indirectly similar circumstances with Kano state.

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