Shariah compliant financing for agriculture in Afghanistan

AFGHANISTAN

By Manezha Sukhanyar

Afghanistan is mostly dependent on the agricultural sector which shapes 40–50% of its GDP and prior to many years of conflicts, its agricultural products were recognized globally for excellent quality.

In addition to numerous factors which can lead to the development of this sector such as fertile soil, suitable climate and a plentiful supply of water, there are also many challenges faced by farmers in this sector such as financing, packaging facilities and storage.

Farmers and producers, who avoid interest-based financing due to their religious concerns, find it hard to procure proper financing for their production. None of the banks in Afghanistan offer a specialized finance facility for the agricultural sector as the percentage of financing offered is very low compared to the high demand by farmers.

Many factors such as strict lending policies, high-risk involvement in agri-financing and lack of accessibility to remote areas have affected the willingness of banks to extend financing to agricultural businesses.

According to a study by the International Shariah Research Academy for Islamic Finance, Salam-based crowdfunding is a feasible Shariah compliant investment platform which may benefit both investors and farmers or entrepreneurs.

Currently, large portions of the financing offered by financial institutions are based only on Murabahah and Musharakah despite Islamic banking having the potential to provide easy financing based on Ijarah, Salam and Istisnah which are more suitable for the agricultural sector.

The Afghan government had planned to establish a specialized bank for agriculture to provide easy credit access and enhance the production process, but to date there has been no progress on that project.

There are 'blue ocean' opportunities to be explored for Islamic finance in the agricultural sector, but it requires full commitment, support and dedication. But the main question is does the Afghan government have the will and capacity to do so?

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A focus on partnerships

QATAR

By Amjad Hussain

According to investment bank Societe Generale, Qatar's GDP is expected to rise from an estimated US$195.2 billion this year to more than US$200 billion in 2021. Societe Generale added that Qatar's GDP per capita has been estimated to reach US$72,554 in 2021, compared with US$70,737 this year.

The demand for Islamic equities surpassed that of conventional equities on the Qatar Stock Exchange (QSE) in the first week of August 2020. The performance of the industrial, consumer goods, banking and finance and real estate sectors in the market was better than others. The industrial index rose by 1.18%, banking and financial services by 0.82% and real estate and consumer goods by 0.48% each, whereas the transport and telecom sectors declined by 0.42% and 2.09% respectively.

At the end of July, Doha Bank hosted a webinar to discuss investment opportunities in Qatar and to announce its partnership with the Bank of Singapore, one of the fastest-growing banks in Asia, to provide wealth management solutions to its clients.

During the webinar, Dr R Seetharaman, CEO of Doha Bank, provided input on Qatar's economy and recent banking trends, with a focus on the hydrocarbon and non-hydrocarbon industries. The webinar discussed investment reforms and incentives in the State and provided an update on the performance of the QSE, including the opportunities arising out of the Qatar Exchange Traded Fund. Of course, these themes resonate across the financial sector and include Shariah compliant assets.

In a recent webinar, government officials of the Philippines announced that the nation is aiming to strengthen its Islamic finance market, and in particular, the field of Islamic banking. The Philippines is looking to attract Middle Eastern countries, including Qatar, to invest and expand their operations in the Philippines.

During the conference, the undersecretary of the Trade Promotions Group of the Department of Trade and Industry of the Philippines, Abdulgani M Macatoman, announced that the Philippines is keen to partner with Qatar to develop the Islamic banking market in the former. Abdulgani further noted that Qatar's experience in Islamic banking could benefit the Philippines. This will be an interesting area of focus as the Gulf's Islamic banks look abroad for expansion opportunities.

Moody's Investors Service has affirmed Barwa Bank's long-term credit rating at 'A2/Prime-1', with a steady outlook. Barwa Bank also received a rating based on its investment grade, which serves as an indication of the bank's strong financial position and the overall strength of Qatar's economy. Barwa Bank stated that it "is looking forward to increasing its share" in financing infrastructure projects, as part of the Qatar National Vision 2030. As the infrastructure for the World Cup in 2022 is nearing completion, there will be great focus on wider infrastructure needs in the country.

The partnerships and agreements announced by banks in Qatar over the past month indicate that there is a significant focus on the expansion and growth of the banking and financial sector in the country. These collaborations also demonstrate that banks in Qatar are seeking to expand the reach of their services and products. We expect to see more partnerships across various sectors over the next few months as the economy returns to normality post-lockdown.

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