

Analysis of the Low Use of Salam Contracts in Agricultural Financing in Indonesian Islamic Banking

Azani Utami*, Rahmadani, Diva Setina, Netty Utari

Department of Accounting, Shara Finance and Banking Study Program, Politeknik Negeri Medan, Medan, Indonesia
Jl. Almamater No.1, Padang Bulan, Kecamatan Medan Baru, Kota Medan, Sumatera Utara 20155, Indonesia
Email: ^{1,*}azaniutami@students.polmed.ac.id, ²rahmadani@polmed.ac.id, ³divasetina@students.polmed.ac.id,
⁴nettyutari@students.polmed.ac.id

Correspondence Author Email: azaniutami@students.polmed.ac.id

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Abstract—Salam contracts are one of the Islamic financial instruments designed to support financing in the real sector, particularly agriculture. In this contract, payment is made in advance while goods are delivered at a later date, making it highly relevant for farmers who need capital before harvest time. However, despite its great theoretical potential, the implementation of salam contracts in Indonesian Islamic banking is still very low. This study aims to analyze the factors causing the minimal application of salam contracts in agricultural sector financing and the reasons for the absence of salam realization figures in the annual reports of Islamic banks. This study uses a descriptive qualitative method with a literature review approach sourced from journals indexed by Scopus, Sinta, DOAJ, and Garuda, as well as the annual reports of Islamic banks for the period 2021–2024. The results show that the low implementation of salam contracts is caused by a combination of internal factors, such as the high risk of crop failure, limited supervision of goods, and a lack of understanding among bank human resources, as well as external factors, such as the absence of crop yield guarantee institutions, low Islamic financial literacy, and the lack of clear regulatory support. Empirical data shows that only Bank Muamalat Indonesia recorded salam financing of IDR 1.32 billion in 2022, while other Islamic banks did not record any realization value. This study recommends Parallel Salam and Digital Salam innovations as well as collaboration between Islamic banks, farmer cooperatives, and zakat institutions as strategies to strengthen the implementation of salam contracts in the future.

Keywords: Salam Contract; Agricultural Financing; Islamic Banking; Annual Report; Islamic Financial Innovation

1. INTRODUCTION

Salam contract is an important instrument in the Islamic financial system that plays a role in supporting the real sector, particularly in agriculture (Pahra, 2022). In this contract mechanism, payment is made in advance for goods to be delivered in the future as agreed, making it highly relevant for farmers who need working capital before harvest time (Muneeza & Mustapha, 2020). The concept of the Salam contract reflects the principles of fairness, contractual certainty, and proportional risk sharing between buyers and sellers, in line with the maqashid syariah in the aspect of economic justice (Ilahi & Fajeri, 2021).

In Indonesia, the agricultural sector plays a strategic role in the national economy, contributing around 12–14% to the Gross Domestic Product (GDP) and employing more than 30% of the workforce (Arifin et al., 2021). However, classic problems such as limited access to capital, dependence on middlemen, and minimal formal financing from Islamic banks remain major challenges for farmers (Ilahi & Fajeri, 2021). In principle, the salam contract is designed as a sharia solution that can replace the practice of *ijon* and high-interest loans in rural areas (Pahra, 2022).

Although theoretically it has great potential, the implementation of salam contracts in Islamic financial institutions in Indonesia is actually very minimal. Almost all Islamic banks include salam contracts in their list of financing products, but the actual financing figures are not found in their annual reports (Waluyo & Rozza, 2020). This fact shows that salam contracts are more administrative than operational in nature, unlike *murabahah* or *ijarah* contracts, which dominate the Islamic financing portfolio (Rachmawati, 2022).

According to Isahak et al. (2023), the low use of salam contracts is due to several factors, such as the high risk of crop failure, difficulties in monitoring salam goods, and limited human resources in banks who understand the contract mechanism in depth. In addition, Islamic banking regulations have not provided clear technical guidelines or incentives for the development of salam products (Furqoni et al., 2025). This condition weakens banks' interest in channeling salam financing to the agricultural sector, which is considered high risk economically (Arifin et al., 2021).

The salam contract itself has a long historical root dating back to the time of the Prophet Muhammad SAW, used by his companions as a form of mutual assistance in the trade of agricultural products (Pahra, 2022). The mechanism of advance payment is considered a form of justice in trade, which allows farmers to obtain capital without usury and with certainty of prices agreed upon in advance (Ilahi & Fajeri, 2021). Therefore, the application of salam in the Indonesian agricultural sector is highly relevant, especially in the context of productive financing and economic empowerment of the people (Widiana & Annisa, 2018).

However, in modern practice, salam contracts face structural challenges at the banking level. Research by Waluyo & Rozza (2020) confirms that although salam products are recognized by regulations and the DSN-MUI through Fatwa No. 05/DSN-MUI/IV/2000, their reporting in Islamic bank financial statements is not transparent. The absence of quantitative details indicates that this contract has not become a priority in the Islamic banks' business strategy (Furqoni et al., 2025). This is also related to the limitations of the Islamic accounting system in Indonesia, which does not yet provide a specific format for recording salam (Syahraeni et al., 2025).

In terms of risk, agriculture as the main sector for salam transactions is known to have high volatility due to climate change, natural disasters, and commodity price fluctuations (Isahak et al., 2023). Without adequate harvest guarantee institutions or sharia insurance, Islamic banks tend to avoid salam products due to the potential for uncontrollable losses (Arifin et al., 2021). On the other hand, the limited human resources of Islamic banks in understanding salam risk management exacerbates the situation (Japar et al., 2024).

This gap is even more apparent when compared to microfinance institutions such as Baitul Maal wat Tamwil (BMT) and Islamic cooperatives. According to Widiani & Annisa (2018), these microfinance institutions are more adaptive in implementing salam contracts because they have close social ties with farmers and a trust-based monitoring system. However, limited capital and business scale prevent BMTs from providing large-scale agricultural financing.

From a policy perspective, the Financial Services Authority (OJK) has not yet provided specific accounting guidelines or treatment for salam contracts in PSAK Syariah (Furqoni et al., 2025). The absence of reporting guidelines has resulted in salam financing often being mixed with *istishna'* or other sales contracts in banks' annual reports. This has implications for low data transparency, which in turn hinders the development of salam products as productive financing in the agricultural sector (Waluyo & Rozza, 2020).

Global research also confirms similar challenges. A study by Muhammad et al. (2022) in Nigeria shows that the application of salam contracts in agriculture is still limited due to weak technological support, monitoring systems, and Islamic financial literacy. This situation is almost identical to that in Indonesia, where Islamic banks are more oriented towards consumer and commercial financing (Uluyol, 2024). Thus, the obstacles to salam are systemic and require a cross-institutional approach to overcome them.

However, several innovations have been developed to revive the salam contract. Adawiah et al. (2024) found that the Parallel Salam model implemented at Bank Syariah Indonesia (BSI) Serang Branch was able to minimize the risk of delivery failure by combining two salam contracts sequentially. Meanwhile, Muneeza & Mustapha (2020) proposed a fintech platform-based Digital Salam concept that utilizes blockchain to ensure contract validity and real-time tracking of crop yields.

This innovation shows that salam contracts still have great potential for implementation in Indonesia, especially if integrated with the digital ecosystem and inter-institutional collaboration. Syahraeni et al. (2025) emphasize the importance of synergy between Islamic banks, farmer cooperatives, and zakat institutions to reduce risk and expand the reach of salam financing. Through this synergy, the salam contract can function not only as a financial instrument, but also as a mechanism for economic empowerment of the community and strengthening national food security.

Thus, the low implementation of salam contracts in Indonesian Islamic banking cannot be viewed as a single failure, but rather the result of a combination of internal, external, and regulatory factors. Therefore, this study seeks to answer the question: "Why are salam contracts rarely used by Islamic banks in Indonesia and not included in their annual reports?" The purpose of this study is to identify the factors causing the low implementation of salam contracts in agricultural sector financing and to provide strategic recommendations for its development. This study is expected to be useful for academics, regulators, and Islamic finance practitioners in understanding the challenges and potential for innovation in salam contracts in the future.

2. RESEARCH METHODS

2.1 Conceptual Framework and Literature Review

A salam contract is defined as a contract for the sale and purchase of goods with cash payment in advance and delivery of goods in the future (Pahra, 2022). The pillars and requirements include the seller (*muslam ilaih*), the buyer (*rabbus salam*), capital (*ra's al-mal*), and the ordered goods (*muslam fih*). This contract differs from *istishna'*, because salam requires full payment in advance and cannot be canceled after it has been agreed upon (Rachmawati, 2022). According to Widiani & Annisa, (2018), the application of salam in the agricultural sector in Indonesia is very relevant because it provides access to capital for farmers before the planting season. However, its implementation in banking faces technical obstacles and high production risks. Arifin et al. (2021) in a field study at KSM-KUB Jaya Amanah found that salam only works effectively at the small farmer group level, not in banks, due to limited control over crop quality.

Furqoni et al., (2025) emphasize that the main challenges in implementing salam contracts in Islamic banking include limited understanding among human resources, the risk of failure to deliver goods, and the absence of an appropriate risk management model. Waluyo & Rozza (2020) add that banks prefer *murabahah* contracts because the profit margin is more certain and easier to record in accounting. In the context of innovation, (Adawiah et al., 2024) introduced the Parallel Salam Contract, which is a double salam contract where the bank acts as an intermediary between farmers and end buyers. This model has proven to be safer for banks because distribution risks can be minimized. In addition, (Muneeza & Mustapha, 2020) show that Digital Salam Financing through sharia fintech platforms can expand access for small farmers and increase transaction transparency.

In general, literature shows that the practice of salam in Indonesia is more widely applied by BMTs, Islamic cooperatives, and microfinance institutions than Islamic commercial banks (Ilahi & Fajeri, 2021; Muhammad et al., 2022). This condition reinforces the view that risk structure, human resource limitations, and banking regulations are the main factors that make it difficult to adopt salam contracts on a large scale.

2.2 Research Methodology

This research is qualitative and descriptive in nature. Descriptive qualitative research is a type of research used to examine research objects that are natural or real-world conditions, rather than in an experimental setting. According to (Sugiyono, 2023), qualitative research aims to understand phenomena comprehensively in their original context by emphasizing meaning rather than numbers. The information obtained in this study is presented systematically to provide an accurate and verifiable picture of the factors that cause the low implementation of salam contracts in Islamic banking.

The object of this study is the practice of salam-based financing in the agricultural sector in Indonesian Islamic banking during the period 2022–2024, with a focus on how these contracts appear (or do not appear) in the annual reports of Islamic banks. This study uses a literature review approach for the data collection process, which includes searching various online literature, relevant scientific articles, and textbooks related to salam contracts and their implementation in Islamic financial institutions. The main data sources for this study were journals indexed by Scopus, Sinta, DOAJ, and Garuda, as well as the annual reports of Indonesian Islamic banks. The analysis process was conducted deductively and inductively, in which the data obtained were compared, analyzed, and synthesized to find logical relationships between theory and actual phenomena in the field.

3. RESULTS AND DISCUSSION

3.1 Results

Based on the results of literature analysis and research on the Annual Reports of Islamic banks in Indonesia for the period 2021–2024, it was found that salam contracts have not been significantly realized in the agricultural sector financing portfolio. Although salam contracts are listed in the list of Islamic banking products, such as in (Bank Syariah Indonesia, 2021, 2022, 2023, 2024), (Bank Muamalat Indonesia, 2021, 2022, 2023, 2024), (Bank Aceh Syariah, 2021, 2022, 2023, 2024), (Bank Central Asia Syariah, 2021, 2022, 2023, 2024), and (BTPN Syariah, 2021, 2022, 2023, 2024), but no realization figures were found in their annual reports for the last four years (Furqoni et al., 2025; Waluyo & Rozza, 2020). This indicates a gap between the theoretical potential of salam contracts as a financing instrument for the real sector and their implementation in the banking world. This finding is in line with the results of a study (Isahak et al., 2023), which states that salam contracts in countries with a large agricultural base, including Indonesia, have not contributed significantly to productive financing.

As visual support, data graphs from the Annual Reports of several Islamic banks (for the period 2021–2024) can be displayed in this section to show that salam contracts have no realization value in financing reports. This graph serves to reinforce empirical evidence that salam contracts are only listed administratively without real implementation, while also confirming the existence of a financing gap between farmers' capital needs and the role of Islamic financial institutions (Arifin et al., 2021).

3.2 Discussion

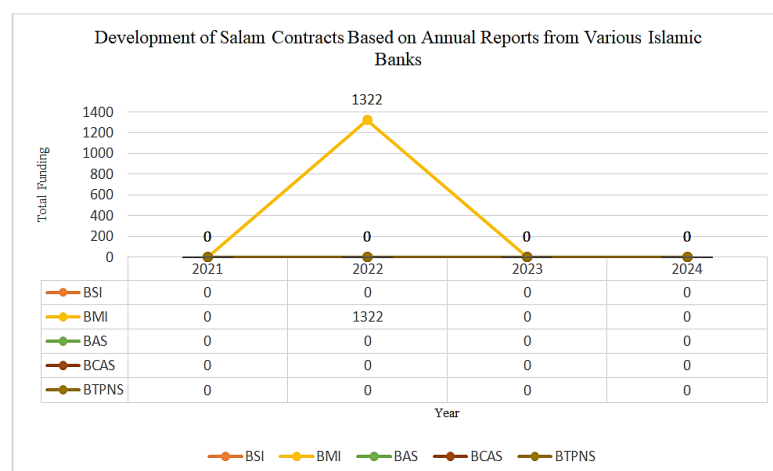


Figure 1. Realization of Salam Contract Financing in Various Islamic Banks for the Period 2021-2024

Based on the Annual Reports of several major Islamic banks in Indonesia, namely Bank Syariah Indonesia (BSI), Bank Muamalat Indonesia (BMI), Bank Aceh Syariah (BAS), Bank BCA Syariah (BCAS), and Bank BTPN Syariah (BTPNS), it can be seen that the implementation of salam contracts was almost non-existent throughout the 2021–2024 period. Only Bank Muamalat Indonesia recorded salam financing of IDR 1.32 billion in 2022, while the other four Islamic banks showed a value of IDR 0. This finding reinforces the indication that salam contracts are still administrative in nature and have not become a priority financing instrument in the agricultural sector (Furqoni et al., 2025; Waluyo & Rozza, 2020).

The factors causing the low implementation of Salam contracts in agricultural financing in Islamic banks can be seen from the internal and external aspects of the bank, as well as the opportunities for innovation. Internally, the biggest challenge is the high risk of crop failure inherent in the agricultural sector. This risk increases the potential for default or late delivery of goods from farmers to banks, causing banks to avoid Salam-based financing, which is non-collateralized (Isahak et al., 2023). In addition, the difficulty of predicting future commodity prices makes it difficult for banks to accurately determine profit margins and contract values, which ultimately creates uncertainty in risk management (Furqoni et al., 2025).

Another obstacle lies in the limited supervision of salam goods, as banks must ensure that the goods ordered meet the specifications of the contract and are delivered on time. However, this type of monitoring system is still rarely implemented in Indonesian Islamic banking (Isahak et al., 2023). In terms of human resources, Islamic bank employees do not yet have a deep understanding of salam risk management and are not yet familiar with real sector-based financing practices that require a field approach (Furqoni et al., 2025). As a result, banks prefer products with simple structures such as murabahah or ijarah, which have low risks and more certain returns compared to complex salam contracts that require coordination between multiple parties (Waluyo & Rozza, 2020).

Externally, there are a number of factors that weaken the implementation of salam in Indonesia. One of them is the absence of a harvest guarantee institution that can protect banks from the risk of crop failure (Arifin et al., 2021). The absence of a strong Islamic agricultural insurance system means that banks do not have effective risk mitigation mechanisms. In addition, regulations from the Financial Services Authority (OJK) have not provided incentives or special accounting treatment for salam contracts, so banks have no structural incentive to develop this product (Furqoni et al., 2025). Another significant problem is the low level of Islamic financial literacy among farmers, most of whom still do not understand the principles of salam contracts and their mechanisms, resulting in very low demand for this product (Muhammad et al., 2022).

However, a number of studies offer alternatives and innovations to optimize the potential of salam contracts. One such innovation is Parallel Salam, which is a dual contract in which the bank acts as the buyer on one side and the seller on the other. This model has proven effective when implemented at Bank Syariah Indonesia's Serang branch in reducing the risk of crop failure and guaranteeing price certainty (Adawiah et al., 2024). In addition, the concept of Digital Salam based on sharia fintech has also begun to be developed to directly connect banks, farmers, and end buyers through a transparent digital platform (Muneeza & Mustapha, 2020).

Furthermore, collaboration between Islamic banks, zakat institutions, and farmer cooperatives is also proposed as a form of institutional innovation that can strengthen the implementation of salam contracts. This synergy allows zakat institutions to play a role in providing social security against yield risks, while cooperatives act as aggregators of farmers' production (Syahraeni et al., 2025). This approach not only reduces moral hazard risks but also increases the operational efficiency of Islamic banks and opens up opportunities for productive financing based on justice and economic sustainability for the community.

4. CONCLUSION

Based on the results of literature review and analysis of data from annual reports of Islamic banks for the period 2021–2024, it can be concluded that the low implementation of salam contracts in agricultural financing in Indonesia is caused by a combination of internal, external, and regulatory factors. Internally, Islamic banking faces obstacles in the form of high crop failure risks, difficulties in monitoring goods, and limited human resources in understanding the mechanisms and risk management of salam contracts. Externally, the absence of a crop yield guarantee institution, low Islamic financial literacy among farmers, and a lack of regulatory support from the OJK have prevented salam contracts from developing optimally. Empirical data from the Annual Report shows that only Bank Muamalat Indonesia has realized salam contracts amounting to IDR 1.32 billion in 2022, while other Islamic banks have not recorded any salam financing values, confirming that this product is still administrative in nature and has not become a strategic priority for banks. To optimize the implementation of salam contracts in the future, collaborative steps are needed between Islamic banks, regulators, and institutions supporting the agricultural sector. Islamic banks need to develop innovative models such as Parallel Salam and Digital Salam so that production risks can be minimized and transaction transparency increased. Regulators such as OJK and DSN-MUI are advised to clarify accounting guidelines, provide regulatory incentives, and support the establishment of sharia crop yield guarantee institutions. In addition, strengthening Islamic financial literacy among farmers and real sector players is key to making salam contracts more widely known and attractive. With synergy between banks, farmer cooperatives, and zakat institutions, salam contracts have great potential to become an Islamic financial instrument that is fair, sustainable, and supports national food security.

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