



Leveraging *Bay' al-Salam* Contracts for Agricultural Development in Indonesia: Challenges and Future Strategies

Abrista Devi¹, Irman Firmansyah^{2*}, Aam Slamet Rusydiana³

¹Faculty of Islamic Religion, Ibn Khaldun University, Jl. KH. Sholeh Iskandar Km.2 Kd. Badak Bogor, Jawa Barat, Indonesia

²Faculty of Economics and Business, Siliwangi University, Jl. Siliwangi No. 24 Kota Tasikmalaya, Jawa Barat, Indonesia, irmanfirmansyah@unsil.ac.id*

³Department of Islamic Economics and Finance, Sakarya University, Esentepe Kampusu, Esentepe Universite Cd., 54050, Sakarya, Turkiye

*) Corresponding author

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Abstract. This study aims to investigate the challenge that Islamic Financial Institutions (IFIs) encounter while attempting to channel *bay' al-salam* contract financing for agricultural sector. Afterwards, the appropriate strategy will also be sought for. Using literature such as books, journals, and scientific papers, this research conducts its investigation using a qualitative methodology that incorporates content analysis techniques and in-depth interview to 12 (twelve) experts. This study's findings indicate several obstacles in providing *bay' al-salam* for the agricultural financing. The internal challenge factors are the absence of assistance from Islamic Financial Institutions, the lack of desire from human resources, and the challenges that originate from the *salam* finance model technique. A lack of literacy, a lack of supportive regulation, and several alternative financing options are among the external factors. The following are some of the strategies that should be implemented to maximize the effectiveness of the *bay' al-salam* contract for agricultural financing: enhancing sharia governance and compliance (including strengthening capital), strengthening agricultural infrastructure, leveraging technology, capacity building, and financial literacy, and developing innovative financial solutions (blended finance and flexible payment terms).

Abstrak. Penelitian ini bertujuan untuk mengkaji tantangan yang dihadapi Lembaga Keuangan Islam (LKI) dalam menyalurkan pembiayaan akad *bay' al-salam* untuk sektor pertanian. Selanjutnya, strategi yang tepat juga akan diupayakan. Dengan menggunakan literatur seperti buku, jurnal, dan karya ilmiah, penelitian ini melakukan investigasinya menggunakan metodologi kualitatif yang menggabungkan teknik analisis isi dan wawancara mendalam dengan 12 (dua belas) pakar. Temuan penelitian ini menunjukkan beberapa kendala dalam menyediakan *bay' al-salam* untuk pembiayaan pertanian. Faktor tantangan internal adalah tidak adanya bantuan dari Lembaga Keuangan Islam, kurangnya keinginan dari sumber daya manusia, dan tantangan yang berasal dari teknik model keuangan *salam*. Faktor eksternal meliputi kurangnya literasi, kurangnya regulasi yang mendukung, dan beberapa pilihan pembiayaan alternatif. Berikut ini adalah beberapa strategi yang harus dilaksanakan untuk memaksimalkan efektivitas kontrak *bay' al-salam* untuk pembiayaan pertanian: meningkatkan tata kelola dan kepatuhan syariah (termasuk memperkuat modal), memperkuat infrastruktur pertanian, memanfaatkan teknologi, pengembangan kapasitas, dan literasi keuangan, dan mengembangkan solusi keuangan inovatif (pembiayaan campuran dan ketentuan pembayaran yang fleksibel).

INTRODUCTION

Agriculture is an important sector in the Indonesian economy, considering its contribution to the Gross Domestic Product (GDP) (Awokuse & Xie, 2015; Dhakal, 2022) as well as the employment opportunities it provides for the majority of the rural population. However, the agricultural sector's challenges, such as limited access to capital and technology, often hinder its growth and productivity. This is where the important role of funding is in helping farmers overcome these obstacles and increase their agricultural yields.

One of the potential Islamic financial instruments to support funding for the agricultural sector is the *bay' al-salam* contract (Hachim, 2021; Hossain et al., 2019; Mualley & Moh'd, 2022). A *bay' al-salam* contract is a sale and purchase contract in which the buyer (bank or financial institution) pays in advance for commodities that will be delivered by the seller (farmer) in the future. This concept is very suitable for agricultural financing (Hossain et al., 2019), considering that farmers need initial funds for production costs such as purchasing seeds, fertilizer and land maintenance.

Even though the greeting contract has great potential to support the agricultural sector (Mualley & Moh'd, 2022), its implementation in Indonesia is not going well. Islamic banks, expected to be the main driving force in implementing the *bay' al-salam* contract, have not fully optimized this instrument. Several factors that hinder the implementation of *bay' al-salam* contracts include a lack of understanding of the *bay' al-salam* contract mechanism among bankers and farmers, high risks associated with uncertain harvest results, as well as regulatory constraints and supporting infrastructure (Mualley & Moh'd, 2022; Ciliberti et al., 2023; Masoud, 2023; Waluyo & Rozza, 2020).

Therefore, more intensive efforts are needed to socialize and promote the *bay' al-salam* contract as a financing solution for the agricultural sector in Indonesia. Islamic banks need to develop a comprehensive strategy, including increasing internal capacity through training and education about the *bay' al-salam* contract, as well as collaborating with the government and related institutions to create an ecosystem that supports the implementation of the *bay' al-salam* contract. In this way, it is hoped that the greeting contract can play a more significant role in supporting the agricultural sector's growth and the farmers' welfare in Indonesia.

Recently, much research has been carried out regarding *bay' al-salam* contracts in Islamic banks (Waluyo & Rozza, 2020; Ahmad & Ansary, 2017; Habibah, 2020; Pakpahan, 2022), showing the great potential of these contracts in supporting financing for the agricultural sector. These studies generally highlight the advantages of *bay' al-salam* contracts, such as their ability to provide working capital at the start of the planting season and reduce the risk of price uncertainty for farmers. However, the reality on the ground shows that implementing *bay' al-salam* contracts in agricultural financing in Indonesia is still not optimal (Waluyo & Rozza, 2020). Much of the research conducted has not been able to provide practical solutions that can be implemented to overcome existing obstacles.

For this reason, more concrete strategic steps are needed to bridge the gap between theory and practice in implementing the greeting contract in the agricultural sector. With coordinated and comprehensive efforts, it is hoped that the *bay' al-salam* agreement can effectively solve funding problems in the agricultural sector, thereby supporting inclusive and sustainable economic growth in Indonesia.

Therefore, this research aims to build an effective and practical greeting contract model for the development of the agricultural economy in Indonesia. This model is expected to overcome various obstacles that have hampered the implementation of greeting contracts in the agricultural sector, both from the internal and external banking side.

In this effort, research will focus on several important aspects. First, identify internal and external bank problems in the context of implementing greetings for agriculture. Second, identify the bank's internal and external solutions to these problems. Third, the most optimal strategy in developing a policy framework that supports the implementation of the *bay' al-salam* contract for agriculture in Indonesia.

LITERATURE REVIEW

Bay' al-salam, also known as *bai' al-salam*, is a type of sale and purchase agreement in which the buyer pays the full price upfront for a specific item to be delivered in the future. The contract is based on Islamic financial principles and is used to facilitate the financing of various industries, especially agriculture and working capital needs. Ahmed et al. (2019) explained, this contract is valid for a future date, which allows the parties to agree on the price and terms of sale before the goods are delivered, and *bay' al-salam* is considered sharia-compliant because it does not involve the payment of interest, which is prohibited in Islamic finance. *Bay' al-salam* helps manage risk by allowing parties to agree on prices and terms of sale before goods are shipped, reducing the uncertainty associated with traditional spot market transactions (Ahmed et al., 2019). *Bay' al-salam* has been used in various contexts, including agricultural finance, where *bay' al-salam* has been used to finance the purchase of crops, thus providing farmers with a sharia-compliant alternative to traditional interest-based loans.

The concept of *bay' al-salam* dates back to the early days of Islam, when it was used by the Prophet Muhammad (SAW) to facilitate economic transactions. The contract is considered a means of economic development and is used to support agricultural activities, as it allows farmers to receive payment for their crops before they are harvested (Manoori et al., 2018). Over time, *bay' al-salam* became a financial instrument widely used in Islamic banking and finance. It is recognized as a financial means allowed by Islamic scholars to support various sectors, including agriculture (Manoori et al., 2018; Ogunbado & Ahmed, 2015). *Bay' al-salam* has several advantages, making it an attractive choice for farmers and agricultural producers. A number of these advantages are explained in the research of Manoori et al. (2018), namely, contracts reduce risks for buyers and sellers, because buyers are guaranteed their goods at a fixed price, and sellers are guaranteed upfront payment; *bay' al-salam* provides financial support to farmers and agricultural producers, allowing them to manage their businesses and invest in their operations; and *bay' al-salam* contribute to food security and help ensure a stable supply of essential commodities.

Furthermore, there are several social or economic benefits of *bay' al-salam*. As explained by Ogunbado and Ahmed (2015) that in terms of the social aspect of *bay' al-salam* can increase farmers' incomes and living standards by providing a stable source of funds for their agricultural activities, thereby reducing poverty and improving their overall well-being, *bay' al-salam* also contributes to food security and helps ensure a stable supply of essential commodities, and the availability of funds through *bay' al-salam* can reduce poverty rates by enabling farmers to invest in their projects and improve their livelihoods. Then, on the economic aspect, Hudaifah et al. (2019) and Ogunbado and Ahmed (2015) revealed several benefits of *bay' al-salam* including *bay' al-salam* can increase agricultural productivity by providing the funds needed by farmers to buy seeds, fertilizers, and other materials, thereby increasing crop yields and overall agricultural yields, the availability of funds through *bay' al-salam* can lead to the development of storage and processing facilities, which can help reduce post-harvest losses and improve the quality of agricultural products, and *bay' al-salam* can help build a stable agricultural pricing system, which can reduce the uncertainty associated with market fluctuations and ensure that farmers receive fair prices for their products.

In Indonesia, implementing *bay' al-salam* is regulated by several regulations and fatwas that may cause obstacles in its implementation. Bank Indonesia regulations define *bay' al-salam* as a sale and purchase contract where the buyer and seller agree on the specifications and price of the goods to be handed over

later, with payment made in full at the time of the contract. DSN MUI Fatwa No. 05/DSNMUI/IV/2000, where this fatwa emphasizes the importance of clarity of specifications and prices of goods sold, as well as the need for payment to be made in full at the time of the contract. It also highlights the requirements for buyers and sellers to agree on the terms of the sale and purchase (Pahra, 2022). Then, Islamic law emphasizes the importance of clarity of specifications and prices of goods sold and the need for payment to be made in full at the time of the contract (Devi & Baharom, 2024). It also highlights the requirements for buyers and sellers to agree on the terms of the sale and purchase (Aulia & Iswandi, 2022). These regulations and fatwas provide a framework for implementing *bay' al-salam* in Indonesia. However, this also poses several challenges and obstacles, such as the need for clear specifications and prices, the need for payment in full at the time of the contract, and the need for an agreement between the buyer and seller regarding the terms of sale and purchase with the contract.

Infrastructure limitations can also significantly affect the effectiveness of the *bay' al-salam* implementation. Irawan et al. (2020) revealed that *bay' al-salam* requires clear specifications and prices of the goods sold. However, this can be challenging in practice due to the complexity of defining these parameters, especially when goods are not yet produced or available. Additionally, ensuring the delivery and quality of goods can be challenging, especially when goods are not yet produced or available, leading to disputes and complications.

Hudaifah et al. (2019) added several challenges and obstacles to the infrastructure aspect, including difficulties in drafting and securing contracts due to the need for detailed specifications and prices, as well as payment requirements that must be made in full at the time of the contract, agricultural financing through *bay' al-salam* is hampered by a lack of institutional credit, which can cause farmers to rely on lenders and intermediaries with excessive loan interest rates. Lack of collateral may make it difficult for farmers to obtain financing through *bay' al-salam*, some farmers may not fully understand *bay' al-salam* contracts, thus limiting their acceptance and application, and the availability of *bay' al-salam* products may be limited, especially in rural areas, making it difficult for farmers to access these financing options. These infrastructure limitations highlight the need for improvements in the *bay' al-salam* implementation, including better structuring and securing of contracts, increased institutional credit, and simplified procedures.

Furthermore, the lack of knowledge among farmers and stakeholders regarding *bay' al-salam* can pose a major challenge to the effectiveness of its implementation. This was explained by Kurniati et al. (2021) that a lack of understanding related to *bay' al-salam* can cause misunderstandings and disputes during the implementation of the contract. In addition, many farmers and stakeholders may not be aware of the benefits of *bay' al-salam*, such as the certainty of the sale of goods and the potential for higher profits. This limited awareness can hinder the implementation of *bay' al-salam* as an alternative financing. In addition, *bay' al-salam* contracts must comply with sharia principles, which can be challenging for farmers and stakeholders who do not understand Islamic finance. This lack of knowledge can lead to non-compliance and potential disputes. These challenges highlight the need for education and awareness programs to inform farmers and stakeholders about the benefits and mechanisms of *bay' al-salam*.

Therefore, a future strategy is needed to optimize and improve the implementation of *bay' al-salam*. Several innovations can be made, including integrating financial technology (fintech). Fintech can increase the use of greeting contracts by automating operations, ensuring transparency, and providing fair prices. This can lead to increased adoption and wider access to Islamic bank financing, especially for small businesses and poor farmers (Muneeza & Mustapha, 2020). Blockchain technology can also be leveraged to improve the efficiency and security of greeting contracts. This can include using smart contracts to automate transactions and ensure compliance with sharia principles (Muneeza & Mustapha, 2020). Siska (2022) asserts that digital platforms can be developed to facilitate the trading of *bay' al-salam* contracts, providing

a secure and transparent transaction environment. This can include the use of digital wallets and other fintech tools.

In addition, collaboration between farmers and financial institutions is also essential for successfully implementing the *bay' al-salam* contract. Hudaifah et al. (2019) explained that farmers need financing at the beginning of the cultivation period to pay off farming costs such as buying seeds and fertilizers. Financial institutions can provide this financing through *bay' al-salam* contracts, which can help farmers avoid lenders and intermediaries with excessive interest rates on loans. Collaboration between farmers and financial institutions can also improve agricultural sustainability by allowing farmers to sell their products at favorable prices and for financial institutions to manage their liquidity. This can increase agricultural productivity and improve farmers' livelihoods (Ogunbado & Ahmed, 2015). Ahmed et al. (2019) added that agricultural cooperatives can also play an important role in facilitating *bay' al-salam* contracts by providing a platform for farmers to pool their resources and access financing. Collaboration between farmers and agricultural cooperatives can help address farmers' challenges in accessing financing and increasing agricultural productivity.

Furthermore, several training and education strategies can be implemented to increase farmers' understanding and capacity to use *bay' al-salam*. Ogunbado and Ahmed (2015) and Kurniati et al. (2021) explained that workshops and seminars can be organized to educate farmers about the *bay' al-salam* contract, its benefits, and its implementation process. These events can be conducted by experts in Islamic finance and agriculture, who provide hands-on training and answer any questions or concerns farmers may have. Additionally, interactive sessions and group discussions can engage farmers in learning, encouraging them to share experiences and insights. This can help build a sense of community and foster a deeper understanding of *bay' al-salam* (Ogunbado & Ahmed, 2015; Kurniati et al., 2021). Practical training and hands-on experience can also be provided to farmers, allowing them to apply *bay' al-salam's* concepts and principles in real world scenarios. This can help build their confidence and capacity in using financing mechanisms (Kurniati et al., 2021; Atah et al., 2024).

Some studies relevant to this research include, namely, Atah et al. (2024) proposing a model that will show how the integration of *salam* (exclusive agricultural commodity trading) with *takaful* (micro-*takaful* – a subdivision of sharia insurance) and value chains can overcome the major challenges faced by the agricultural sector. This study shows that the proposed model can address farmers' most important challenges, such as poor financing, poor marketing, price fluctuations, and delays in obtaining financing and collateral requirements. Against this backdrop, the proposed model is expected to improve farmers' access to finance, increase income, create jobs, alleviate poverty, produce food and overall economic growth as well as development in Kano State in particular and Nigeria in general.

Mualley and Moh'd (2022) measured the impact of commercial bank financing through *salam* financing on agricultural production and determined whether the *salam* mode is suitable for agricultural financing or not. The results show that *salam's* financial model is suitable for financing agriculture in Sudan because of its significant influence on agricultural production, which has a significant and positive relationship. In addition, the agricultural sector greatly contributed to the country's economy during the research period and was very elastic positive towards bank financing. However, this is hampered by large direct and indirect taxes, high marketing costs, long distances with poor rural infrastructure, and weak agricultural yields. Therefore, relevant policy implications for agricultural financing and banks are needed.

Ahmed et al. (2019) examined the issues in agricultural financing in Pakistan and suggested using *bay' al-salam*, a futures contract allowed in Islamic contract law. They also proposed a separate body to handle *bay' al-salam* financing for agriculture in Pakistan. This study explains that the agricultural sector is very important, but this sector has not been able to get attention in the priority list of the Government of

Pakistan. A number of negative elements can be identified, but the interest-based agricultural credit system can be considered the most detrimental to farmers, the agricultural sector, and the national economy. The main problems include insufficient institutional credit, high interest rates, unavailability of collateral, and complicated procedures. This situation creates a credit gap filled by non-institutional sources such as middlemen, traders, and loan sharks exploiting poor farmers. However, they still borrow from private sources because access is easier. Concerns are growing about the existing interest-based credit system and the emergence of voices that want an alternative system that is easily accessible and following sharia principles. *Bay' al-salam* financing for crop purchases initiated by Sudanese banks has not been able to have the full expected impact. Similarly, the *bay' al-salam* financing offered by First Islamic Bank of Indonesia faces serious shariah compliance issues.

Ogunbado and Ahmed (2015) explored the origins of *bay' al-salam*, its legality according to sharia, and justified its usefulness in improving the standard of agricultural production in African countries. *Bay' salam* or *bay' salaf* (contract of advance payment) is an ancient form of futures or sales contracts in Islam. In this contract, payment must be made in advance at the closing of the contract for certain or predetermined goods to be delivered later. This paper aims to examine these types of financial instruments and see how they can be used to support the sustainability of agriculture which is in decline in Nigeria. The agricultural sector dominates Nigeria and revenues are generally based on agricultural products before the discovery of petroleum. The study also explains that adopting *bay' al-salam* will sustain agricultural production in Nigeria, increase farmers' incomes and living standards, support food security, and increase exports all of which will benefit the country's economy in general.

Ehsan and Shahzad (2015) discuss *bay' al-salam's* financing and its prospects in the agricultural sector of the Pakistani economy. In addition, the study proposes a model designed for the agricultural sector where farmers, especially small-scale farmers, are expected to be the main beneficiaries. This model is based on the *bay' al-salam* financing technique. In this model, the role of the middleman is completely eliminated and the financier or buyer (fund provider) acts as a middleman. As a result, this model reduces the number of parties involved in the trade of agricultural products from farmers. The main emphasis of this model is that both small- and large-scale farmers can obtain funding for their crops upfront and have the freedom to sell their crops at the price they want. Middlemen usually exploit farmers in terms of crop prices and input prices, and these problems are certainly addressed in this model. This model is innovative because it shows concern for farmers' financial stability and focuses on improving farmers' technical skills. This will empower farmers financially and technically and ultimately increase land productivity. This model will also provide a new dimension to traders and financiers by designing a model that follows sharia, which has been practiced since the time of the Prophet Muhammad PBUH and approved by him.

Hudaifah et al. (2019) examined a formula or model of a financial scheme that is stable and compatible with the natural characteristics of the rice farming cycle in Tuban. The *bay' al-salam* contract, which is very beneficial, is a prospective financial scheme that eliminates the long business chain found in most businesses in Indonesia. Corporate Social Responsibility managed through a company's sharia (I-CSR) approach can be a solution to bridge the gap in implementing funds for *bay' al-salam* contracts. Implementing the *salam* contract depends on the Islamic Farmers Cooperative (BMT), a joint venture organizational unit that acts as a trading agent for rice warehouses and directly financing farmers. Strong support also comes from zakat, infāq, and shodaqoh (LAZ) institutions that educate and encourage rice farmers' skills and competencies, especially to enable them to access the final market with the help of information technology.

Ahmed and Fida (2020) investigated the determinants of *bay' al-salam's* financing products for the agricultural sector in Oman. The factor analysis results show that operational costs, profitability, and risk mitigation strategies are the most important factors that banks need to consider when financing the

agricultural sector using *bay' al-salam*. Therefore, this study suggests that Islamic banks in Oman adopt *bay' al-salam* as an alternative Islamic product to finance the agricultural sector. In addition, the Central Bank is encouraged to allow Islamic banks to adopt this product considering that this product will assist the government in achieving the 2040 vision.

Based on several of these studies, no research has examined the challenges and strategies of Islamic financial institutions in distributing financing with *bay' al-salam* contracts. Therefore, this study aims to investigate the challenges Islamic Financial Institutions (IFIs) face when trying to channel *bay' al-salam* contract financing for the agricultural sector. After that, the right strategy will also be sought.

METHOD

The methodology employed in this study is the Analytic Network Process (ANP) technique. To successfully conduct this research, it is necessary to follow a series of stages, which include:

1. Engage in extensive interviews with experts and practitioners who completely understand and master the topics being investigated.
2. Decomposition is the process of identifying, analyzing, and structuring the complexity of problems into Analytic Network Process (ANP) networks.
3. Develop a pair-wise comparison questionnaire based on the established ANP network.
4. Administer a second interview in the form of questionnaires filled out by experts and practitioners.
5. Process and analyze the survey results' data using ANP software, specifically super decisions. Evaluate the results and suggest strategic recommendations.

A total of twelve experts have been interviewed. The selection of these experts is based on various criteria: First, individuals in academics who possess a comprehensive understanding of the *bay' al-salam* contract and agricultural financing. Furthermore, the practitioner has accumulated over 5 years of experience in the field of Islamic banking. Thirdly, the regulator refers to an individual employed by a regulatory organization such as the Bank of Indonesia, Financial Service Authority/*Otoritas Jasa Keuangan* (OJK), or the Ministry of Agriculture.

When employing the Analytic Network Process (ANP) approach, it is important to achieve data saturation in in-depth interviews. This is necessary to ensure that the results are robust and valid. Thus, purposive sampling and an iterative procedure were employed to determine the point at which new interviews no longer contribute meaningful new information, leading to the conclusion that 12 respondents are sufficient.

This quantitative qualitative analysis method utilizes the ANP approach to identify the primary factors with the greatest influence and establish their priority order. It can be employed to identify alternative priorities for suitable solutions and policy strategies, ultimately leading to appropriate and optimal recommendations. The outcomes of this computer synthesis will be analysed and interpreted to address the research questions and objectives. The inconsistency index and rater agreement are utilized to validate the synthesis output.

RESULTS AND DISCUSSION

Problem Identification

Problems from internal side

Several factors are the reasons why financing with *the bay' al-salam* contract has not been implemented in Islamic banks since 2003 until now. These factors can be seen from several sides or aspects, including problems that originate from internal banking and also problems that originate from external banking. Problems originating from internal banking include (1) the *bay' al-salam* contract is not prioritized, (2) the lack of long-term funds, (3) the limited Islamic banking network, and (4) business orientation.

Islamic banks commonly employ various contracts for financing distribution, with *murabahah*, *musyarakah*, and *mudharabah* contracts being particularly prevalent. Due to Indonesia's business culture, which emphasizes trading and domestic industry, the *murabahah* contract has gained significant popularity. Banks are no longer obliged to utilize *bay' al-salam* contracts when allocating their funding to the agricultural sector, as they can now be accommodated through alternative banking arrangements. As the *bay' al-salam* contract is no longer necessary, the bank does not establish a financing objective (Waluyo & Rozza, 2020; Prayogi & Ramadhan, 2024). Therefore, it can be concluded that in most Islamic bank, the application of *bay' al-salam* contract is not prioritized.

The second problem is that funding the agricultural sector, which is ideal for financing through a *bay' al-salam* contract, necessitates a relatively short period. This is because, given the nature of the agricultural sector, it takes a considerable amount of time (ranging from 3 months to 6 months, and sometimes even more than 2 years) for the sector to yield its produce (harvest). According to the Islamic banking statistics issued by OJK (2025) the predominant portion of third-party funds held by Sharia Commercial Banks and Sharia Business Units consists of deposits (non-profit sharing investment) with *mudharabah* contracts. Nevertheless, most of the composition consists of deposits for 1 month. This indicates that Islamic banks have insufficient funds in their deposit accounts to support long-term financings. This feature poses a significant danger for banks, as they are business entities that must regularly provide profit-sharing returns following the deposit term.

Most of the agricultural sector is in the village, while the banking sector is in the city. The difficulty of accessing the city to reach Islamic banking also incurs costs that farmers must incur. Not to mention that there will be many things that must be taken care of by farmers such as administrative affairs and so on, so double costs can occur (Oladokun et al., 2015). This causes farmers to prefer alternative financing that is easier and cheaper to reach such as loan sharks (Adams, 2021). This issue is further substantiated by the findings of a study undertaken by Abdalla (2015) to assess the public's inclination towards Islamic banks. The research and modeling of the potential and popular preference for Islamic banks indicate a significant level of public interest in Islamic banking. Nevertheless, most banking customers expressed dissatisfaction with the service's quality, specifically citing issues with the price of the network. An effective strategy to address this limitation is through office channeling when conventional banks with sharia business divisions establish sharia service counters within their existing branches.

Banks are financial institutions that are business oriented (Janahi & Weir, 2005). The primary objective in conducting business is to generate profits. Banks exhibit a high degree of selectivity when financing the business sector. Naturally, they prioritize funding more profitable businesses that yield swift and assured outcomes. The lack of understanding, ability and expertise of banking officers regarding the distribution of financing with a *bay' al-salam* contract is due to the lack of human resources of sharia graduates who understand sharia economics well, including about Islamic banking with all its products (Zakiy, 2021). Islamic banks seem to be preoccupied by the jargon "*How to Islamize our Banking System*" and forget the discourse "*How to Islamize the People Involved in the Banking Industry*".

Another problem is that banking officers strive to generate money for the firms that supervise them. They will exercise great caution, particularly when selecting the company sector to be funded. Given the appropriateness of the *bay' al-salam* contract for funding the agricultural industry and the high-risk nature of this sector, banks tend to avoid providing finance for it (Maurer, 2013). Banks avoid employing products that pose distribution challenges by utilizing alternative products that offer easier, faster, and more cost-effective distribution. Financing through a welcoming contract necessitates an upfront cash payment from the customer, with the bank assuming the responsibility of monitoring the customer's business operations. Aside from the need for time and effort, this endeavor also entails supplementary expenses, such as transportation, training, and other related factors (Herliana et al., 2018).

Banking officers work with more emphasis on business targets and profits. So that banking officers will do anything to achieve the targets set, both from the head office and from the branch office directors. In the sense that they prefer to finance business sectors that are more profitable and produce quickly (Thakor, 2015).

Islamic banking practitioners argue that the complexity of the *bay' al-salam* contract hinders its adoption in Islamic banking. The bank faces a complex situation where it must provide the funds to the customer upfront, thereby assuming the entire risk if the funds are not repaid. To mitigate these risks, banks must regularly monitor farmers, assessing their financial aspects, productivity, and performance. If this condition is not met, there is a significant potential for moral hazard and diversion of monies that have been allocated, as well as other forms of irregularities. Furthermore, the use of the *bay' al-salam* contract is hindered by the issue of non-compliant quality that deviates from the established norms for assessing crop yields. To accurately assess financed products, they must adhere to clear and consistent standards (Mais & Utari, 2020).

Additional expenses are involved when implementing financing through a *bay' al-salam* contract, including initial survey costs, ongoing control and supervision costs, premium costs in case of crop failure, and transportation costs (Al-Fijawi & Yunus, 2019). The duration of production and the caliber and volume of output from the agricultural industry are significantly contingent on the season and weather conditions, while the volatile prices of agricultural commodities are seen as precarious for financial institutions. Most agricultural firms in Indonesia have not automated the technological challenges that hinder the *bay' al-salam* contract. Technological change is indeed the primary catalyst for productivity development.

Problems from external side

Apart from the internal aspect, the implementation of *bay' al-salam* for the agricultural sector also experienced obstacles from the external side. The external aspect in question is the problem that comes from farmer customers, the government, to alternative financing. Most customers, primarily farmers residing in rural regions, remain unacquainted with Islamic banks and their products, particularly *bay' al-salam* contracts, resulting in their limited engagement with such financial institutions (Oluwatayo, 2013). This is attributed to farmers' insufficient acquisition of knowledge. Additionally, the lack of proper banking education for farmers is also a contributing reason for their lack of awareness regarding the *bay' al-salam* contract (Twumasi et al., 2022). The absence of information also results in the lack of a solicitation for a *bay' al-salam* contract in Islamic banking. From the bank's standpoint, smallholder farmers are considered to be highly unbankable due to their little understanding of bookkeeping and reporting practices related to agricultural activities. Furthermore, the legal dimension also contributes to the lack of bankability among small farmers. This is due to their inability to present company licenses and offer supplementary collateral (Chandio et al., 2017).

The development of Islamic banking in Indonesia is mostly influenced by government legislation and policies (Majid & Ghazal, 2012). Similarly, executing *bay' al-salam* funding distribution requires certain policies to facilitate the implementation of *bay' al-salam* contracts. The aforementioned regulatory rules should be aligned synergistically to foster mutual and sustainable comprehension and facilitate financing

through a *bay' al-salam* contract, enhancing its competitiveness compared to other Islamic banking products. The concept of *Trias Politica*, which is founded on the principle of *ta'awun*, can be implemented in this scenario. In this case, practitioners assume the executive role, while the government, in collaboration with the MUI, fulfils the legislative function. In conjunction with the MUI, academics carry out the judicial function, continuously evaluating its progress. Despite the enactment of the Islamic Banking Law, the application of double taxation on sharia-based transactions remains a hindrance. According to the Directorate General of Taxes, the *murabahah* contract is a dual transaction (Gusmansyah, 2017).

Bay' al salam is a form of financing that operates on a buying and selling mechanism. Taxes are imposed when engaging in buying and selling. Taxes are an extra expense that the bank must pay. There are also many financing alternatives that farmers can use to obtain capital. Such as through loan sharks, BRI units (which have penetrated into villages), sharia microfinance institutions such as BPRS/BMT, and government programs for financing.

Internal aspect solutions

To address the challenges encountered by internal banks in effectively utilizing the *bay' al-salam* contract for financing the agricultural sector, the following measures are required, including the assurance of full commitment from bankers to implement the *bay' al-salam* contract in Indonesia's Islamic bank. Islamic banks differ from conventional banks in terms of the financial instruments they use and their strong support for micro, small, and medium enterprises (MSMEs). Islamic banks must demonstrate their dedication to supporting the real sector, which encompasses industries such as agriculture, through concrete evidence.

Islamic banks should support the agricultural sector by providing financial assistance to agricultural firms. The enduring nature of the agriculture sector necessitates long-term capital investment. Banks must modify the composition of their funding portfolio by allocating a greater proportion of their resources to accommodate deposits with a maturity length ranging from 3 to 12 months. An effective approach for internal banking parties to facilitate financing through a *bay' al-salam* contract is establishing a dedicated unit just for *bay' al-salam* contract financing. Banks can enhance the efficiency of distributing their finance through partnerships with relevant entities, offering greater ease. For instance, if small-scale farmers perceive themselves as lacking financial viability, banks can direct contract financing greetings to farmer groups (Atah et al., 2024; Mulyany et al., 2022).

To enhance the effectiveness of Islamic banking officers in financing through *bay' al-salam* contracts, it is crucial to provide comprehensive training and workshops. These should cover both theoretical knowledge and practical field applications, as well as business analysis skills for sectors targeted for financing. Selecting officers who are capable and dedicated to the principles of Islamic banking, beyond conventional profit motives, and focusing on the benefits of achieving *falah* (well-being and prosperity) ensures that the right individuals are in the right positions.

Incentives should be provided to officers responsible for channeling financing through *bay' al-salam* contracts to the agricultural sector. These incentives can indirectly enhance their motivation and work ethic, leading to better performance in the workplace. Pre-induction and skill enhancement training programs, such as those offered by institutions like the State Bank of Pakistan's National Institute of Banking and Finance (NIBAF), can be instrumental in equipping new officers with the necessary skills and knowledge (Daly & Frikha, 2016). Such initiatives are essential for fostering a workforce that is proficient in Islamic banking principles and committed to supporting sectors like agriculture, which are vital for economic development.

Standards and processes for implementing the *bay' al-salam* contract need to be simplified. For instance, by simplifying complex theoretical ideas into more manageable, practically useful ones. Along with using straightforward methods and developing an applicable *bay' al-salam* system. Possible enabling technologies

include highly automated services, internet platforms to facilitate transactions, and so forth (Siddiqui, 2008).

External aspect solutions

Furthermore, this study suggests that farmers need to be socialized and kept in the loop through active communication regarding Islamic banking to address issues stemming from outside sources. Education or learning, from practitioners and academics or even the appropriate local government, is essential to boost the viability of farming. This is done to help farmers who are now unbankable improve their credit to secure financing (Saqib et al., 2018).

Greater government intervention is necessary to realize *bay' al-salam* financing. The government requires a pledge to fund agriculture through sharia financing mechanisms. Capital assistance, subsidies for the agricultural industry, facility funding, and other forms of such support are acceptable forms of this promise (Dharwal et al., 2020). As an illustration, one approach could be to allocate agricultural financing in a way that includes a 10% greeting contract, among other measures. If tax policy reforms are implemented, banks will be more interested in distributing finance using *bay' al-salam* contracts. In addition to promoting Islamic banking products, banks should increase their public outreach efforts, particularly to rural farmers to win over their business.

Strategy

There should be a focused effort to enhance the effectiveness of the bay's as-*bay' al-salam* contract in providing funding to the agricultural sector. These initiatives encompass enhancing capital reserves, segmenting agricultural markets, establishing an agricultural bank, creating a guarantor institution, improving agricultural facilities and infrastructure, and implementing socialization, education, and communication programs.

Islamic banking's limited distribution of funding to the agricultural sector through *bay' al-salam* contracts can be attributed to the fact that Islamic banks are still in the early stages of development, resulting in insufficient ability to finance high-risk economic sectors. Capital strengthening can be achieved by implementing dividend and recapitalization strategies, which involve attracting new investors. This is one of Bank Indonesia's initiatives aimed at the Islamic banking industry. Furthermore, allowing foreign capital to enter the Islamic banking business is a strategy to address the deficiency in Islamic capital. Creating a comprehensive map of agricultural enterprises eligible for financing through the bay' al *bay' al-salam* plan. This mapping can take the form of categorizing different types of commodities (such as food crops, horticulture, livestock, etc.) and identifying suitable regions for their cultivation (such as rice and crops that thrive in West Java). Additionally, it involves analyzing the volume of business conducted in these areas. This measure is taken to reduce the risk associated with the *bay' al-salam* contract.

The agriculture industry, which plays a crucial role in the national economy, has not received sufficient capital support to maintain a balanced growth. Conventional banking institutions often exhibit prejudice and give priority to financing activities that are not related to agriculture. To address this situation, developing a dedicated financial institution that focuses on providing finance to the agricultural sector through sharia-compliant schemes is imperative. This guarantor institution can be founded either independently, with the specific purpose of guaranteeing the business activities of the agricultural sector, or through collaboration with the agricultural department and insurance companies. One kind of governmental assistance and engagement in the agricultural sector involves enhancing agricultural facilities and infrastructure. This program aims to enhance the comprehension of human resources, including agricultural entrepreneurs, Islamic banking players, and policy makers, regarding sharia financing, specifically *bay' al-salam* contract financing.

Prioritizing Key Issues

Using the ANP methodology, this study aims to examine the priority scale according to experts and practitioners. This approach allows for the identification of factors considered most important in this context. The complete results are described below.

The non-implementation of the *bay' al-salam* contract in Islamic banks can be categorized into two primary challenges: internal (0.51) and external (0.49). Experts and practitioners concur that the primary issue resides in both facets.



Source: Research finding by authors, 2024 (processed data).

Figure 1 Aspects of the problem of non-implementation of *bay' al-salam* financing in Islamic banks

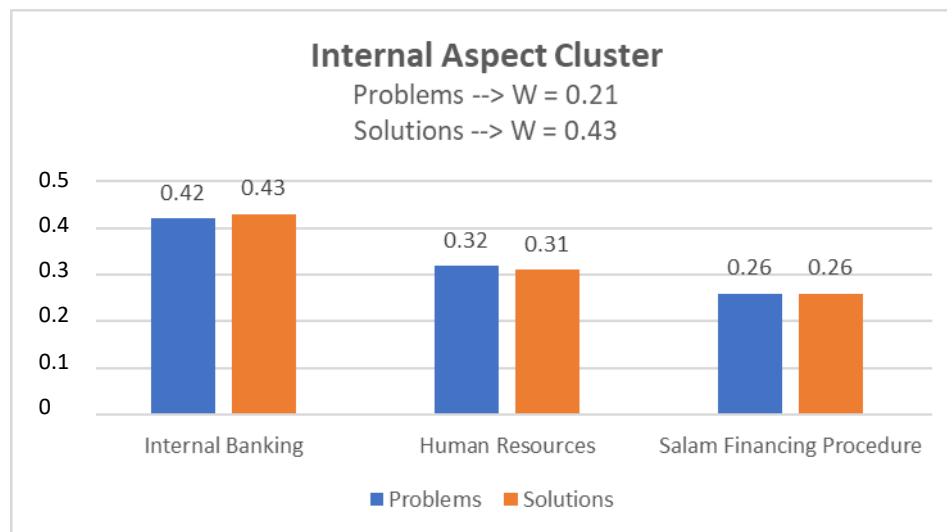
This suggests that the problem elements contributing to the non-implementation of the *bay' al-salam* contract are not just internal to the bank. Nevertheless, there has been a lack of assistance and dedication from external entities in the banking sector, including regulatory bodies and other external challenges. Hence, it is imperative to establish a symbiotic and constructive interaction between the internal and external factors to effectively facilitate the financing of the *bay' al-salam* contract in Islamic banking.

The primary internal issue is the internal banking (0.42). The internal banking sector must implement new policy reforms by introducing Islamic banking products that are more aligned with the real sector and capable of fulfilling client requirements, particularly the *bay' al-salam* contract.

The second issue concerns Islamic banks' human resources, with a significance level of 0.32. The bank's internal policy must be reinforced by sufficient human resources with the requisite competence and expertise, particularly in *bay' al-salam* financing and the financed business sector. The *bay' al-salam* contract is often regarded as suitable for implementation in the Islamic banking business, making it the lowest priority for internal matters.

The internal banking solution (0.43) is the highest priority among the existing problems that must be addressed. The HR solution (0.31) is the second priority, followed by the *bay' al-salam* financing procedure (0.26).

From the Figure 2, it can be explained in more detail that the main internal problems of banks are that banks are still business-oriented (0.31) followed by the lack of long-term funds in Islamic banks (0.26), and financing with *bay' al-salam* contracts is not a priority in Islamic banks (0.24). The last is the problem of the limited network of Islamic banks (0.19).



Source: Research finding by authors, 2024 (processed data).

Figure 2 Internal problems and internal solutions not implemented *bay' al-salam* financing in Islamic banks

Banks are commercial business institutions. Therefore, Islamic banks are prudent in their financing distribution and are more oriented to more profitable businesses or business sectors. Banks should change their perspective on the implementation of *bay' al-salam* contract financing. Banks must also consider that financing with a *bay' al-salam* contract by financing the agricultural sector is also a business for Islamic banks, which, although considered high risk, can provide greater opportunities to get a return. The solution to the internal banking problem is that Islamic banking must have a strong commitment to realize the financing of the *bay' al-salam* contract.

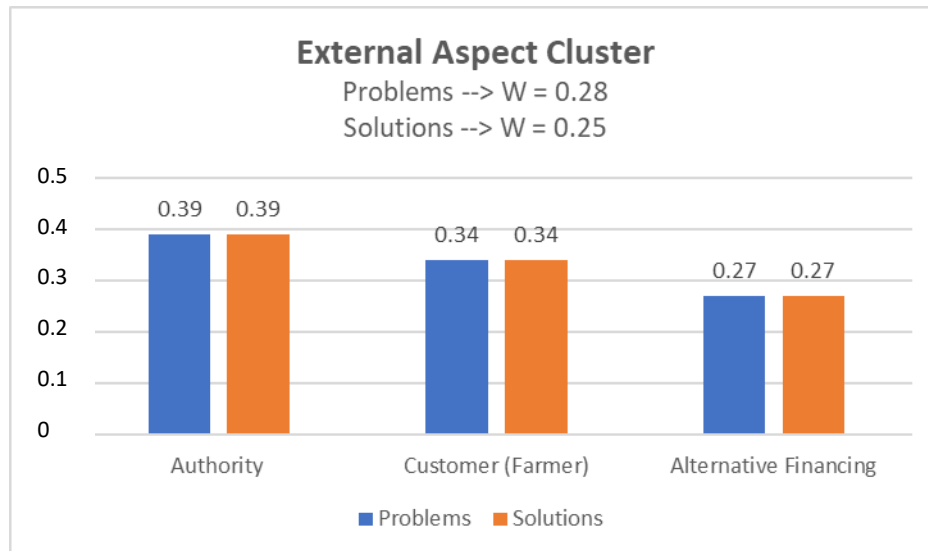
Meanwhile, the main problem in Islamic banking human resources is that Islamic bank human resources tend to be averse to risk (stay away from risk) in financing with a *bay' al-salam* contract (0.28). Bank officers tend to avoid financing high-risk business sectors. In addition, bank officers have targets for monthly and even yearly periods to generate profits and maintain the NPF (Non-Performing Financing) level at the limit that Bank Indonesia has determined.

Meanwhile, the solution to the problem of Islamic banking human resources is to hold training and workshops (0.42) about the *bay' al-salam* contract and what business sectors can be financed with the *bay' al-salam* contract, as well as conducting human resource selection (0.34). Providing incentives to human resources can also be a solution to increase *bay' al-salam* financing (0.24).

The main problem with the technical greeting is the lack of supporting technology/facilities (0.33). When compared to other internal problems, the technical issues with this greeting are not too problematic. Basically, *bay' al-salam* financing is technically not very different from other financing for buying and selling, such as *murabahah* and *istishna'*. The priority solution is simplifying the product (0.61) through product reingeneration so that the *bay' al-salam* contract can be more easily implemented.

The main problem in external problems is in the problem of authority (0.39). The second problem was followed by problems from the customer aspect (0.34) while alternative financing ranked last (0.27). One of the forms of Bank Indonesia's alignment as a banking regulator is contained in the 2008 Islamic bank development policy through a product development program that is expected to be able to realize financing with a *bay' al-salam* contract in Islamic banking. DSN and DPS also play an important role in financing this.

Another factor is customers (especially farmers), where banks still consider that financing with a *bay' al-salam* contract means financing the agricultural sector. The low level of farmers' material and scientific ability causes banks not to dare to take high risks to finance the agricultural sector. Of the existing problems, external solutions that are more prioritized are linear with external problems, namely authority solutions (0.39), customer solutions (farmers) (0.34) and finally alternative financing solutions (0.26).



Source: Research finding by authors, 2024 (processed data).

Figure 3 External problems and external solutions for the non-implementation of *bay' al-salam* financing in Islamic banks

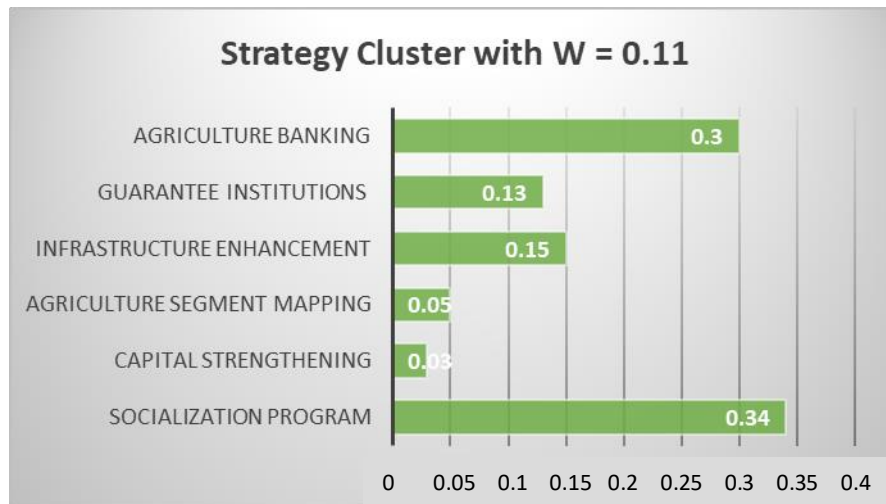
Based on the Figure 3, the main problem for farmer customers is that small farmers are considered unbankable (0.67) for banks, so banks do not finance this sector. To answer this challenge, banks can map agricultural businesses that are eligible for financing, and partner with microfinance institutions or farmer groups to finance the agricultural sector that is considered unbankable and visible.

Regarding authority, the main problem is the lack of policies for financing with *bay' al-salam* contracts (0.42). So that to be able to realize financing with a *bay' al-salam* contract in Islamic banks, supporting policies are needed, both from internal banking and from BI as a banking regulator. Meanwhile, taxes are not the main problem in this matter. The solution to the problem of authority that is more priority is the support and commitment (0.45) from all parties in realizing financing with a *bay' al-salam* contract in Islamic banks.

Priority issues in alternative financing are BMT/BPRS (0.33) and government programs (0.31). To avoid the high risk of distributing financing to the real sector, Islamic banks collaborate with BMT/BPRS through their linkage program. Therefore, from the above problem, the solution is to carry out socialization (0.55) and promotion (0.45) to farmers that banks can also distribute financing based on orders with *bay' al-salam* contracts.

Based on the complexity of the problem described above, the preferred strategy to increase financing with *bay' al-salam* is to establish an agricultural bank (0.24). By establishing an agricultural bank, the *salam* contract can be applied to become one of the financing models for agriculture. A transition period is required to establish an agricultural bank. This means that agricultural banks do not directly stand as a form of bank which in its legal aspect must be subject to and meet the requirements of banking law. However, agricultural banks can be formed through BUMD institutions.

In addition, the next applicative strategy is to carry out socialization, education, and communication programs (0.22) for customers and farmer customers in particular. This program is not only carried out by banks, but can also be carried out by external groups such as academics, non-governmental organizations, etc.



Source: Research finding by authors, 2024 (processed data).

Figure 4 Strategies to encourage *bay' al-salam* financing in Islamic banks

Thus, from the previous description, we can see a general overview of the analysis results. All key points are then summarized more concisely for easier understanding. A summary of the analysis results can be seen in the following table.

Table 1 Summary of factor analysis results based on overall respondent opinion (combined) in the research of Leveraging *Bay' al-Salam* Contracts for Agricultural Development in Indonesia: Challenges and Future Strategies

Aspect	Priority Rank 1	Priority Rank 2
Internal Problem	Internal Banking: Business orientation, limited network	Human Resources: Target orientation, risk averse
Internal Solution	Internal Banking: Commitment, establish the special unit of <i>salam</i> financing	Human Resources: Training and workshop, HR selection and recruitment
External Problem	Authority: Lack of supporting policy, lack of government support	Customer (Farmer): Small farmer is unbankable
External Solution	Authority: Support and commitment, establish the supportive regulation	Customer (Farmer): Socialization and communication
Strategy	Establish the agricultural bank	Socialization, education and communication program

Source: Research finding by authors, 2024 (processed data).

Bay' al-salam, a forward sale contract in Islamic finance, is a valuable tool for agricultural financing. However, internal banking challenges can hinder its effective implementation. One primary challenge is the rigorous documentation and risk management requirements. Banks must meticulously document the contract terms, including the quality, quantity, and delivery schedule of the agricultural products. This

process can be cumbersome and resource-intensive, often deterring banks from adopting *bay' al-salam* contracts. Moreover, the inherent risks in agricultural financing, such as crop failure due to pests or adverse weather conditions, require robust risk management frameworks that many banks might find challenging to establish and maintain (Usmani, 1998).

Another significant challenge is the lack of expertise and understanding of shariah-compliant financing mechanisms within the banking sector. Many conventional banks, transitioning to or incorporating Islamic finance products, may lack the necessary knowledge and experience to effectively manage *bay' al-salam* contracts. This gap in expertise can lead to mismanagement and non-compliance with shariah principles, risking reputational damage and financial loss. Training and development programs for bank staff, while necessary, demand time and financial investment that some banks may be reluctant to commit (Ayub, 2007; Zulfahmi et al., 2021).

Furthermore, there is often an internal resistance to change within banks. Traditional banking systems and practices are deeply entrenched, and introducing shariah-compliant contracts like *bay' al-salam* can face resistance from bank employees accustomed to conventional methods. This resistance can manifest in various forms, from passive non-compliance to active opposition, ultimately slowing down the adoption and implementation process. Additionally, integrating *bay' al-salam* contracts into existing banking operations might require significant changes to IT systems, compliance procedures, and overall business strategies, posing further internal challenges (Iqbal & Mirakhor, 2011).

Meanwhile, *bay' al-salam*, also faces significant challenges from regulatory bodies due to the lack of supportive policies and insufficient government backing. Recent studies highlight that the regulatory environment in many countries is not conducive to the implementation of shariah-compliant financial instruments like *bay' al-salam*. Regulators often lack the necessary framework to accommodate such contracts, resulting in ambiguities and legal uncertainties that deter financial institutions from adopting them. For instance, a study by Khalid and Saad (2019) emphasizes that the absence of clear guidelines and standardized procedures for *bay' al-salam* contracts creates a risk-averse attitude among banks, hindering the growth of Islamic agricultural financing.

Additionally, the lack of government support poses a substantial barrier to the effective use of *bay' al-salam* contracts. Government initiatives and incentives are crucial for encouraging banks and financial institutions to engage in shariah-compliant financing (Ali et al., 2020). However, many governments do not prioritize or provide sufficient support for Islamic financial products, resulting in limited adoption and integration within the broader financial system. The absence of government-backed programs and subsidies for Islamic agricultural financing reduces the appeal of *bay' al-salam* contracts, as banks are left to manage all the risks and administrative burdens on their own.

Another critical challenge is the issue of small farmers being deemed unbankable. Small-scale farmers often lack the collateral and credit history required by banks to qualify for financing, making them high-risk clients. This situation is exacerbated in the context of *bay' al-salam* contracts, where the delivery of future goods entails additional uncertainties and risks. Without adequate risk mitigation strategies and support systems, banks are reluctant to offer *bay' al-salam* contracts to small farmers. This exclusionary practice undermines the potential of *bay' al-salam* to enhance financial inclusion and support sustainable agricultural development (Usman & Hanif, 2020).

CONCLUSION

It is possible to conclude that Islamic banks face many different challenges and obstacles when it comes to implementing the *bay' al-salam* contract as the basis of the contract used to distribute financing for the agricultural sector in Indonesia. This conclusion can be reached based on the results of the findings' description and the discussions presented earlier. These difficulties may originate from either the internal banking system or the external financial system.

The problem of the non-implementation of funding with the *bay' al-salam* is one example of a challenge that originates within the banking industry. This issue finally boils down to two primary problems, which are referred to as internal factors and external aspects. Internal banking (business orientation, limited network) and banking human resources (direction to targets, risk avoidance) are the two primary issues related to the internal aspect. The internal aspect is further subdivided into these two key concerns.

Regarding the external side, two primary issues need to be addressed: authority (a lack of policies that provide assistance, a lack of partiality on the part of the government) and customers (small farmers are not bankable). Internal banking solutions (commitment, form of *bay' al-salam* financing units) and banking human resources solutions (training and workshops, HR selection) are examples of solutions that are more prioritized based on internal elements. These solutions are in line with the problem. In addition, examples of solutions that pertain to external issues include customer solutions (socialization and communication) and authority solutions (support and commitment, adopting supportive regulations). Socialization, education, communication initiatives, and the establishment of an agricultural bank are some strategies that can be used to realize funding with a *bay' al-salam* contract in line with the order of common priorities.

Many different parties are involved in the problem of not implementing the financing of the *bay' al-salam* contract in Islamic banking. This problem is complex and involves several different parties. It is important for Islamic banks to be committed to materializing financing through a *bay' al-salam* contract in order to ensure the availability of human resources. The development of a specialized unit for *bay' al-salam* financing staffed with human resources familiar with *bay' al-salam* financing and the financed business sector is one way this pledge can be fulfilled.

In addition, the government ought to play a part in providing assistance in financing the *bay' al-salam* contract through the laws it has enacted. The government, banking practitioners, and academics must collaborate to develop and implement strategies for socialization, education, and communication programs aimed at customers, particularly customers whom the *bay' al-salam* contract will subsidize, mainly because anyone, including internal and external parties, can carry out this program. Therefore, this program will support the resurgence of financing with a *bay' al-salam* contract in Islamic banking, which will also allow for its implementation. It is important for Islamic banking to investigate the possibility of distributing its funding offered through a *bay' al-salam* contract to other business sectors, such as the agricultural and fishing industries.

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