

# The Factors That are the Reasons of Less Maximum Application of *Salam* Contract in Sharia Banking

(Case Study of BPRS Harta Insan Karimah and Bank Negara Indonesia Syariah)

Rimi Gusliana Mais\*, Nanik Utari

Department of Accounting  
Sekolah Tinggi Ilmu Ekonomi Indonesia  
Jakarta, Indonesia

\*rimi\_gusliana@stei.ac.id

**Abstract**—This study aims to determine the development of the *Salam* contract, identify the factors that lead to less optimal application of the *Salam* contract on Islamic Banking, and later the best solution for the Islamic banking industry can be found in developing its *Salam* contract. This research applies a descriptive and exploratory approach. The object of this research is Bank Pembiayaan Rakyat Syariah Harta Insan Karimah and Bank Negara Indonesia Syariah. The subjects of the study consisted of three groups: 6 experts, 2 bankers and 9 farmers. The development of *Salam* contract financing is currently not going well. There are several factors that cause the maximum lack of *Salam* contract application. In total there are 14 factors, but there are 5 factors that dominate. Education, socialization and innovation are considered capable of being a solution as an initial step in the introduction of the *Salam* contract to the community.

**Keywords:** *Salam* product, Islamic banking, BPRS, the factors which caused

## I. INTRODUCTION

With the rapid development of sharia banking in Indonesia it should be accompanied by types of products and contract variations that are in accordance with sharia principles. One of the chronic problems faced by Islamic banking is the problem of product variations which are still dominated by *Murabahah*, *Musyarakah*, and *Mudharabah*. Even though there are various other contract variations that can be implemented such as the *Salam* contract.

TABLE I. FUNDING IS BASED ON THE TYPE OF SHARIA COMMERCIAL BANK AGREEMENT AND SHARIA BUSINESS UNIT IN BILLION RUPIAH

Akad	2014	2015	2016	2017	2018
<i>Mudharabah</i>	14.094	14.815	15.263	15.984	14.942
<i>Musyarakah</i>	46.320	55.331	71.710	95.097	121.914
<i>Murabahah</i>	110.885	115.605	133.956	145.301	151.580
<i>Qardh</i>	5.963	3.948	4.731	6.346	7.665
<i>Istishna</i>	633	770	878	1.189	1.609
<i>Salam</i>	0	0	0	0	0
<i>Ijarah</i>	9.257	8.972	8.105	8.535	9.288

Source: Statistik Perbankan Syariah, 2018.

From the trend data above, it can be seen that the composition of financing distributors with regards to sharia contracts at Islamic Commercial Banks and *Sharia* Business Units is not optimal and does not even exist at all from 2014 to December 2018. This upfront financing is quite applicable if applied as a banking product, especially in the Agriculture and Plantation sector, so this should be a great opportunity for Islamic banking to expand market share and networks because the Indonesian state is an agrarian country with a majority of livelihoods as a farmer. Then the *Salam* contract should be an alternative solution to this problem.

TABLE II. FINANCING COMPOSITION PROVIDED BY BPRS HARTA INSAN KARIMAH IN MILLION RUPIAH

Akad	2014	2015	2016	2017	2018
<i>Mudharabah</i>	122.467	168.516	156.256	124.497	180.956
<i>Musyarakah</i>	567.658	652.316	774.949	776.696	837.915
<i>Murabahah</i>	3.965.533	4.491.697	5.053.764	5.904.751	6.940.379
<i>Qardh</i>	97.709	123.588	145.865	189.866	185.366
<i>Istishna</i>	12.881	11.135	9.423	21.426	35.387
<i>Salam</i>	16	15	14	0	0
<i>Ijarah</i>	5.179	6.175	6.763	22.316	46.579

Source: Statistik Perbankan Syariah, 2018.

Meanwhile, BPRS also implemented *Salam* contracts with a declining proportion of financing. According to data from the 2014 BPRS, financing with *Salam* contracts amounted to Rp 16 million and this figure continued to decline significantly in 2015 by Rp 15 million and then in the following year 2015 amounted to Rp 14 million and continued to decline each year until December 2018.

Based on the above phenomena, this research is important to do, considering the variation of the existing contracts in Islamic banking are very diverse namely *Murabahah*, *Musyarakah*, *Mudharabah*, *Ijarah*, *Istishna*, *Qardh* and *Salam*. But in practice the *Salam* contract is the contract which has the least interest. It is hoped that this research can answer developments, factors, and solutions regarding *Salam* contract.

## II. LITERATURE REVIEW

### A. Review of Research Results

So far researchers have found five studies of the *Salam* contract. First, a study conducted by Adnan and Revisa, the results of this study show there are a total of 26 factors that have not been applied to *Salam* contracting on Islamic banking [1], but overall there are 5 dominant factors namely: high risk, no demand, no offer, limited human resources and lack of community understanding.

The research conducted by Mustofa and Setiawan there are 3 factors which are the most optimal in the application of *Salam* contract [2]. First is the factor of lack of socialization and education from the government to farmers and members of *Baitul Maal wat Tamwil*. Second, agricultural risk factors are the risk of crop failure due to bad weather and pests and fluctuating prices. The last factor according to this research is the factor of people's knowledge and understanding of the *Salam* contract.

This study carries the concept of optimizing the application of the *Salam* contract in the agricultural sector by collaborating with agricultural insurance to cover capital costs, which are often a major problem for farmers when crop failure, so that high risk is no longer a problem in Islamic banking [3]. Risks that arise in the process of *Salam* contract financing in the field of agriculture will be borne by Sharia or Takaful Insurance.

### B. Theoretical Basis

1) *Sharia banking*: According to the Law of the Republic of Indonesia Number 21 of 2008, Sharia Banking is everything related to Sharia Banks and Sharia Business Units, covering institutional, business activities, as well as ways and processes in carrying out their business activities.

2) *Sharia commercial bank*: According to Republik Indonesia, Law No. 21 Tahun 2008, Sharia Commercial Bank is a Sharia Bank which provides activities in payment traffic. Sharia Commercial Banks provide products or conduct business activities based on Sharia Principles [4].

3) *Sharia business unit*: Is a work unit at the conventional commercial bank head office that functions as the main office of the sharia branch office of the fund or the sharia unit. In the organizational structure of sharia business units one level below the directors of the conventional commercial banks concerned [5].

4) *Islamic financing bank*: As stipulated in Act Number 10 of 1998 [6] concerning Amendment to Act Number 7 of 1992 [7] concerning Banking, BPRS is a Bank that conducts business activities conventionally or based on sharia principles which in its activities do not provide services in payment traffic.

5) *Salam contract*: Based on the glossary on Sharia Banking Statistics, *Salam* contract is a financing agreement in the form of a sale and purchase transaction of an item by ordering certain conditions and full cash advance payment [8].

## III. METHODS

This research is an exploratory study with a qualitative and descriptive approach. The subjects of this research are Bank Negara Indonesia Syariah in North Jakarta and BPRS Harta Insan Karimah Central Jakarta. This research focuses on the agricultural sector and conducts research in areas that have large agricultural land or make the agricultural sector the main livelihood. The subjects of this study consisted of 2 bankers, 6 experts and 9 farmers. The data in this study were obtained from a direct survey on the research object. The data analysis used was descriptive. Analysis of this data through three stages. The data analysis model in this study follows the concepts given by Miles et al. namely data condensation, data presentation and drawing conclusions [9].

## IV. RESULTS AND DISCUSSION

### A. Data Condensation

Data condensation refers to the process of selecting or selecting, focusing, simplifying and changing the data contained in field notes, interview transcripts, documents and empirical data that have been obtained. Condensation means changing data that previously evaporated into more dense (water) or in other words the qualitative data can be changed by way of selection, summary or description using the words themselves. In this study data collection was done by direct interviews with 6 Experts, 2 Bankers and 9 Farmers.

1) *Lack of community understanding of the Salam contract*: Until now enthusiasts of *Salam* contracts are considered to be very low, this has happened because of the low understanding of the community towards *Salam* contracts themselves. As stated by economist P1:

"In this time Islamic banking socialization is lacking, then also the tools that make it easy are also not ... if it is associated with business people themselves do not understand, its relation to the socialization of many people who do not understand the *Salam* contract."

Based on the statement of the resource persons above, it shows that the low understanding of the community regarding the *Salam* contract was triggered by the lack of socialization, literacy or education to the public regarding the *Salam* contract itself. It is hoped that sharia banking practitioners will be able to further introduce *Salam* contracts to the public so that those interested in *Salam* contracts can increase.

2) *There are many other alternative financing agreements*: At present the financing system with the *Murabahah* contract is the most widely used financing, this can be seen in the data from the Sharia Banking Statistics which shows the *Murabahah* contract always has the highest amount among other financing. The P3 expert stated:

"In terms of financing, Islamic banking is number one more to the *Murabahah* than to *Salam*."

Banker B1 gives a similar statement:

"Here, on average, *Murabahah*, *sis*, or *Ijarah*, *Musyarakah*, *Mudharabah* ... if *Murabahah* is mostly financing for home purchases. So here we often use *Murabahah*, Miss."

Banker B2 made a similar statement:

"If the BNI Syariah offered is *Murabahah*, *Mudharabah*, *Ijarah* financing ... if there is the most demand in *Murabahah*. *Murabahah* buy and sell where the bank buys goods to be sold to our customers, well, if *Salam* is ordered first, it will be messed up at the beginning, but we don't have it, *Salam*."

From several informants who had given their opinions, both from BPRS or Islamic commercial banks stated that the Islamic banking financing contract was dominated by the *Murabahah* contract. This financing agreement is considered easier to apply because it has an element of certainty in the amount of margins and instalments, in addition it is considered to be relatively low risk.

3) *No offer by the bank*: Banker B1 at the BPRS revealed:

"What is the *Salam* contract, bro? these three products, we only offer *Murabahah*, *Musyarakah*, *Mudharabah* and *Ijarah*. Only those who were the most interested were *Murabahah* and *Ijarah*. Nothing, we don't really offer a *Salam* contract. ... depending on you, sometimes there are those who offer all of the Islamic banking products, but if we are the only three, that's what you are."

Banker B2 at Sharia Commercial Banks also made a similar statement:

"At BNI there is no *Salam* contract, we are central, so if the centre has not been created, we haven't launched it until we have branched out too. Most here offer it *Murabahah*, *Mudharabah*, *ijarah*. Unless the centre is launched, the branch will definitely run."

Based on information from several sources above, Islamic banking does not offer *Salam* contract financing. In the bank's offer brochure it does not include *Salam's* contract as one of its products, even when researchers ask about the development of *Salam's* contract, the informant who works in the Islamic bank does not know, with a confused expression on the face, the informant asks the researcher what *Salam's* contract is.

4) *High risk for the contract salam*: This *Salam* contract is considered to have a high enough risk with not a high profit rate. The statement is in line with the opinion of P5:

"Islamic banking does not want to take too high a risk, which now does not neglect the Sharia. But the aim was far off 'far, that's right what is lived is certain or definitely so. In fact, those who need capital assistance to develop businesses such as, farmers are not applied."

A similar statement was expressed by P6 experts:

"That is a big risk, if *Salam* is a specific product, namely agriculture, what would you want the Islamic bank to have transactions related to agriculture. For example, if the

agricultural plants are not sent immediately, the plants cannot last long, cannot rot, not to mention if there is rice git can eventually be attacked by fleas, well this is a risk. So the application is difficult in my opinion."

Based on the information from several informants, one of the factors behind the lack of maximum application of the *Salam* contract because the inherent risk of the *Salam* contract is quite large, crop failure, pest attacks, weather, uncertain market prices and uncertain harvest quality makes Islamic banking not interested in this financing. Indeed, natural obstacles cannot be denied, but there are some prevention efforts that can be done. Farmers can plant plants that need less water during the dry season, and conversely grow plants that require a lot of water when the rainy season. Then pest attacks can be minimized by using pesticides. This is expected to be an effort to maximize farmers' yields.

5) *Lack of support from academics*: P4 experts argue:

"Before, there were many scholars who went to the field to apply their knowledge. Islamic banking can work with scholars to create a new innovation for the agricultural sector for example. Because agricultural products should be directed in the sense of upstream to downstream. Upstream that is how he has a large crop, downstream it is to harvest to be innovated. For example he was harvesting an abundance of tomatoes and then innovated to become candied tomatoes or processed products. So you can immediately have the selling power."

From the statement revealed by P4 experts, the role of academics is very important for Islamic banking. Academics can make an interesting innovation and can be implemented well in the agricultural sector, then they provide education for these innovations to farmers so that they can be applied.

6) *Lack of alignment with the government*: Expert P5 states that:

"Then about the siding of the government, meaning that Islamic banking is developing in Indonesia is not too fast as in Malaysia. If in Malaysia the government participates, they expect a sharia bank so that the regulations will support the implementation of the sharia agreement. If in Indonesia the Islamic bank grows because of the wishes of the people, if the regulation takes a long time here, the sharia bank will run its course. We see in the agricultural sector, is it import anything? Agricultural products are not considered by the government, injections of funds are also not available, which *waalaikumussalam* after a long time is dead. Farmers in terms of capital are not interested, in terms of results are not appreciated."

From the expert's statement above, the government's involvement in the application of *Salam* financing is actually very important. However, until now the role of the government is felt to be less than optimal, when compared to other countries such as Malaysia. According to research conducted by Affandi in managing the *Salam* government contract in Malaysia is very serious [10], this is evidenced by the establishment of the Malaysian Agriculture Bank (BPM), a

financial institution established specifically to finance and develop the agricultural sector there. When compared with Malaysia, Indonesia is very far behind in the implementation of the *Salam* contract. Even though Indonesia is an agricultural country that should be able to implement the *Salam* contract optimally.

7) *Profit oriented*: Basically, all financial institutions must be profit oriented. Islamic banks are no exception, so in practice banks prefer to fund the business sector which is certain and clear in terms of profitability and minimal risk. The same opinion was also conveyed by expert P5:

"Whereas the purpose of the establishment of Islamic banking is to make it prosperous which now does not neglect the *Sharia*. But the aim was far off 'far, that's right what is lived is certain or definitely so. In fact, those who need capital assistance to develop businesses like, farmers are not applied the Islamic economy is how to support the productive real sector. Indeed, the establishment of sharia companies or sharia institutions should be in addition to thinking about material benefits, there must be non-material results such as opening up employment opportunities, alleviating poverty, so there is benefit in establishing a company."

Based on this statement, we can see that currently Islamic banks prefer to finance a sector that feels a little risky and has clear benefits.

8) *High operational cost*: P6 experts revealed:

"If someone comes to look for agricultural products it means that the bank needs to have a warehouse. Now if there is a warehouse, it must be big, because say one person comes to buy 10 tons of onions, then the Islamic bank looks for the farmers. Well, if there is already an item ... it will be sent, at least to the warehouse first. Now this logic means that if 10 tons means the bank must have a large warehouse. And for example the bank asks the supplier to send it directly to the customer, yes if the address is clear, if the address is not clear, if the goods sent are like far from Surabaya, we are here ... does it take time? Not to mention the middle of the road there is a toll, there are police."

From the expert's opinion above, we can see that the application of *Salam* contract in Islamic banking is quite difficult. Banks need land for large warehouses and relatively expensive shipping costs, especially agricultural products are products that are not durable or easily rot, are attacked by fleas and decline in quality if not delivered on time. This makes one of the reasons banks are less interested in the application of the *Salam* contract.

9) *Not introduced*: P5 experts revealed:

"You have to give understanding to the community so that you can open your eyes, right? Those who didn't know got to know ... it's like the people were blind, they didn't know about the greeting contract. *Boro-boro* only Islamic bank products do not understand, they know conventional banks and people who are Islamic banks? As far as I am ... right.

Because they do not know the exact news about Islamic banks. So it is our role that must play a role in literacy and inclusion. Inclusion means that we deeply explore continuously."

This was confirmed by farmers 5:

"What's your greeting agreement, miss? Is that a loan from the bank? Wow ... I don't know, miss."

Based on the statement of the informant above, the introduction of *Salam* financing agreement from Islamic banking to the public is one factor that is less than the maximum application of *Salam* contract. If in terms of Islamic banking, it does not try to introduce to the public from where people can know about the product.

10) *Lack of understanding of practitioners and academics*: The DSN Fatwa states that the sale and purchase of greetings is a sale and purchase agreement with orders and payments made at the beginning with certain agreed terms, the goods are sent later. The contents of the fatwa of the national sharia council. DSN-MUI. Fatwa DSN-MUI No. 05/DSN-MUI/IV/2000 regarding the sale and purchase of greetings is indeed no statement that states that the *Salam* contract is specifically used in the agricultural sector [11]. This is in line with the opinion of P5 experts who said that:

"Depending on the understanding of the *Salam* contract itself, it is not limited to the agricultural sector alone. It is true, ideally that *Salam* is an agricultural sector but if it is seen from the definition it is not as narrow as that what is important is to order with clear qualifications between buyers of sellers, what kind of product weights, quality, quantity, timeliness with payment now, when this. It can be applied to anything, all sectors. actually not to be applied to agriculture alone. Actually, it is not the bank that doesn't understand, but the unwillingness or unwillingness to focus on the entire product."

Based on the opinion of the informants above, there are different views regarding the application of the *Salam* contract. P5 states that the *Salam* contract is ideally applied to the agricultural sector, but it can also be applied to other sectors, because indeed when viewed from the definition of the *Salam* contract itself it does not mention that it is limited to the agricultural sector.

11) *The amount of funding from informal institutions*: Many farmers prefer financing from informal institutions because they feel easy and not too complicated. The informal institution in question is an organization in the local environment such as a neighborhood association of RT funds, youth clubs, *arisan* funds and so on. Farmer 8 revealed:

"If the matter of borrowing capital in a bank is so complicated, sis, you have to have a pay slip, it has to be this, it has to be complicated. For example, if you need capital, it is urgent to buy seeds or pest medicine, so it is better to borrow a neighbour, there are also RT funds, so

there is little interest and it's not complicated to use requirements like in a bank."

Based on the information above, one of the reasons for the less optimal application of *Salam* contracts in Islamic banking is because farmers prefer to get capital from informal institutions on the grounds that if they borrow from a bank, the process is too complicated and must meet various requirements. This is felt to be too troublesome to do so farmers prefer to borrow from informal institutions.

12) *Farmers are not bankable*: One of the factors underlying the *Salam* contract that has not been applied to Islamic banking is because farmers are not bankable. This was stated by P5:

"The term is that the farmer is not bankable, does not meet the requirements of the existing procedures, so what should be done if it is not bankable what is done to make the *Salam* contract live?"

The statement shows that in the application of the *Salam* farmers contract is deemed not bankable, in the sense of not meeting the requirements of existing procedures in Islamic banking. If a farmer is deemed not bankable, there should be an effort from Islamic banking to facilitate the existing procedures so that the small farmers can fund their business with *Salam* contract. That way *Salam* contract can run because right on the market prey is given the convenience to apply for financing.

13) *The problem is the Salam contract*: Factors underlying the lack of maximum application *Salam* contract is found in the *Salam* contract itself, the products offered absolutely in the agricultural sector. This opinion was stated by P6:

"If the *Murabahah* principle is like buying and selling, you buy, you sell. You buy 10, sell 12, both of which are margin / profit ... well, finish like buying and selling right? Now if the greeting is difficult, the products are specific, namely agriculture. "Anyways I want Islamic banks to have transactions related to agriculture."

#### B. Solutions so that Salam Contract can be Applied Well in Islamic Banking

Education and outreach can be the first step in efforts to introduce the *Salam* contract to the wider community. One of the main factors of the lack of maximum application of *Salam* contracts in Islamic banking is the lack of public understanding of *Salam* contracts. Many farmers do not know what *Salam's* contract is in Islamic banking.

The role of academics especially academics in education is very important. From the amount of financing carried out by Islamic banking there are a number of cases where there is a late payment from the customer side which can lead to fines charged to these customers. On the sharia banking side, the money entering the fine is not recognized as income but instead goes into CSR funds. From these funds, Islamic banks should be able to use it maximally to increase the application of all products owned, including *Salam*. It could be one of the

solutions if the CSR funds are used to work with scholars in agriculture who want to go directly to assist and supervise with farmers to increase their yields.

The role of academics is very important for Islamic banking. Academics can make an interesting innovation and can be implemented well in the agricultural sector. Then they provide education for these innovations to farmers so that they can be applied. For example, with an innovation from the process of planting to harvest in the form of raw products and can be processed as finished products that are ready to be marketed and have a selling power.

### V. CONCLUSIONS AND SUGGESTIONS

#### A. Conclusions

Based on the results of research and discussion, the following conclusions are obtained:

- The development of *Salam* contract financing is currently not going well in Sharia banking, especially Harta Insan Karimah Bank and Bank Negara Indonesia Syariah. This can be seen from the brochure offered by banks not to mention *Salam's* financing product, besides that the banker as a practitioner said that indeed the Islamic banking does not offer *Salam's* contract. Then from the farmer's side the majority did not know what the *Salam* contract was. Of course the absence of supply and demand made the *Salam* contract not applied properly.
- There are 14 factors that underlie the lack of maximum application of *Salam* contract in Islamic banking, especially Islamic Financing Bank Harta Insan Karimah and Bank Negara Indonesia Syariah. The 14 factors were obtained based on the opinions of 3 groups of informants namely bankers, experts and farmers. Of the 14 factors, there are 5 factors that dominate. The first factor is the low understanding of the community towards *Salam* contracts, the second factor is the number of other financing alternatives, the third is the high risk of implementing *Salam* contracts, the fourth is there is no offer by banks, the fifth is the number of financing from informal institutions.
- The solution that can be used in the application of *Salam* contract in Sharia banking, especially Harta Insan Karimah Bank and Sharia State Bank Indonesia is education and outreach. Education and socialization are considered capable of being the first step in introducing the *Salam* contract to the community, and innovation by academics is expected to make the *Salam* contract more applicable and attractive to farmers.

#### B. Suggestions

Based on the results of research, discussion and conclusions, here are some suggestions that the author can convey:

- There are differences of opinion between some academics related to the application of *Salam* contract.

This of course can cause public confusion, given the role of academics is very important in the delivery of knowledge in the world of education. In this case the role of the National Sharia Council is urgently needed. It is hoped that the National Sharia Board can further reinforce the contents of the fatwa itself.

- There should be a decisive action taken by the Financial Services Authority as a form of reprimand to Islamic banks that do not offer *Salam* contracts, so that the product can run optimally.
- There needs to be a joint evaluation conducted by the National Sharia Board, the Financial Services Authority, Sharia Banking and related parties regarding the obstacles to the *Salam* contract being not applied. So the solution can be found from the evaluation so that *Salam's* financing process will run well.

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