



Implementation of Salam Contract in Sharia Contract Farming Model for the Welfare of Poor Farmers in Indonesia

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Abstract

Limited access to capital remains a structural problem for poor farmers. This study aims to explore the potential implementation of the Salam contract in a sharia contract farming scheme as a solution to limited access to capital for poor farmers and provide recommendations for its implementation based on comprehensive data. This study uses a quantitative descriptive approach by utilizing secondary data from the National Socioeconomic Survey (Susenas) 2024 and available literature. The results of this study indicate that 34.89 million people work in the agriculture and plantation sector, with approximately 2.79 million classified as poor farmers. By subsector, 1.85 million poor farmers (9.26 percent) are in the rice and secondary crops sector, 340.37 thousand (7.29 percent) in the horticulture sector, and 601.68 thousand (5.88 percent) in the plantation sector. More than half of farmers, aspiring middle-class groups, are vulnerable to falling into poverty when there are price shocks, crop failures, or increases in production costs. Regarding access to capital, only 4.71 percent of farmers have People's Business Credit (KUR). Access to other financial institutions, such as Rural Credit Banks (BPR), cooperatives, or alternative financing sources such as Village-Owned Enterprises (BUMDes), does not reach 1 percent. From the demand side, the most significant consumption is rice, reaching nearly 22 million tons with a value of IDR 303.56 trillion, followed by kale (1.05 million tons), spinach (882.4 thousand tons), tomatoes (586.32 thousand tons), and shallots (8 million tons). Based on these findings, a sharia-compliant contract farming model based on the Salam contract could be a strategic solution to strengthen poor farmers' bargaining power and economic position. Implementation can be carried out

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through two pilot project approaches: in areas with the highest number of poor farmers or for food commodities with high demand and sales value.

Keywords: Farmer, Poor, Capital, Salam Contract, Sharia Farming Contract.

INTRODUCTION

Agriculture is a strategic economic sector in Indonesia, serving as the primary source of livelihood for more than 34 million people, primarily in the rice and secondary crops, plantations, and horticulture subsectors. In addition to providing employment, this sector also plays a crucial role in maintaining national food security and supporting regional economic growth. However, poor farmers in Indonesia face various structural barriers that hinder the productivity and sustainability of their farming businesses. The agricultural sector's significant contribution to the national economy is not commensurate with the level of farmer welfare, particularly for poor farmers. In general, in several countries, including Indonesia, the primary causes of low farmer productivity and income are limited access to adequate capital and weak market connections (Daini et al., 2020; Sarvina et al., 2020; Khanal & Omobitan, 2020; Kambali & Panakaje, 2022; Averina & Widagda, 2024).

The government has implemented various interventions, including contract farming schemes or contract farming partnerships, which aim to provide inputs and market certainty for farmers. Contract farming has been introduced as an approach to addressing farmers' challenges. Contract farming has the potential to increase farmers' incomes (Bezabeh et al., 2020; Hoang, 2021; Chen & Chen, 2021), employment (Meemken & Bellemare, 2020), and food security of smallholder farming households in Indonesia (Wongnaa, 2021). However, its impact can be considered small and may not be adequate as a standalone solution (Sumartini & Nasrudin, 2024). It even causes lower agricultural income and food security for farmers if contract farming is implemented without crop diversification, inadequate resources, and the necessary economic environment is unavailable (Olounlade et al., 2020).

In practice, contract farming schemes often benefit large buyers and create unequal relations, such as a weak bargaining position for farmers,

unilaterally determined prices, and the full burden of production risks on farmers, thus potentially creating unfair trade (Cohen et al., 2022; Di Marcantonio et al., 2020). This situation strengthens farmers' dependence on corporations and weakens their economic independence. The potential for economic exploitation by capitalists will worsen the situation of the people in poverty and further exacerbate the gap between the two parties (Utama et al., 2019) (Sifa et al., 2021). This phenomenon demonstrates the need to design agricultural financing schemes that are economically productive and socially equitable. They are not intended to replace existing schemes but to address their shortcomings.

Islamic finance can play a significant role in promoting inclusive growth and creating more equitable development to simultaneously achieve high incomes and social cohesion. In Islamic financial transactions, contracts play a crucial role as the basis for conducting transactions in accordance with Sharia principles. One form of contract widely used in real sector financing activities, particularly agriculture, is the Salam contract. Salam is a sale and purchase transaction in which payment is made upfront, while goods are delivered later, according to agreed specifications and delivery times. This contract is considered suitable for the agricultural sector because it can provide working capital at the beginning of the planting season and guarantee a buyer at the end of the harvest. In empowering poor farmers, the Salam contract can be a Sharia-compliant alternative to address the shortcomings of existing contract farming schemes.

Previous research has extensively discussed the benefits of contract farming and Islamic financing in the agricultural sector. Several studies have examined the impact of access to capital on farmer productivity (Khanal & Omobitan, 2020), farmer productivity on income relationship (Kambali & Panakaje, 2022), the impact of contract farming on income (Khan et al., 2019; Hoang, 2021), and the impact of contract farming on farmers' food security (Milinia et al., 2023; Sumartini & Nasrudin, 2024). Another study highlighted that contract farming practices are not entirely fair due to unequal relations and production risks that are still borne by farmers (Di Marcantonio et al., 2020). Another study on Islamic financing shows that the Salam contract has excellent potential to improve farmer welfare and food sustainability (Sifa et al., 2021), including optimizing the implementation of the Salam contract in the agricultural sector (Hudaifah

et al., 2019; Widianana & Annisa, 2017; Ahmed & Fida, 2020; Anwari & Anshor, 2021; Majid, 2021; Muhammad et al., 2022; Parveen, 2023; Nethania Christy & Nisa, 2024).

Through a contractual scheme that allows for advance payment for agricultural commodities with agreed specifications and delivery times, the Salam contract provides liquidity at the start of the planting season and market certainty during the harvest season. The Salam contract has the potential to address two shortcomings of conventional contract farming: unequal bargaining power and limited access to capital. However, no studies have specifically examined integrating the Salam contract as financing capital with the current contract farming model. Several studies have been conducted separately, without linking how the principles of fairness and risk sharing in the Salam contract can complement the weaknesses of conventional contract farming. Therefore, this study aims to explore the potential implementation of the Salam contract within the Sharia contract farming scheme as a solution to limited access to capital, particularly for poor farmers in Indonesia, and provides recommendations for its implementation based on comprehensive data.

LITERATURE REVIEW

The government has undertaken various efforts to maintain food security and the welfare of Indonesian farmers, one of which is through the contract farming scheme or contract farming partnership, which aims to provide inputs and market certainty for farmers. In his study in Vietnam, Hoang (2021) found that contract farming can facilitate agricultural activities and reduce difficulties. However, the impact on farm income is not significant. Other factors influence farmer income, including education, head of household, gender, crop type, and technology. In another study, Meemken & Bellemare (2020) found that farmers participating in contract farming programs earned higher incomes than their counterparts who did not participate in the programs. Contract farmers in most countries showed increased demand for wage labor, suggesting that contract farming stimulates employment. However, no evidence of spillover effects was found in the field at the community level.

Meanwhile, Olounlade et al., (2020) in their study stated that if contract farming is implemented without crop diversification, inadequate

resources, and unavailable necessary economic environment, it can lead to lower agricultural income and farmer food security. Sumartini & Nasrudin (2024) added that the contract farming scheme may not be a standalone solution for farmers. Di Marcantonio et al., (2020) found that in some cases, contract farming has the potential to create unfair trade due to unequal bargaining power between buyers and farmers.

Another study recommends implementing the Salam contract in agricultural transactions. The Salam contract is a sale and purchase agreement in *fiqh muamalah* (Islamic jurisprudence) that is permitted provided that payment is made in full upfront, the goods are specifically described (type, quality, and quantity), and the delivery time is determined. A Salam contract is a sharia-compliant sale and purchase contract in which *muslam* (the buyer) makes an advance payment for goods to be delivered in the future by *muslam ilaih* (the seller), with agreed-upon specifications for quantity, quality, and delivery time (Sugiarto, 2022; Hadi, 2017). The form of the greeting contract is permitted to be formalized in Fiqh Muamalah and legalized by DSN MUI No.05/2000 concerning buying and selling greetings (Fatwa DSN MUI Nomor 05/DSN-MUI/IV/2000 Tentang Jual Beli Salam, 2000).

The main characteristics of Salam are the mitigation of *gharar* (uncertainty) and the prohibition of *riba* (usury), as the price is fixed in advance and the risk is shared according to the conditions. A study in Tuban by Hudaifah et al., (2019) showed that the Salam contract can provide capital at the beginning of the planting season, shorten the distribution chain, and strengthen the bargaining position of farmers through assistance from local sharia institutions. Meanwhile, Widianita & Annisa (2017) emphasized that optimization of Salam contract by Islamic financial institutions can have a positive impact on farmer financing, even though there are still regulatory challenges and capital risks for lending institutions. Furthermore, Nethania Christy & Nisa (2024) in their research argue that the Salam financing model, which involves providing funds upfront to farmers, can help overcome capital constraints before the harvest period, improve the quality and quantity of agricultural products, play a role in increasing farmers' income, and maintain national food security.

Global literature shows the success of the Salam contract in increasing productivity. Parveen (2023) stated that several financial

institutions (banks) consider Salam and Islamic Microfinance as suitable alternatives and have successfully initiated them. Although Salam financing is still in its infancy, some banks are still in the planning stages. Similarly, in Indonesia, while implementing Salam contracts can increase farmer productivity and income, it has not yet been widely implemented (Widiana & Annisa, 2017).

The Salam contract offers a fairer financing alternative for farmers, but this scheme has risks. In its implementation, the Salam contract faces several challenges. First, the risk of crop failure due to weather factors, pests, or plant diseases. Then, the mismatch of the quality and quantity of the harvest with the specifications in the contract. Last, potential delays in delivering product to Muslim buyers. These risks, if not appropriately managed, can result in losses for both farmers and buyers.

Nevertheless, the Salam contract has normative and structural advantages that favor farmers, especially those in poverty. First, the upfront payment in the Salam contract provides immediate access to interest-free working capital, allowing farmers to begin cultivation without incurring conventional debt. Second, because the Salam contract is based on the principles of fairness and transparent agreement, prices and delivery terms are mutually determined from the outset, reducing the potential for exploitation. Third, under Sharia principles, the risk is not entirely borne by one party, thus encouraging a more balanced risk distribution.

Several strategies can be implemented to mitigate the risks in the Salam contract,. These include selecting commodities with clear production cycles and relatively controlled risks, providing technical assistance from implementing institutions or cooperatives to ensure production quality and quantity are in line with the contract, using Sharia-compliant agricultural insurance as additional protection, and establishing a liaison institution (Salam fund or guarantee institution) that can guarantee the fulfilment of the contract in the event of force majeure. With the proper institutional and regulatory mechanisms, the Salam contract is not only a financing solution, but also an instrument for empowering poor farmers that aligns with the values of Islamic social and economic justice values.

While numerous studies have examined the Salam contract and contract farming separately, few have examined their integration. Several studies have highlighted the advantages and disadvantages of contract farming and the potential of Salam contracts in agriculture, but few have directly linked them to poor farming households. The novelty of this research lies in its analysis, which integrates contract farming and Salam contracts, providing recommendations for Salam-based financing models for strategic regions and commodities for pilot projects.

RESEARCH METHOD

Research Design

This study uses a literature and empirical study approach to investigate the potential and implementation of the Salam contract in the sharia contract farming scheme.

Sample Selection and Data Sources

The literature study approach draws on various documents, such as journals, legal regulations, and fatwas, as the basis for normative arguments. To support practical model recommendations, empirical data analysis utilizes Susenas (National Social and Economic Survey) data to identify the profile of poor farmers, potential demand for various food commodities, and strategic regions and commodities for pilot projects in implementing the Salam contract.

Data Analysis

The collected data was analyzed using a balanced combination of quantitative and qualitative methods. The quantitative approach was carried out using descriptive statistical analysis, a statistical technique used as an initial step in data organization before further analysis is carried out (Martias, 2021). However, descriptive statistics in this study stand as a separate analysis that can present data and provide various information about it. There are different descriptive forms of various data in the form of visualizations such as tables and figures. For example, data visualizations depicting the profiles of farmers based on economic class and tables providing information on the potential for Salam contracts for each region and agricultural commodity. The classification of farmer household welfare in this study is based on monthly per capita

expenditure compared to the district/city poverty line in March 2024, as released by the Central Statistics Agency (BPS). Economic class categories are divided into five groups based on the expenditure threshold relative to the poverty line.

First, poor farmers are farmers with per capita expenditure below the poverty line in their region. Second, vulnerable farmers have per capita expenditure between the poverty line and less than 1.5 times the poverty line. Third, aspiring middle-class farmers are farmers with per capita expenditure between 1.5 and less than 3.5 times the poverty line. Fourth, middle-class farmers include household farmers with per capita expenditure between 3.5 and less than 17 times the poverty line. Finally, upper-class farmers are defined as farmers with per capita expenditure equal to or greater than 17 times the poverty line. This classification is used to assess farmer welfare and identify potential target groups for implementing Salam contracts in Islamic contract farming schemes. This approach allows for a more targeted analysis of the economic distribution of farmers across various regions and agricultural subsectors. Meanwhile, qualitative methods are conducted through literature studies from national and international journals. Qualitative methods are used to explain a phenomenon in greater depth (Zellatifanny, 2018; Adlini et al., 2022).

RESULTS AND DISCUSSION

Profile of Poor Farmers in Indonesia

Based on the distribution of the population by industry, the agricultural sector still holds a strategic position as the primary source of livelihood for the majority of Indonesia's population. According to Figure 1, the three sub-sectors with the largest number of workers are wholesale and retail trade, car and motorcycle repair and maintenance (22.84 million people), rice and secondary crops (19.99 million people), and manufacturing (16.47 million people). Rice and secondary crops are the primary source of livelihood for the Indonesian population. Other sectors related to agriculture include plantations (10.23 million people) and horticulture (4.67 million people). The total number of people employed in the agricultural and plantation sectors reaches 34.89 million. This sector's

significant contribution to employment demonstrates its crucial role in the national economic structure.

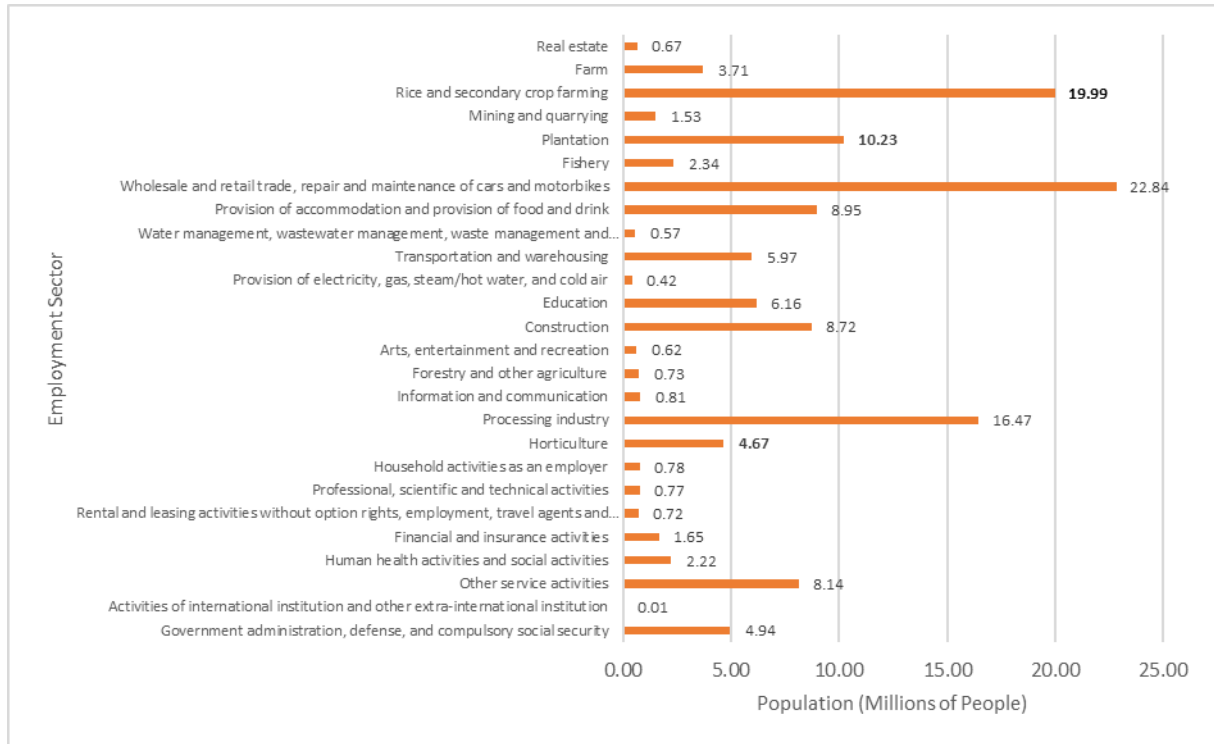


Figure 1 Employment Sector for Population Aged ≥ 15 Years (2024)

Source: Author, data processed from Susenas 2024

With such a significant population, developing the agricultural sector is a strategic imperative to increase productivity and expand access to technological innovation, capital, and strengthen farmer institutions. Furthermore, the agricultural sector serves a dual function as a pillar of national food security and a pillar of public welfare. Commodities such as rice, secondary crops, horticulture, and plantations are key components in meeting domestic consumption needs, the sustainability of which depends heavily on the empowerment of agricultural actors.

Development policies oriented towards improving farmer welfare and the sustainability of the agricultural sector are imperative. A holistic, empowerment-based approach is needed to ensure that this sector not only survives but also drives inclusive and sustainable economic growth in the long term. However, data show that the agricultural sector,

particularly the rice and secondary crops subsector, tends to be dominated by low-income farmers.

Based on Figure 2 and Figure 3, as many as 1.85 million farmers (9.26 percent) of rice and secondary crops live in poverty, 5.02 million farmers (25.10 percent) are in the vulnerable economic class, and 10.75 million farmers (53.76 percent) are aspiring middle class residents who at some point could easily fall into the vulnerable and poor economic class. Furthermore, based on Figure 4, in the horticulture sector, there are 340.37 thousand poor farmers (7.29 percent), 1.01 million vulnerable farmers (21.53 percent), and 2.66 aspiring middle class farmers (56.87 percent). Meanwhile, based on Figure 5, in the plantation sector, there are 601.68 thousand poor farmers (5.88 percent), 2.23 million vulnerable farmers (21.76 percent), and 6.05 million aspiring middle class farmers (59.13 percent). The proportion of the population classified as poor and vulnerable to poverty in these three sub-sectors appears significant compared to other sectors dominated by the middle and upper classes.

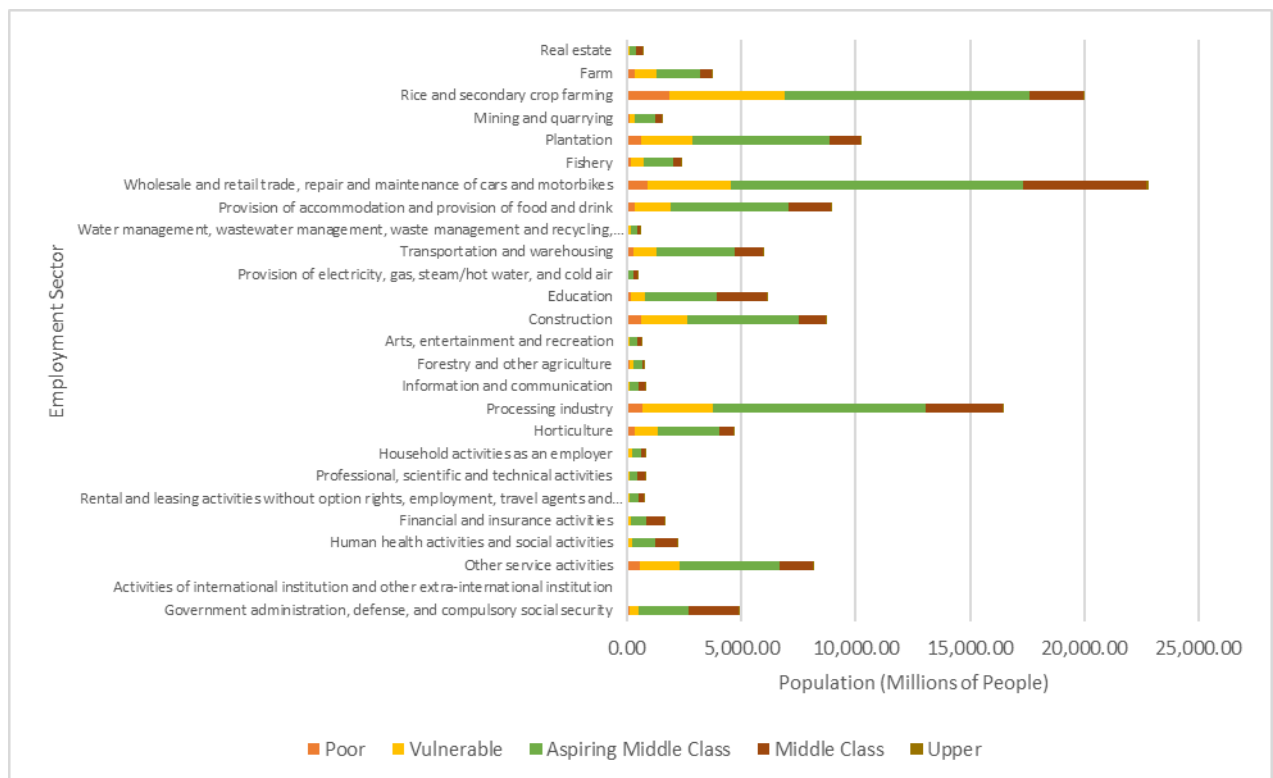


Figure 2 Economic Class Based on Field of Work of Population Aged ≥ 15 Years (2024)

Source: Author, data processed from Susenas 2024



This situation indicates a correlation between agricultural sector involvement and low levels of economic well-being. This reflects the structural challenges in agricultural development, which have not yet fully improved the living standards of its key players. Low productivity, limited access to technology and capital, and unstable agricultural prices are contributing factors.

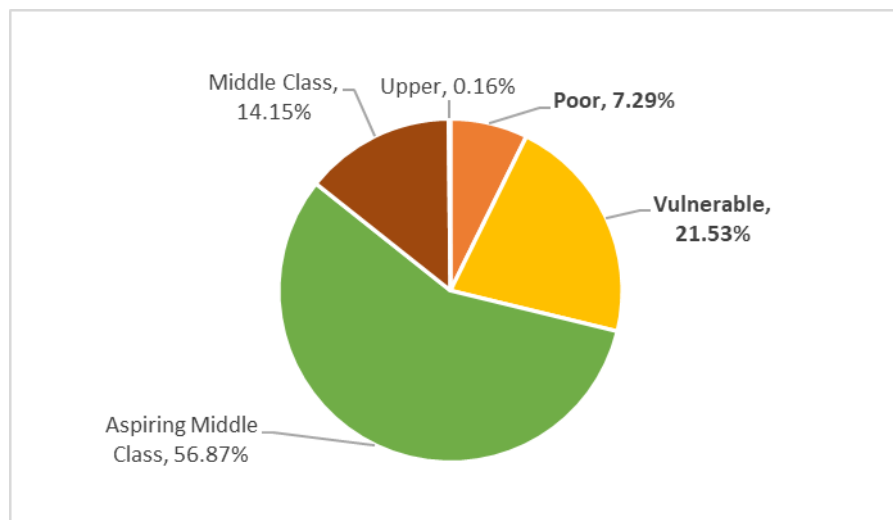


Figure 3 Rice and Secondary Crop Farmers' Economic Class

Source: Author, data processed from Susenas 2024

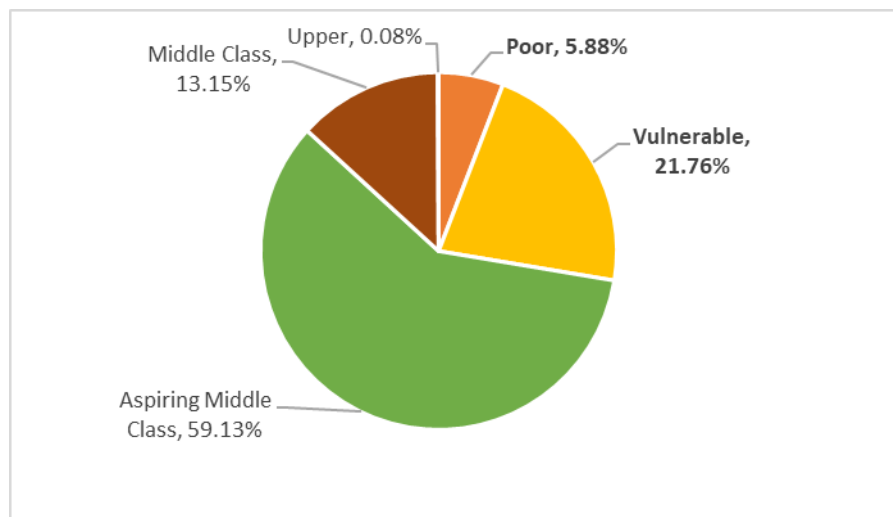


Figure 4 Horticultural Farmer Economics Class

Source: Author, data processed from Susenas 2024

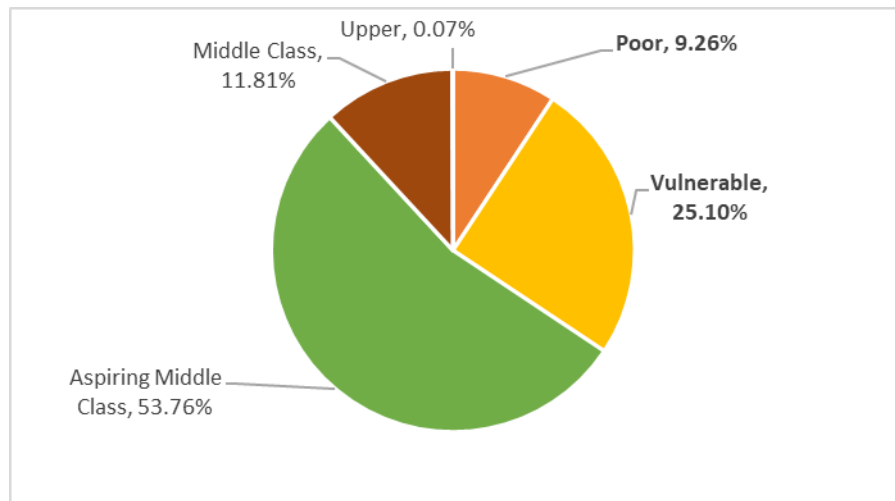


Figure 5 Plantation Farmer Economics Class
Source: Author, data processed from Susenas 2024

Efforts to develop the agricultural sector need to be directed at increasing production and improving farmer welfare. An inclusive and transformative approach is required through agricultural policy reform, strengthening farmer institutions, expanding market access, and integration with the agro-industrial sector. This strategy is expected to make the agricultural sector a driver of socioeconomic mobility and a foundation for sustainable national food security.

Access to Agricultural Capital for Poor Farmers

The Indonesian government, through Ministerial Regulation Number 12 of 2020 concerning the Facilitation of People's Business Credit in the Agricultural Sector, mandates expanding access to financing for productive agricultural businesses to increase the competitiveness of micro, small, and medium enterprises, stimulate economic growth, and absorb the agricultural workforce. People's Business Credit (KUR) is a loan/financing for working capital and/or investment provided to productive and viable individual debtors, business entities, and/or business groups without additional collateral or insufficient additional collateral. (Peraturan Kementerian Republik Indonesia Nomor 12 Tahun 2020 Tentang Fasilitas Kredit Usaha Rakyat Sektor Pertanian, 2020).



Table 1 Poor Farmers' Access to Financial Services, Credit, and Capital Assistance

	Yes	No	Total
Savings account	26.78%	73.22%	100.00%
Financial Services Products/Services (Banking, Insurance, Financing Institutions, Pension Funds, Fintech, etc.)	27.93%	72.07%	100.00%
Kredit Usaha Rakyat (KUR)	4.71%	95.29%	100.00%
Credit from Commercial Banks other than KUR	1.02%	98.98%	100.00%
Credit from Bank Perkreditan Rakyat (BPR)	0.21%	99.79%	100.00%
Credit from Saving and Loan Cooperatives	2.35%	97.65%	100.00%
Individual with Interest	0.72%	99.28%	100.00%
Pawnshop	0.76%	99.24%	100.00%
Leasing Company	0.28%	99.72%	100.00%
Badan Usaha Milik Desa (BUMDes)	0.27%	99.73%	100.00%
Online Loans	0.05%	99.95%	100.00%
PNM-Mekaar	6.83%	93.17%	100.00%
Other Credits	2.74%	97.26%	100.00%
Capital Facilities from the Government	0.06%	99.94%	100.00%

Source: Author, data processed from Susenas 2024

However, the data in Table 1 shows that most of poor farmers in Indonesia still face limitations in accessing financial services and capital sources. Only around 26.78 percent have savings accounts, while access to formal financing such as the People's Business Credit (KUR) remains very low, at 4.71 percent. Although the proportion of PNM Mekaar financing recipients is relatively higher (6.83 percent), most of this financing is consumptive and not directly allocated to productive activities in the agricultural sector. Furthermore, the PNM Mekaar scheme tends to target women non-agricultural micro-entrepreneurs with limited loan ceilings, so its contribution to increasing farmers' working capital is relatively small. Access to other financial institutions, such as Rural Credit Banks (BPR), cooperatives, or alternative financing sources such as Village-Owned Enterprises (BUMDes), does not reach 1 percent. This condition confirms that the level of financial inclusion among poor farmers remains low, which has implications for their limited ability to finance the

cultivation process, from planting to harvest, and impacts farmers' productivity and income.

To bridge this gap, the government is promoting partnership schemes through the contract farming model. Partnerships are business collaborations between small and medium-sized and/or large companies, accompanied by guidance and development by them, based on the principles of mutual need, mutual reinforcement, and mutual benefit. In the Minister of Agriculture Regulation Number 49 of 2019 concerning the Strategic Command for Agricultural Development, the Farmer Strategic Command, referred to as Kostratani, was established. This is a movement to renew sub-district agricultural development through optimizing the duties, functions, and roles of the Agricultural Extension Center in realizing successful agricultural development. One of its tasks is to facilitate the development of partnerships between farmers or farmer groups (Peraturan Menteri Pertanian Nomor 49 Tahun 2019 Tentang Komando Strategis Pembangunan Pertanian, 2019).

The contract farming scheme is normatively intended to strengthen farmers' access to markets, production inputs, and capital through collaboration with business actors. However, contract farming often creates asymmetries of power that are detrimental to farmers. Commodity prices tend to be set unilaterally by partner companies, production risks remain borne by farmers, and the resulting relationships increase structural dependence on the company.

Implementation of Salam Contract in Sharia Contract Farming

Food is a basic human need that must be met daily. Household consumption is the primary expenditure component that contributes to national economic growth. Household consumption data in Table 2, particularly for grains, tubers, vegetables, and fruits, demonstrate high public demand for various strategic food commodities.

Table 2 Consumption and Value of Grains, Tubers, Vegetables, and Coffee

Commodity	Consumption (Thousand Tons per Year)	Value (Rp Trillion per Year)
Rice (local, medium, premium, and imported rice)	21,977.56	303.56
Glutinous rice	65.35	1.16
Wet corn with husk	640.25	4.90
Corn kernels/corn rice/titi corn	159.36	1.48
Flour	750.70	8.57
Other grains	22.92	0.33
Cassava	1,308.62	6.96
Sweet potato	823.06	7.78
Sago (not from cassava)	89.33	0.92
Taro	168.15	1.61
Potato	700.97	11.12
Gaplek	20.80	0.18
Other tubers	26.70	0.27
Green and red Spinach	882.24	8.26
Water Spinach (Kangkung)	1,046.94	9.04
Cabbage	411.67	3.65
Chinese cabbage (petsai)	331.70	3.38
Mustard greens	356.00	3.67
Beans	258.31	3.11
Long beans	555.24	5.62
Tomato	586.32	9.17
Carrot	340.91	4.75
Cucumber	534.93	4.48
Cassava leaves	711.10	4.76
Eggplant	784.56	6.49
Bean sprouts	259.54	2.99
Pumpkin, chayote, pumpkin	481.53	3.83
Vegetable soup/capcay/kimlo ingredients (package)*	2.63	8.95
Sour/lodeh vegetable ingredients (package)*	1.35	4.81
Young jackfruit	158.80	1.26
young papaya	294.29	1.61
Dogfruit (Jengkol)	109.19	2.78
Shallots	7,952.79	26.98
Garlic	5,358.38	20.13

Commodity	Consumption (Thousand Tons per Year)	Value (Rp Trillion per Year)
Onion	265.37	1.13
Red chili pepper	496.18	26.26
Green chilies	94.82	3.33
Cayenne pepper	589.05	26.08
Other vegetables	625.59	6.31
Orange, grapefruit	965.62	18.12
Mango	203.11	3.68
Apple	205.01	7.10
Rambutan	1,217.13	11.26
Duku, langsung	1,101.41	13.04
Durian	866.71	21.61
Snakefruit	560.85	5.59
Ambon Banana	537.19	6.80
Other bananas	1,253.63	11.73
Papaya	885.87	7.62
Watermelon	763.20	7.08
Tomato fruit	125.70	1.95
Avocado	299.37	5.70
Guava	100.65	1.15
Other fruits	1,080.00	15.08
Coffee (ground, beans)	2,494.08	12.14
Instant coffee (sachet)**	13.57	19.49
Total Value		720.81

* Billion Packs

** Billion Sachets

Source: Author, data processed from Susenas 2024

The largest consumption is rice, the national staple food, reaching nearly 22 million tons with an economic value of IDR 303.56 trillion, accounting for the largest share of total consumption. Horticultural commodities such as kale (1.05 million tons), spinach (882.4 thousand tons), tomatoes (586.32 thousand tons), and shallots (almost 8 million tons), also recorded significant consumption figures, both in terms of volume and economic value.

In the plantation sector, coffee consumption and value also show significant figures, with coffee in ground and bean form reaching nearly 2.5 million tons and coffee in sachet form reaching 13.57 billion sachets.

The total economic value of all commodities in the table reaches IDR 720.81 trillion, which likely reflects only household consumption. This figure does not include food needs from non-household sectors such as hotels, restaurants, food processing industries, and culinary micro, small, and medium enterprises (MSMEs), which are also major consumers of fresh and processed food commodities.

This high consumption value indicates the enormous economic potential of the national food sector and demonstrates the importance of strengthening production systems, distribution, and the sustainability of the food commodity supply chain. If this potential can be leveraged more extensively and productively through inclusive agricultural policies, investment in cultivation technology, and strengthening farmer institutions, not only can food security be achieved but also the welfare of farmers and business actors in the food sector. Food sector development strategies need to consider the economies of scale of this enormous domestic consumption as an opportunity to increase national productivity and create sustainable, agriculture-based economic growth.

This substantial food consumption potential requires strategies that emphasize high productivity and sustainability. These strategies include investment in cultivation and post-harvest technology to reduce horticultural commodity losses, expanding access to affordable formal capital and credit, and strengthening farmer institutions and partnerships to achieve excellence and independence. If supported by appropriate policies and practical implementation on the ground, this substantial economic potential of national food consumption can serve as a basis for increased productivity, farmer welfare, and inclusive and sustainable economic growth.

Access to finance is a major obstacle for smallholder farmers, and conventional contract models such as contract farming often place them in a weak bargaining position. To address the inequalities in these partnership schemes, an approach based on Islamic economic principles can be a fairer alternative. One approach is the application of the Salam contract to establish a sharia-compliant contract farming scheme. The Salam contract is a sales contract in which payment is made upfront for goods delivered later, as stipulated in Islamic jurisprudence (Fiqh Muamalah) and reinforced by the National Council of Islamic Scholars

(DSN-MUI) through Fatwa No. 05/DSN-MUI/IV/2000 concerning Salam Contracts.

In the agricultural context, the Salam contract provides price clarity and market guarantees upfront, while also providing business capital to farmers, thereby improving their bargaining position and reducing financial risks previously borne solely by them. With a fairer and more transparent scheme, Salam-based sharia contract farming can not only promote financial inclusion and productivity for poor farmers but also strengthen the values of justice and sustainability in national agricultural development. This model benefits poor farmers by providing planting capital and reducing market pressure.

The integration of Salam contract into sharia contract farming offers a dual solution: providing farmers with upfront capital payments, thereby reducing production risks, strengthening their bargaining position in the supply chain, and opening access to a fair and structured financing system based on sharia principles. The implementation of this model, when supported by institutional infrastructure such as BMT (BMT), agricultural cooperatives, and support from zakat institutions/Corporate Social Responsibility (CSR), has the potential to increase productivity and farmer incomes, as well as support inclusive and sustainable agricultural development.

This research strengthens previous research which explains that Salam contract is able to provide capital at the beginning of the planting season, shorten the distribution chain, strengthen the bargaining position of farmers through assistance from local sharia institutions, improve the quality and quantity of agricultural products, increase farmers' income, and maintain national food security (Hudaifah et al., 2019; Nethania Christy & Nisa, 2024; Parveen, 2023). Although there are still regulatory challenges and capital risks to lending institutions (Widiana & Annisa, 2017).

Salam Contract Implementation Simulation for Selected Regions and Commodities

To address the problem of limited access to financing for poor farmers, the implementation of the Salam contract can be carried out through two trials or pilot projects. First, it can be strategically directed to

areas with the highest number of poor farmers, as illustrated in Table 3. For example, Pamekasan Regency has 53,860 poor horticultural farmers and 53,860 poor rice and secondary crops farmers, Brebes Regency has 30,187 poor horticultural farmers, and Bangkalan Regency has 72,613 poor rice and secondary crops farmers. These areas can be used as initial locations for pilot projects. The high number of poor farmers in these areas indicates an urgent need for systemic interventions that are productive and sustainable.

Table 3 Ten Districts with the Most-Poor Farmers

Horticulture		Plantation		Rice and Secondary Crop Farming	
Regency	Number of Poor Farmers	Regency	Number of Poor Farmers	Regency	Number of Poor Farmers
Pamekasan	53,860	Indragiri Hilir	17,981	Bangkalan	72,613
Brebes	30,187	Ogan Komering Ulu	17,171	Pamekasan	53,860
Dogiyai	18,270	Lampung Utara	16,071	Bone	45,026
Probolinggo	15,720	Empat Lawang	15,452	Paniai	43,286
Wonosobo	10,715	Sintang	14,462	Grobogan	38,111
Kendal	10,259	Melawi	14,123	Karawang	37,292
		Ogan Komering Ulu		Sumba Barat	
Magelang	8,890	Selatan	12,625	Daya	36,387
Temanggung	6,096	Aceh Utara	12,289	Puncak	34,155
				Lombok	
Purbalingga	4,540	Lahat	12,238	Tengah	32,944
Banjarnegara	1,954	Ogan Ilir	10,716	Yahukimo	32,751

Source: Author, data processed from Susenas 2024

The implementation of the Salam contract in these regions can be designed as a Sharia-compliant financing scheme that connects farmers directly with financial institutions, Sharia cooperatives, or zakat/CSR institutions. Farmers receive upfront payments for agricultural products they will plant and harvest, such as chilies, tomatoes, shallots, garlic (for horticulture), or rice and corn (for rice and secondary crops). Buyers, such as cooperatives, financial institutions, and industry players, have guaranteed supply, while farmers receive guaranteed capital from the

planting season. In its implementation, technical and managerial assistance is also needed to ensure the productivity and quality of the harvest in accordance with the contract.

With data-driven regional priorities, Salam contract interventions will not only address the capital needs of poor farmers but also improve market structures and increase farmer empowerment in areas with the highest poverty rates. This scheme will simultaneously boost agricultural productivity, increase incomes, and strengthen Islamic-based economic institutions. In addition to focusing on regions with the largest number of poor farmers, another approach to implementing the Salam contract is to target strategic commodities with the highest economic value. Based on Table 4, there are ten food commodities with very significant domestic consumption values, such as rice (Rp 303.56 trillion per year), shallots (Rp 26.98 trillion per year), red chilies (Rp 26.26 trillion per year), cayenne peppers (Rp 26.08 trillion per year), and garlic (Rp 20.13 trillion per year). In the fruit sector, durian is the commodity with the greatest potential value, reaching Rp 21.61 trillion per year.

Table 4 Ten Commodities with the Highest Value (Rp Trillion)

Commodity	Consumption (Thousand Tons per Year)	Value (Rp Trillion per Year)
Rice (local, medium, premium, and imported rice)	21,977.56	303.56
Shallots	7,952.79	26.98
Garlic	5,358.38	20.13
Red chili pepper	496.18	26.26
Cayenne pepper	589.05	26.08
Orange, grapefruit	965.62	18.12
Duku, langsung	1,101.41	13.04
Durian	866.71	21.61
Coffee (ground, beans)	2,494.08	12.14
Instant coffee (sachet)**	13.57	19.49

**Billion Sachets

Source: Author, data processed from Susenas 2024

This significant economic value demonstrates the potential for a vast and promising domestic market. Implementing the Salam contract for

these commodities will provide financing certainty for farmers from the start of the planting season, while ensuring supply availability for food industry and trade players who depend on agricultural raw materials. The contract is written and specific, including the type, quality, and delivery time.

Both approaches encourage integration between upstream and downstream sectors in the national food supply chain. Thus, the Salam contract can serve as an instrument for strengthening a Sharia-compliant food system that is not only fair for farmers but also strengthens supply and price stability in the market. Through this simulation, it can be concluded that developing the Salam contract for high-value commodities has the potential to be a productive financing strategy with a broad impact on improving farmer welfare and national food security.

CONCLUSION

The population working in the rice and secondary crops, horticulture, and plantation sectors has reached 34.89 million. However, data show that farmers' economic well-being remains low. This reflects the agricultural sector's inability to fully improve the standard of living of its key players. Low productivity, limited access to technology and capital, and unstable agricultural prices are contributing factors. The Salam contract holds significant potential as a sharia-compliant financial instrument to support poor farmers. The Salam contract can address the gaps in contract farming partnership schemes, which still face shortcomings, such as farmers' weak bargaining power. The Salam contract-based Sharia contract farming model can be implemented through sharia-compliant institutions such as BMTs (BMT), sharia cooperatives, village-owned enterprises (BUMDes), zakat institutions, and CSR programs. Implementation can be carried out through two pilot project approaches: in areas with the highest number of poor farmers or in food commodities with high demand and sales value. This implementation requires regulatory support and a strengthening of the role of sharia financial institutions in the agricultural sector.

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