

INNOVATION OF THE SALAM FINANCING PRODUCT (A CASE STUDY IN BUMI RINJANI PROBOLINGGO SRB)

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Abstract

This paper aims to analyze how the system of salam financing at Bumi Rinjani Probolinggo SRB, studying the factors of salam financing distribution's problems; exploring what innovations are needed to increase the implementation of the salam contract; and examining the innovation applied on salam accounting. This type of research is qualitative constructive. The unit of analysis in this study is Bumi Rinjani Probolinggo SRB as the sharia rural bank that provides salam financing. The results showed that Bumi Rinjani SRB are motivated to implement salam financing due to the needs of farmers to purchase the production's needs and the short financing period, so that salam financing is the correct type of financing. The financing applied is a single salam contract. Because the items purchased by the SRB are items such as rice, potatoes, maize, with no intention to make such items as inventory, then the SRB entrust the goods to the bai salam customer for reselling by wakalah. There are several factors that become obstacles for SRB related with salam financing, are; 1) The bad character of bai salam customers; 2) Failed harvests; 3) The fluctuating market prices; 4) The provisions of supervisors that the SRB should have a Warehouse. The comprehensive efforts to resolve the problems are; 1) Salam bil wakalah financing; 2) Salam bil Mudharabah financing.

Keyword: *salam financing, salam accounting, product innovation, wakalah, mudharabah*

1. Introduction

Islamic bank is a solution to obtain capital without any loan interest. It seemed to be a fresh idea in breaking the impasse among the entrepreneurs in Indonesia to obtain capital without having to engage in usury. The moves of customers from conventional banks to Islamic banks develops Islamic banking and motivates to improve the types of the transactions. These transactions become facilitator between Islamic banks and customers to avoid the elements of riba. In relation to this case, a transaction used is definitely following the rules of Islamic principles.

Islamic banking industry is an industry that is now growing rapidly in the world. In Indonesia, the Islamic banking industry has developed quite well (Wardayati and Wulandari, 2014). The growth rapid increasing of Islamic banking should also be followed by the development of products and the variation of the contract in accordance with Islamic principles. Based on statistical data of Islamic Banking, since 2002 until early 2015, in the last 13 years, financing with contract salam in Islamic Banks as well as Sharia does not exist at all. as we know salam contract with the down payment purchase system is good to be applied as one of banking products in the sectors of agriculture industries and other industrial sectors e.g. garment, by this contract, the two parties are able to get profits without elements of usury, deception or gharar (speculation) (Antonio, 2015).

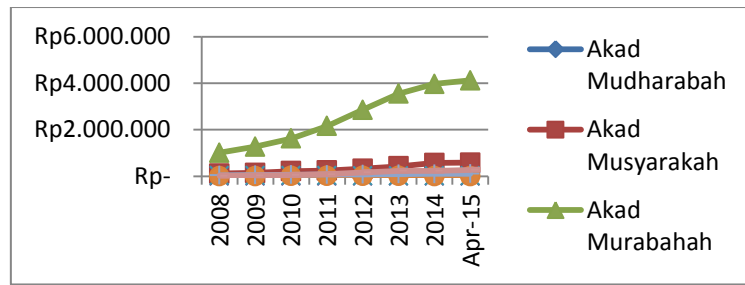


Figure 1. Composition of the financing provided Shariah Rural Bank (In Million Rupiah) Obtained and processed from source: Islamic Banking Statistical Data 2008 - April 2015, the FSA

In other case, Shariah Rural Bank (SRB) implements salam financing with salam contract. There are SRB that implement financing with salam contract such as PT. Dana Mulia Surakarta in 2010 and PT. Syariah BPR Bumi Rinjani Probolinggo in 2012. PT. Probolinggo Syariah BPR Bumi Rinjani is one of the banks where the operational activities are based on Islamic principles. In Figure 1 we can see that the trend of salam financing under salam contract as one of the contract with sale and purchase principle continues to decline. From Figure 1 it can be concluded that financing with murabaha is a contract with the principle of trading that dominates. In 2008 salam financing agreement is Rp. 38 million, these numbers fluctuate every year. In April 2015 the composition of financing with salam contract decreased about 58% i.e. to Rp. 16 million, -. However, it must be appreciated because microfinance institutions are still willing to distribute financing with salam contract.

The factor that causes the failure and boost the success of salam financing contract lies in the difficulty of the crop marketing (Roziq, 2014). Another factor that led to the avoidance of salam contract implementation is a lack of understanding of banking practitioners about the application of salam contract (Devi, 2009; Affandi, 2013), the lack of socialization to the public concerning the financing of salam contract (Roziq, 2014; Devi, 2009; Affandi, 2013), high cost (Devi, 2009; Adams and Fitchett, 1992 in Kaleem and Wajid, 2009; Muneeza, et al, 2011) as well as the risk inherent in financing under the salam contract (Roziq, 2014; Adi, 2012; Devi, 2009; Ashari, 2005; Affandi, 2013; Adams and Fitchett, 1992 in Kaleem and Wajid, 2009; Muneeza, et al, 2011).

The reason to conduct this research at PT. BPR Bumi Rinjani Probolinggo with salam financing topics among 162 SRB in Indonesia, is due to the fact that SRB Bumi Rinjani Probolinggo is the last SRB that applied salam financing contract and among the products applied, the trend of financing products with salam contract continues to decline. Based on these background, this study analyze the system of salam financing contract at the SRB Bumi Rinjani Probolinggo, investigate the factors that become obstacles in the distribution of salam financing contract at SRB Bumi Rinjani Probolinggo; explore what innovation efforts that are needed to improve the application of salam contract at the SRB Bumi Rinjani Probolinggo; and examine how the implications of the funding system inovation with salam contract to the salam accounting treatment.

2. Literature Review

2.1 Definition of the Salam Contract

Definition of salam in the PSAK 103 is a contract of sale of ordered goods (muslam fiih) with the later day delivery by the seller (muslam illaihi) and the repayment made by the buyer at the time the contract was made in accordance with certain

conditions. Salam definition in the DSN No. 05 / DSN-MUI / IV / 2000, stated that the sale of goods by way of reservation with payment in advanced with certain conditions, called as salam.

Definition of Salam by Muhammad Ibn Ahmad Ibn Muhammad Ibn Rushd (1988), namely Bai 'As-Salam means the purchase of the goods delivered in the future, whereas the payment made in advanced (Antonio, 2015). Bai 'as-salam is the type of transaction which the payment made at the time of the contract, but the goods are given later with a predetermined time (Roziq, 2014). Salam s a transaction which deliver of ordered good is deferred while the payment is paid in cash at the begining of the transaction by obtaining certain condition (Ningsih, Wiwik F., dan Wardayati, Siti M., 2016)

2.2 Legal Basis of Salam Purchase

Salam transaction is allowed in Islam, it is based on the theorem of al-Quran and al-Hadith including:

a. Al-Qur'an

The theorem that explains the permission of salam financing is in Surah al-Baqarah verse 282:

يا أيها الذين آمنوا إذا تداينتم بدين إلى أجل مسمى فاكتبوه

In accordance with the Sura al-Baqarah verse 282, Ibn Abbas explain the relevance of that paragraph to the transaction of bai 'as-salam. It is clearly understood from his statement that, "I testify that the Salaf (salam) that is guaranteed for a specified period has made lawful by Allah in His Book and is allowed by Him." He then read the preceding verse (Antonio, 2015).

b. Al-Hadith

Ibn Abbas narrated that the Messenger of Allah, Muhammad, Comes to Medina where the residents do Salaf (salam) in fruits (for a period) one, two and three years. He said, "Whoever did the Salaf (salam), should he do with a clear measurement and clear scales anyway, for the knowm period of time." Suhaib ra, that the Messenger of Allah. said, "Three things which have blessing: tough buying and selling, muqaradhah (mudaraba), and mixing wheat flour for domestic use and not for sale." (Reported by Ibn Majah)

2.3 Pillars and provisions of Bai 'As-Salam

Bai 'as-salam requirements should meet a number of pillars and the provisions of sharia (Wasilah, 2011). Below are the pillar along with conditions that must be met in each pillar:

1) doer (performer)

Performers consists of the seller (muslam illaihi) and buyers (al muslam). Sharia provisions for contract actors are capable of law and mature. Trading activities done with people who are in common sense disorder becomes invalid and trading with children is considered valid as long as it goes with the permission of their guardians.

2) The object of the contract

The object of the contract is in the form of goods that will be delivered (muslam fiih) and capital salam (salam maalis ra'su). Sharia provisions related to the goods of salam (Al-Muslam feehi) are; The identified goods, have clear specifications and characteristics such as quality, type, size, and others; The goods must be quantified or weighed; time of delivery of the goods must be clear and there should be at a predetermined time; if the goods did not delivered at the specified time the contract becomes fasakh / damaged and the buyer can choose whether to wait until the goods are available or cancel the contract; if the goods ordered are defective or not in accordance with that agreed in the contract, then

the buyer should undertake Khیار (choose to accept or reject); place of delivery, the contracting parties must assign it to an agreed place where the goods must be submitted, if both parties do not specify the place of delivery, the goods must be sent to a place that became a habit, for example, the warehouse of the seller .; the scholars prohibit muslim feehi to be replaced with other goods. Exchange or replacement of goods as-salam is not allowed, because although it has not been submitted, the goods are no longer owned by the muslim (fidz-dzimah). If the goods have the same specifications and quality, although the source is different from the scholars allow it.

Sharia provisions related to capital transactions bai 'as-salam including; capital needs to know the type and amount; salam capital in the form of money, goods or benefits. The scholars differ in the permission of payment in the form of trading assets. Some scholars allow it; capital salam is delivered at the time the contract took place. This is to prevent the practice of usury through the mechanism of salam.

3) Areement / sighat

Sighat is statements and expressions of one another's pleasure or willingness between the parties done verbally, written, correspondence or using means of modern communication.

2.4 Type of Salam Contract

There are two types of salam contract, namely salam and and paralle salam. Here is a scheme and the explanation of the two types of contract.

1) Salam

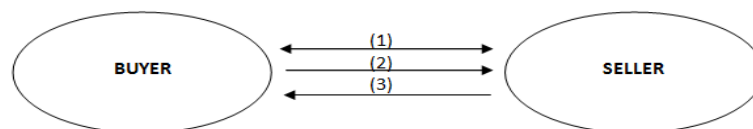


Figure 2. Schematic Salam

Source: Wasilah 2011

Caption:

1. Buyer and seller agree on the salam contract
2. The buyer pays to the seller
3. The seller delivers the goods

Once the buyer and seller agree on buying and selling ordered goods with a condition that has been set in advance by using salam contract, then the buyer pay in full cash amount of money as the price has been agreed. After ordered goods are processed and completed then the seller delivers the goods to the buyer where the location has been set at the beginning. According DSN No. 05 / DSN-MUI / IV / 2000 cancellation of the salam contract is basically permissible, as long as it does not harm both parties. If there found a dispute between two parties, then the problem is solved through Sharia Arbitration Board after no agreement was reached by consensus.

2) Parallel Salam

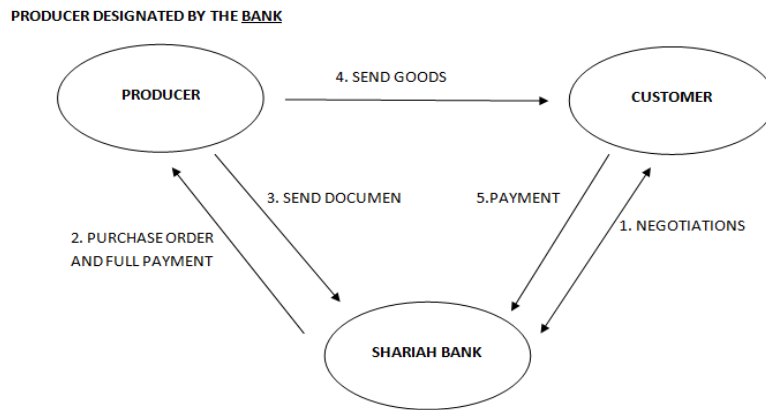


Figure 3. Schematic Parallel Salam

Source: Antonio, 2015

Caption:

1. Customer and Bank negotiate concerning the criteria of the ordered goods.
2. Bank ordered customers to the producer and pay in full in advance.
3. Producer send documents to the bank
4. Producer send the goods to the bank
5. Customers pay to the bank

Procedures of parallel salam is similar with salam contract, but the differences is the involvement of a third party (Wasilah, 2011). Parallel salam in AAOIFI (1999) means executing two bai 'as-salam transactions between banks and customers, and between banks and suppliers or other third parties simultaneously. This happens because the seller does not have the ordered goods and make an order to others to provide ordered goods (Antonio, 2015). According to Ziauddin (1985) The supervisory board of sharia Rajhi Banking & investment corporation has set a fatwa that allows the practice of parallel salam with one condition that the implementation of the second salam does not depend on the implementation of the first contract. Interdependent or ta'alluq will result in non-fulfillment of the pillars (Wasilah, 2011). According to Ziauddin Ahmad (1985) some contemporary scholars leave a note on the transaction of parallel salam, especially if trade and transactions are performed continuously. Such thing is expected to lead to riba (Antonio, 2015).

Parallel Salam is the salam that run simultaneously. For example the first transaction between the buyer and Islamic banks (as sellers), and the second transaction between Islamic banks (as the buyer) with the producer as the seller (Antonio, 2015). The implementation of Parallel salam in banking can be illustrated as follows:

- 1) Customers require an item to be manufactured in advance
- 2) Customers contacted the bank
- 3) Bank undertakes to pay for the goods reservations
- 4) Bank ordered goods to the manufacturer as what customer demand
- 5) The selling price of goods is agreed in advance and is not changed until the goods made
- 6) The length of time for producing goods is agreed by banks, manufacturers and customers
- 7) Customer promised to buy goods after completion
- 8) Customers can pay most of the selling price of goods at the beginning of the contract and repay the remainder of the sale price before the goods are received
- 9) After the goods are made, then it is delivered to the customer

2.5 Application of Bai'Al-Salam financing in Islamic Banking in Indonesia

Bay 'al salam (usually used in financing for farmers with a relatively short period of time, ie 2-6 months. Because of what is purchased by the bank are items such as rice, corn, and peppers and the bank does not intend to make such items as deposits or inventory, then do the second contract bay 'ss-salam, for example, to Bulog, the market traders and wholesalers. This is what is known in Islamic banking as parallelsalam (Antonio, 2015). To ensure conformity sharia minimum standards by banks to launch an Islamic banking activities. Bank Indonesia issued a regulation that aims to standardize contract of Islamic banks that are commonly used in Indonesia. The standardized contracts becomes the guidlines for Islamic banks in Indonesia as the principle of its operations (Ascarya, 2006).

The table below is salam and parallel salam financing Stages that have been standardized by Bank Indonesia

Table 1. Stages of salam and the salam parallel financing

No.	Stages
1	Notice the product to the customer thoroughly
2	Transactions / contract
3	Full payment in advance
Followed by second salam (parallel)	
4	Transactions / contract
5	Full payment in advance
6	Delivery of ordered items

Source: Ascarya 2006

Explanantion:

1. The first stage, the bank at least get the information about salam's products and parallel salan banks including the essence of salam and parallel salam, definitions, terminology, typical conditions of bank, object of salam's characteristic, payment methods, and terms and conditions.
2. In the second stage (and stage 4, if it is parallel), particularly in the agreement contract at least contained the type of contract that is being conducted; the parties involved in the transaction; salam object; objects salam prices; the rights and obligations of the parties; and other agreements.

2.6 Application of Bai' Al-Salam in Pakistan Islamic Banking

Pakistan is a republic state with Muslim majority that is 96.4% (Indrawan, 2015). Pakistan is a country that wants to implement Islamic economic system completely. At present, Pakistan is still at the stage of dual financial system (dual financial and banking system). With this system Sharia financial institution operates alongside conventional financial institutions. Islamic financial institutions are expected to become more dominant and become major financial institutions to the community in providing banking products and services (Ascarya, 2006).

Islamic banking in Pakistan apply various covenant for Islamic financial products and instruments offered to customers. The contract provided include wadiah and mudaraba are contract for funding; mudaraba, permanent musharaka, decreasing Musharaka, murabaha, salam, istishna, Ijara, IMBT, akad- Istijrar are contract for financing; kafalah contract, wakalah, Ijara, Sharf, Ujr, Mudharabah muqayyadah are contract offered for banking services. But financing with salam and istishna is less used in Islamic banking in Pakistan (Ascarya, 2006).

Bai Salam covenant is a contract of trade or sale. Bai salam contract provide advantages in agricultural finance. Bai salam give cash at the beginning when needed (eg during sowing, fertilizing, or before harvest). Bai salam contract are fully accepted by the Islamic banking and underused (Ascarya, 2006). There are doubts that banks would prefer to deal with money rather than commodities. So there is no financial institution in Pakistan that offer agricultural loans under the principles of Islam (Kaleem and Wajid, 2009).

Here is an operational basis of Salam financing in Pakistan which has been standardized by the Commission for Transformation of Financial System (CTFs) and approved by the SBP Shariah Board (State Bank's Shariah Board) (Ascarya,2006);

- 1) Salam (payment in advance with delivery of goods) is a form of selling when the seller carry out the supply of certain goods to the buyer at the time that will come with the full payment paid at the time the contract made.
- 2) Buyers must pay the full amount to the seller at the time of purchase contracts executed. If not so, this would be similar to the sale of debt with debt, which is clearly prohibited in Shariah.
- 3) Specification, quality, and quantity of the commodity to be set to avoid the confusion that can be a source of dispute.
- 4) Date and place of delivery must be agreed by the two parties, but it can be changed with the agreement of both parties.
- 5) Salam can be done to the goods "Dhawatul-Amthal" or "Fungible goods" that reflects a commodity with a unit that has the characteristics of homogeneous and traded with the count, size, or weight per the usage and commercial custom. Therefore, items such as precious stones, cattle, and so can not be sold through salam contract, for any rock or any individual animals are generally different from each other.
- 6) Commodity that becomes the object of salam contracts are generally expected to be available at the time of delivery.
- 7) Salam is not possible for goods that is delivered on the spot. For example the exchange between gold with silver; Among flour with wheat, in sharia the exchange of both should be performed simultaneously.
- 8) Salam can not be attributed to the production of the rice field, or a particular tree.
- 9) In salam transactions, the buyer can not bind the seller to buy back the commodity to be delivered by the seller to the buyer. However, after the handover is done, the seller and the buyer can buy and sell independently on the basis of their own accord.
- 10) In salam transaction, the buyer is not allowed, before gaining control of (actual or constructive) of the goods, to sell or transfer ownership of the goods to another person.
- 11) Bank (Purchaser in salam) can perform parallel salam contract without any requirement or contractual relationship with the first salam.
- 12) In order to make sure that the seller will deliver a commodity at the agreed date, the bank may ask for a security guarantee to the seller.
- 13) In the case of more than one commodity, quantity and delivery period for each time should be set differently.
- 14) Fines can be agreed ab initio in the salam contract to the delays in delivery of goods by the client or the seller. In that case, the client shall be liable to pay a penalty calculated as a percent per day / year agreed. However, these funds should be used for charity. Banks also can go to court for compensation of damage, at the discretion of the court, which should be established under the direct and indirect

costs incurred, in addition to the opportunity cost (opportunity cost). Also, the guarantee can be sold by the bank (buyer) without itervensi of court.

2.7 Accounting Treatment For Transaction Salam

As mentioned in SFAS No.103, that salam is a contract of sale of goods with the suspension order delivery by the seller and the repayment is done immediately by the buyer before the ordered goods are received with certain conditions. The following is the recognition, measurement, presentation and disclosure of related to salam transactions both the buyer and for the seller.

2.7.1 Recognition and Measurement

Accounting for buyer

Receivables are recognized when salam business capital are paid or transferred to the seller. salam Capital can be cash and non-cash assets. Salam capital in the form of cash are measured with the amount paid, while salam capital in the form of non-cash assets are measured at fair value. The difference between the fair value and the carrying value of non-cash working capital transferred is recognized as a gain or loss upon the transfer of the business capital.

Acceptance of the ordered goods are recognized and measured as follows: If ordered goods are in accordance with the contract, then is assessed in accordance with the agreed value; If the ordered goods are different in quality, then received ordered goods is measured according to the value of the contract, if the fair value of the received ordered goods' value are equal to or higher than the value of goods specified in the contract; received ordered goods is measured in accordance with the fair value when it is received and the difference is recognized as a loss, if the fair value of received ordered goods are lower than the value of ordered goods listed in the contract; If the buyer does not receive some or all of the items ordered by the due date of delivery, then: If the delivery date is extended, then the value is taken as salam receivable as much as that have not been fulfilled in accordance with the value specified in the contract; If the salam contract is canceled wholly or partly, then receivable salam turned into a salam receivable accounts that should be paid by the seller as a part that can not be met; and If the salam contract is canceled partly or wholly and buyers have the guarantee of the ordered goods as well as the results of collateral is less than the value of the receivables salam, then the difference between the carrying amount of receivable accounts and the sale of salam is recognized as a guarantee of receivables to the seller. Conversely, if the result of collateral is greater than the carrying value of receivables salam then the difference is the right of the salam's seller.

Fines received by the buyer are recognized as part of the charity fund. Buyers can impose a fine to the seller, penalties can only be imposed on sellers who are able to complete the obligations, but deliberately did not do it. This does not apply to sellers who are not able to fulfill the obligations due to force majeure. Fines are applied if the seller fails in performing the obligations under the contract, and the penalty is recognized as part of the charity fund.

Received ordered goods are recognized as inventory. At the end of the financial reporting period, inventories acquired through salam transaction measured at the lower of cost or net realizable value. If the net realizable value is lower than acquisition cost, the difference is recognized as a loss.

Accounting for sellers

Salam obligations are recognized when the seller receives salam venture capital as much as received salam venture capital. Received salam venture capital can be in form of cash and non-cash assets. Capital salam in the form of cash measured by the number of items received, while salam venture capital in the form of non-cash assets are measured at fair value. The liabilities of salam is derecognized when the goods sent to the buyer. If the seller does parallel salam transaction, the difference between the amount paid by the last buyer and the acquisition cost of the ordered goods is recognized as a gain or loss on the delivery of ordered goods by the seller to the final buyer.

2.7.2 Presentation

Statement of financial accounting standards No. 103 concerning the presentation related to salam transactions disclosed that the buyer presents salam venture capital given as salam receivables. Receivables which must be repaid because the seller can not fulfill its obligations in salam transactions are presented separately from the receivables salam. Sellers serves received salam venture capital as salam liability.

2.7.3 Disclosure

Buyer in the salam transaction reveals the amount of salam venture capital, either self-financed or group financed; type and quantity of ordered items; and Other disclosures in accordance with SFAS 101: Presentation of Sharia Financial Statements. Seller in salam transaction express salam receivable account to the manufacturer (in parallel salam), which has a special relationship; Type and quantity of ordered items; and other disclosures in accordance with SFAS 101: Presentation of Sharia. Financial Statements.

3. Research Method

This type of research is constructive qualitative. Constructive qualitative approach used to build the statement of knowledge based on constructive perspective (eg meanings derived from individual experiences) (Creswell, 2003). Constructive qualitative approach is used to explain how the financing system of salam contract that has been applied by the SRB Bumi Rinjani Probolinggo, factors that causes obstacles in the distribution of funding by the salam contract at the SRB Bumi Rinjani Probolinggo, to build innovation systems is necessary in financing of salam and explain how implications for the salam financing innovation to the accounting treatment of salam. The unit of analysis is the source of information about the variables processed in the data analysis. The unit of analysis may be individuals, groups, or organizations. The unit of analysis in this study is the SRB Bumi Rinjani Probolinggo as one of the banks that implement salam financing.

Data analysis techniques used in this research is to follow the concept given by Miles and Huberman. The steps performed in the process of data analysis as follows: 1) Data collection is data that has been obtained through interview and documentation techniques collected to credible data, 2) Data reduction is the electoral process, focusing on the simplification of the raw data from the records obtained. By summarizing, classifying, directing the data, and discard irrelevant data to get conclusion. If problems are found to be growing the coding for any information obtained will be done. 3) Presentation of data is the process when the required data has been ready to use. The form of the data presentation can be a narrative text, charts, graphs or matrices. 4) Efforts of conclusion is done continuously. The more data is acquired and processed the conclusions obtained will be more detailed and strong.

4. Results

4.1 Implementation of Salam financing system on SRB Bumi Rinjani Probolinggo

SRB Bumi Rinjani is motivated to implement salam financing because the needs of farmers for the purchase of the business production needs and due to the short financing period, in accordance with the needs of production process which takes two to six months, so that salam financin agreement is the appropriate that of financing. The kind of salam financing applied by the SRB is a single salam contract. Bai salam is used in financing with the principle of trading, especially for farmers with a relatively short period of time, the period given by the SRB is six months. Because the items purchased by the SRB are items such as rice, potatoes, and maize, while the SRB does not plan to make such items as a inventory, then the SRB entrust the goods to the bai salam customer for resaling along with the crops of bai salam clients. The storage process of goods for resaling is done with wakalah system. where Bai salam customers are willing to sell the goods belonging to SRB with competitive prices following the markets.

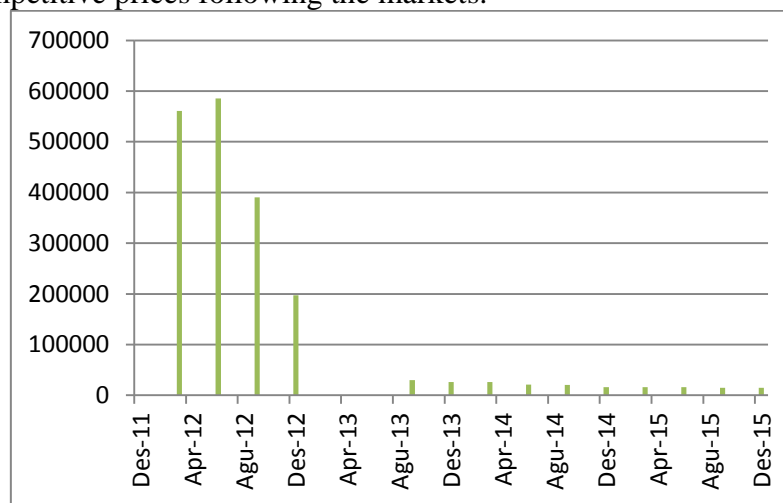


Figure 4. Composition of Financing Salam given SRB Bumi Rinjani Probolinggo (In Thousand Rupiah)

Source: Financial reports quarterly publication SRB Bumi Rinjani Probolinggo on 2011-2015 years

In 2012, SRB Bumi Rinjani Probolinggo implements salam financing. As in Figure 2, which gives an idea of the composition of salam financing given by the SRB. Salam financing distribution is done in 2012, on March 2013 and on June 2013 the data is not available. The composition of the highest salam financing distribution occurred in June 2012, amounting IDR 585.350.000, -But the distribution of salam financing contract is terminated due to the request of supervision regulation (Supervisory Board of the FSA) asking the SRB to make the place / warehouse as a place of supplies. The final composition of salam financing in December 2015 amounted to IDR 15.000.000, -. Below is a scheme of salam financing implementation on the SRB Bumi Rinjani Probolinggo;

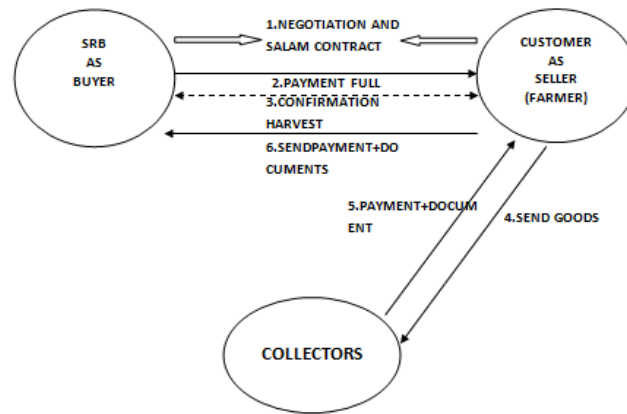


Figure 5 . Financing Scheme Salam on the SRB

Source: processed data (2016)

Explanation:

1. SRB and customers negotiate and agreed the salam contract
2. SRB pays in full payment to customers
3. Customers confirm the harvest
4. Customers send their harvest to collectors
5. Collectors pay in full payment to farmers
6. Farmers handed over the selling results to the SRB

Figure 5 is an overview of salam financing on SRB Bumi Rinjani Probolinggo based on the interviews with Mr. Catur Ariyanto as Directors. So after the proposed salam is approved by the SRB, then SRB hand over amounts of money as previously agreed. The funds are used by farmers to cultivate their fields. After harvest, farmers contacted SRB by phone or come directly to the office of the SRB to confirm that the farmer, as the customer, has harvested. After the harvest meets the agreement, salam financing ended and the goods belonging to SRB are entrusted to farmers for reselling by using wakalah system. After selling the goods, the farmer should transfer the selling output completed with the selling bills to the SRB.

As noticed by Mr. Edy Supriyantoni as Head. Marketing and Mr. Catur Ariyanto as the Board of Directors of SRB Bumi Rinjani Probolinggo that salam financing is actually more effective to meet to the needs of society, especially farmers and still able to protect the SRB in the process of buying and selling, so that innovation is necessary related to received goods as repayment process in salam financing. In this case the SRB does not have to make the inventory, but should present a clear record of the stock inventory and sales reports completed with evidence of the bill of sale. The received goods as payment of financing salam is recorded in the inventory account, but the goods are entrusted to bai salam customers using wakalah system.

The goods belonging to SRB are entrusted to bai salam customers for reselling to the collectors or rice mill using wakalah system which means the handover of power by one party to another in the represented thing, in this case the bank gives over the goods (assets salam) to bai salam customers for resale. With this kind of system, SRB parties can avoid the costs for example transportation costs, labor costs, maintenance costs, and others. In addition, obtained goods in salam financing is a type of perishable goods that should be sold quickly for the safety of the goods. After the item is sold, then the bai salam customer collect the money from the sale completed with the bill of sale. So the SRB can confirm the price of the goods to the buyer.

4.2 Factors of the obstacles in salam financing distribution on SRB Bumi Rinjani probolinggo

There are several factors that become obstacles for SRB associated with salam financing. These factors are;

1) Default or bad character of bai salam customers

Not all customers and prospective customers have good faith in applying for financing. Bad faith is difficult to be known and analyzed by the bank, because it concerns with the matter of morals or character of customer. Salam financing is given by the maximum allotted time of six months to bai Salam customers especially to farmers without knowing what type of crops are grown, for example Salam financing of the corn farmers. If at harvest time, the market prices is high and or the quality of crops is beyond expectation, then there will be possibilities for farmers to sell their crops to corn collectors to reap maximum benefit and ignore the repayment process on the SRB immediately.

2) Crop failure

Crop failure is not desirable and could be the challenge for both farmers and the SRB. There are some things that cause crop failures, including the treatment process and the incorrect way of farming, the high price of fertilizer, lack of subsidized and non-subsidized fertilizer supply, water shortage, imprecision in choosing the growing season, pests, wind factor and extreme weather, natural disasters, and so on. Crop failures that occur due to natural disasters (force majeure) is given the extension of financing. It has ever happened because the eruption of Mount Bromo in the year 2010 - 2012, the impact of the eruption of Mount Bromo is harmful to farming so that farmers experience crop failure at that time.

3) Fluctuating market prices

Production factors influenced by the weather causes the rising price of rice and other agricultural products such as rice, the harvest usually starts from February to May, but due to raining the harvest is taking longer time about 30 to 45 days, a retreated period of plant makes the harvest retreated so that the supply of rice decreases and affect the increasing of price. Decreasing of supply while the demand of goods are stable, it will lead to the price rising, whereas when supply is plentiful and the demand stands still, it results in the decreasing of price.

4) The rule of the Supervisory Board that the SRB should have a warehouse / storage of goods

One of the factors that becomes a constraint related to the financing of salam is the regulatory oversight (i.e. the Supervisory Board of the FSA) require that the SRB which implements financing with Salam contract needs to have a place / warehouse to store the inventory. Whereas to build a warehouse costs much fund, therefore SRB stop the application of financing with Salam contract. Owning a warehouse gives impact to funding e.g. transportation, employee, maintenance, and so on.

4.3 Innovation Products of Salam Financing at SRB Bumi Rinjani Probolinggo

Based on the research results, to overcome the problems of salam contract financing, a comprehensive innovation of Salam financing can be made, such as; salam financing bil wakalah and salam financing bil mudaraba . Both innovations of Salam financing focuses on the treatment of salam assets after the expiration of salam contract. In the implementation of this contract, the bank acts as buyer without taking the goods to be inventory, therefore the bank needs a strategy to resell the Salam assets.

1) Salam Bil Wakalah Financing

Salam bil wakalah financing is financing where reselling Salam assets uses wakalah system. In this salam financing, customers who contacted the bank is the customer whose profession is farmer / producer. Therefore, in this case the bank acts as a buyer, if the banks agreed to finance it. But the bank's goals in buying asset of salam is not

to be used as inventory, then the banks resell the assets salam using wakalah system by giving the authority over assets of Salam to the bai salam customer for resale. The implementation of Salam bil wakalah financing is guided in the DSN No.05/DSN-MUI/IV/2000 about the terms of buying and selling of salam and DSN No. 10 / DSN-MUI / IV / 2000 about wakalah. The following is salam bil wakalah financing scheme;

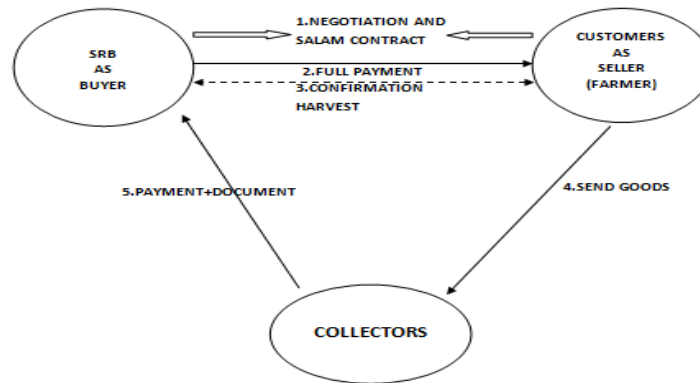


Figure 6. Scheme financing salam bil wakalah

Source: Researcher, processed data (2016)

Explanation:

1. SRB and customers negotiate and agreed the salam contract
2. SRB pays in full payment to customers
3. Customers confirm the harvest
4. Customers send their harvest to collectors
5. Collectors pay in full payment to farmers

Figure 6 shows Salam bil wakalah financing scheme implemented by SRB Bumi Rinjani Probolinggo (see Figure 5). However salam bil wakalah financing meant is different from salam bil wakalah applied by SRB Bumi Rinjani Probolinggo. The difference is in the process of delivery of money and documents of the sale belonging to SRB. So, the payment of salam assets is made directly between buyers / collectors with the SRB.

The end of the salam ccontract is when bai salam customers harvest and the crop is in accordance with the agreement. After harvesting bai salam customers have to contact the bank for repayment process in accordance with the agreement at the beginning. If the goods met the agreement, then harvests owned by the bank entrusted to bai salam customers for reselling using wakalah system. In addition, the bank should have a clear record of the assets completed with the bil of the sale. After the assets are successfully sold the bai salam customer confirms to the bank about the buyer. The money rom the sale of assets completed with the bil of sale of buyer and handed over directly to the SRB in certain place and time. By this way, the banks do not have to own a warehouse or storage salam assets.

The most important thing to consider in salam bil wakalah financing is a point of agreement should be separated, but should be reinforced with wa'd. This wa'd is in accordance with DSN No.85 / DSN-MUI / XII / 2012 that promise (wa'd) is often used in financial transactions and business that are single, parallel and / or in a multi-contract transactions (al- 'Uqud al-murakkabah). As has been stated by Mr. Achmad Zaky as Chairman of Islamic Finance and Accounting Studies (IFAS), University of Brawijaya that salam bil wakalah financing model is vulnerable or at risk for ta'alluq or hielah, the vulnerability is where salam contract took place, for example, the beginning of contract

starts when the salam contract is happening. Therefore, those contracts should be separated and wa'ad is needed as other solutions. Though Mr. Achmad Zaky noted that the appearance of the DSN No.85 might cause 'chaos' and lead to the practice of ta'alluq, this case is related to Fiqh and Ijtihad, Mr. Achmad Zaky assumes that DSN has been announced and it is halal.

The advantage of using salam bil wakalah financing is that the bank do not need to have warehouse or storage for salam assets so the banks can avoid the some costs, e.g. labor costs, transportations, maintenance, and so on. The bank does not need to have a warehouse or storage assets salam, so the banks can avoid the costs, eg labor costs, transportation costs for transporting goods, maintenance costs, and others. The weakness is the default or negligence, the customer is negligent in keeping salam assets deposited by the bank, that affect the decreasing of salam assets value; side streaming that is bai salam customer uses salam capital different from the mentioned contract result in those salam asset value falls; side stream that customers using the bai salam salam capital is not as mentioned in contact.

2) Salam Bil Mudharabah Financing

Financing of salam bil mudaraba is salam funding system, which the asset of salam salam are delivered to a dealer who has been appointed by the bank, where the contract used between the agent and the bank is mudharabah. So before their salam financing transaction, the bank has been working with the supplier in the Mudharabah contract. By using mudharabah means the owner of the funds in this case is the bank who is doing a partnership contract with the agency to carry out business activities, the profit is divided based on nisbah, sharing profits for the agreement of both parties.

While, the financial loss would be taken by the fund owner unless caused by misconduct, negligence, or violation by the fund manager. Financing of salam bil mudharabah are two separate contracts. Where financing of salam bil mudharabah referred in this concept is implemented in accordance with the DSN No. 05 / DSN-MUI / IV / 2000, which contains the terms of buying and selling salam and DSN No. 07 / DSN-MUI / IV / 2000 on the financing is (Qiradh). in simple terms, financing of salam bil mudharabah can be illustrated as the following scheme:

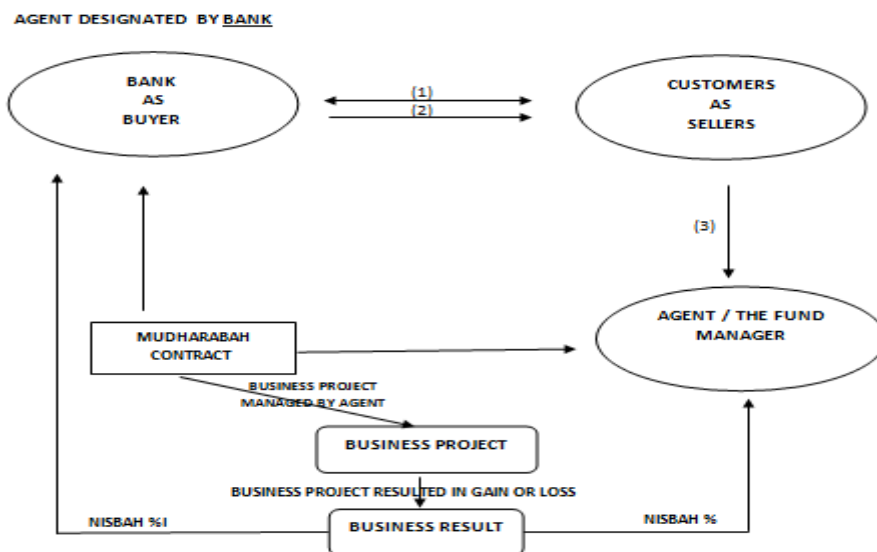


Figure 7. Scheme Financing Salam Bil Mudharabah

Source: processed data (2016)

Caption:

1. The bank and the customer agreed to have salam contract.
2. Bank pay in full payment to customers
3. Customers submit their products to an agent who has been appointed by the bank

Figure 7 shows the scheme of in which the bank salam bil mudharabah financing where banks do mudharabah contract with salam assets manager who acted as sales agent. The sales agent acts as the mediator, which resells the assets of salam to merchants or consumers directly. If the projects generate profits then the profits are divided according to a predetermined ratio, e.g. bank and the agent with a ratio of 60:40. If it experiences financial loss then it is taken by the owner of the funds (ie bank). Furthermore, if a customer submits salam financing, the bank performs salam contract to customers, and the bank handed salam capital in full at the beginning with the terms of price, quality, clear quantity, where the price is lower than the market price (the price of collectors). After bai salam customers will complete the payment, if the goods meets the criteria agreed at the beginning, then the bai salam customer transfer their production to sales agents who had been appointed earlier by the bank.

Salam bil mudharabah financing is two separated contract that should be free from ta'alluq. As what has been stated by Mr. Achmad Zaky that if salam bil mudharabah financing acts as one complete contract (concurrent transaction point) it does not meet the characteristic of the Islamic transactions provisions on KDPPLKS related to their gharar (uncertainty). So in salam bil mudaraba financing, the two contracts should be separated and should certainly avoid ta'alluq.

The advantage of using salam bil mudharabah is that the bank does not have to have a warehouse or storage of salam assets. therefore the banks can avoid the high costs, e.g labor costs, transportation, maintenance costs, and others; banks will get higher sharing when agent's sale profits increases; The weakness is the default or deliberate negligence by agents and customers of bai salam; side streaming that the customers use is different from what previously mentioned in the agreement; concealment of profits by the sales agent.

Salam financing product innovation is a product of Islamic banking which implement the Islamic law. According to researchers, globally both salam financing innovations, salam bil wakalah financing and salam bil mudharabah financing, fulfilled the Islamic principle. There are some good points in the Islamic principle, these are prohibiting the commercial elements of which the goods are proscribed; interest; gambling and deliberate speculation; vagueness and manipulative in the transaction (Antonio, 2001).

Similarly, according to Mr Abdul Wadud Nafis stated that the concept of salam bil wakalah and salam bil mudaraba is legal under the law of Islamic principle. Al-Imrani in the book Al-Ukud AL-Maliyah Al-Murakkabah define Hybird Contract is an agreement of two parties to carry out a contract that includes two or more contracts, such as buying and selling of grants, wakalah, qardh, muzara'ah, sahrاف, shirkah , mudaraba, and others. The majority of scholars Hanafiyah, Malikiyah Shafi'iyah, and Hanbali argue that Hybird Contract is valid and permissible according to Islamic Shari'a. Scholars who argued that the agreement is permissible and legitimate due to the the origin of the law is permissible and there found no law that forbids or cancel it. The most popular term of Hybird contract is al-ukud al-murakkabah and al-ukud al mutjami'ah.

Yet in another case, Mr. MN.Hosen, as treasurer of the National Islamic Council opine that in order to determine whether such innovation is in accordance with the Islamic principles or not, not globally, it needs to be dissected in detail about the scheme and any steps before or after the contract agreement, so if it is different from salam standard

contract set by the DSN of MU, it must be dissected one by one, whether or not there will be found an element of usury, gharar, maysir, and so on.

4.4 Implications for innovation of salam financing system toward its accounting treatment

Salam financing product is the right solution for farmers who need capital to buy inputs to cultivate their fields, as salam financing products offered uses the principles of sharia and the beauty of sharia principles is felt by farmers to avoid elements of usury. However, based on research results, innovation on salam financing products as mentioned above is needed such salam bil wakalah and salam bil mudharabah.

According to some researchers, financing of salam bil wakalah is financing where the resale of salam assets with wakalah system has no implications on salam accounting treatment of how the recognition, measurement, presentation and disclosure are appropriate with what have been stated in SFAS No. 103. The difference of Salam financing and salam bil wakalah are in the process of full payment. Salam assets are resold by bai salam costumers' help which usually does not take a long time, because farmers have partnership of the agricultural production. Similarly, Mr. Achmad Zaky stated that Salam contract is more dominant than Salam financing bil wakalah at the transaction of Salam assets. In the transaction process, when Salam contract is used then it is called parallel Salam. But, in this case the transaction uses wakalah system and does not affect anything, due to its operational technique, exchange of ownership does not occur.

There are not found implication toward Salam accounting treatment in the product innovation of Salam bil mudharabah financing. Received Salam asset is resold by the agent determined by the bank (a bank and the agents previously do mudharabah contract) in this case the ownership exchanged, but had no implication for Salam accounting treatment (SFAS 103) according to Mr. Achmad Zaky, the payment of Salam bil mudharabah is two different contracts, so that the accounting treatment is also separated. At the time of assets transaction using Salam, the accounting treatment is regulated on SFAS No. 103, and owned Salam assets will be used as muharabah investment (non cash), therefore mudharabah contract uses noncash investment model whose accounting treatment regulated in SFAS No. 105. Here's an idea if the current salam assets received by the sales agent, if the goods is in accordance with the agreement, the SRB as buyers make a record of the transactions as follows;

(D) Salam Assets	xxx	
	(K) salam accounts receivable	xxx

Since the Salam asset is in accordance with the contract, it is then measured in accordance with the agreed value. Salam assets are invested and measured at fair value, so if the fair value is higher than the value of the salam assets, then are recorded as a credit side profits, and vice versa.

- a journal to record the mudharabah investment

(D) mudharabah investment	xxx	
	(K) salam assets	xxx

Mudharabah investments are measured at the fair value of salam assets. Mudharabah nvestment occur when the salam assets handed over by the bai salam customer to the agent pointed by the bank. Mudaraba investments are recorded under the provisions of SFAS 105.

5. Closing

From the discussion described is based on the problem and research objectives, it can be concluded as follows: 1) SRB Bumi Rinjani is motivated to implement salam financing for the needs of farmers to fulfill the production needs the business and the

relatively short financing period, in accordance with the need of production processes which takes two to six months, so that salam financing contract is the appropriate way. The salam financing implemented is a single salam contract. Since the goods purchased by the SRB are items such as rice, potatoes, and maize while the SRB does not plan to make such items as deposit. Therefore, the SRB entrusted those items to the bai salam customers to be resold using wakalah system 2) there are some factors that become the obstacle for SRB on salam financing, these are; a). Default or bad character of bai salam customers; b) Crop failure; c) Fluctuating market prices; d) The rule of the Supervisory Board that the SRB should have a warehouse/ storage of goods. To resolve the problems, some comprehensive innovations on Salam financing can be made, such as 1). Salam bil wakalah financing and 2) Salam bil mudharabah financing. Both innovations focus on Salam assets treatment after salam contract ends. In this Salam financing, the bank acts as the buyer and does not plan make Salam assets as inventory. Therefore, the bank needs strategy to resell Salam assets. Salam bil wakalah and Salam bil mudharabah financing do not implicate on the accounting treatment, since these two contracts are separated and so is the accounting treatment. The study identifies the obstacles in salam financing faced by SRB. Whereas the problems faced by bai Salam customers are not identified.

Based on the conclusions, the researchers provides and advice on some important matters as follows: 1) Development of Science. Development of salam financing products influenced by the dynamics of bai salam customers, where the customers' needs can be completed, so that a new model of salam financing to facilitate the changeable needs of customers is needed. Building model of Salam financing product is suggested for the development of science, especially in economic and Islamic finance for improving salam financing products better to meet the customers' needs. 2) the regulators and Nasional Sharia Council. The regulators (Bank Indonesia and the director of the Islamic Financial Institution in the FSA), or DSN is expected to consider the innovation of this product, and to understand it well since it is associated with hybrid contract. The Errors in making regulations will hinder the development of Islamic Financial Institutions. 3) Drafting of Sharia Financial Accounting Standards. Innovation of salam financing products proposed in this study is related to hybrid contract. Because there is more than one contract in a financial product. The composer of IAS Syariah is expected to analyze whether the innovation of financial products requires new more relevant SFAS. 4) The Islamic Banking, in particular the SRB. Salam bil wakalah and Salam bil Mudharabah financing are innovation concepts of Salam financing product that is expected to meet customers' needs, especially farmers. The product innovation is closely related to hybrid contract. The Islamic banks should understand the theory of hybrid contract to be superior and to compete with conventional banks. 5) Further Researchers. Further researchers are expected to identify the constraints faced by bai Salam customers, so that salam financing concept can meet the needs of its customers. Further researchers can dissect the concept of salam bil wakalah and salam bil mudharabah financing about the scheme and any steps before or after the contract, if it is different from the standard contract of salam regulated in DSN fatwa MUI then it must be dissected one by one, if there found the element of usury, gharar, maysir, and so on the concepts of salam financing products can be implemented.

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