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DEVELOPING *SALAM*-BASED FINANCING PRODUCT: INDONESIAN ISLAMIC RURAL BANK

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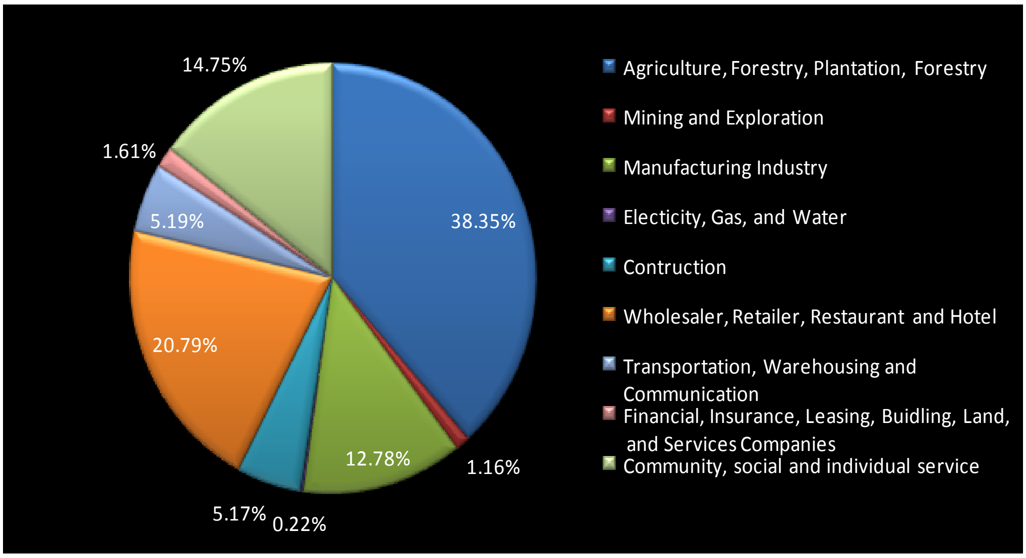
ABSTRACT

This study explains the practice of salam financing in BPRS Dana Mulia, the only Islamic bank in Indonesia which possesses salam-based financingcontract since 2010. This study will also analyzed the contract's compliance to Fatwa DSN-MUI No.05/DSN-MUI/IV/2000 concerning salam contract and to PSAK No. 103 concerning Accounting for Salam. The result shows that in some aspects, the salam-basedfinancing product practiced by BPRS Dana Mulia have complied to the fatwa. However, there are certain rooms for improvement which have to be made, especially those which related to modifications made by the BPRS, such as in margin and settlement of the contract which we consider not suitable to the Islamic teachings. This study also suggests some structures which can make the salam-based financing products in accordance to the fatwa. Additionally, this study cannot perform comparative analysis between the bank's current accounting practice and PSAK 103 as it still used PAPSI 2003 and PSAK No. 59 as its reference in preparing its financial statements.
Keywords: Salam contract, financing, Islamic bank, fatwa, DSN-MUI, accounting.

INTRODUCTION

As a well known agricultural country, Indonesia's natural resource in form of agricultural products ought to support welfare of the nation, especially from the point of view of economics and national resistance of hunger. Furthermore, this sector (which includes agriculture, forestry, fishery and plantation) was also able to absorb about 38% of the country's employment. Figure I show the employment distribution in Indonesia.

Figure: I: Employed Population (15 years old and above) According to Business Sectors of August 2010



Source: Central Statistical Body of Indonesia

By observing and analyzing the data above, agricultural sector should be very potential to significantly reduce unemployment level in Indonesia. Yet, the sector had not done very much role to increase the Indonesians' welfare due to various problems faced by the government, such as less developed infrastructure in agriculture and foodstuff supplies due to limited capital, issue of rice imports, employment problems in agriculture, misuse of the land, and other factors such as disasters and climate change (Indonesia Ministry of Agriculture, 2008). As part of solutions to solve such problems, Islamic finance has a financing facility which can be use to handle the capital issue. This contract is called *bai' as-salam* or *salam*. It is a contract for delivery of future goods with payment made at commencement date of the contract. Detail specification of the goods; variant, quality, quantity, price, and the date of delivery have to be firstly agreed and stated in the contract, as the anticipation of uncertainty (*gharar*) which Islam forbids. Moreover, this contract fits to be applied in agricultural system. By doing *salam* contract, both seller and buyer will be favored. For the seller, he can obtain sufficient funds that can be used as capital for producing the agricultural products, while the buyer can be protected from fluctuations of prices in the future. Although *salam* has been introduced in Islamic finance, until this study was carried out in mid of 2011, there was no Islamic commercial banks (BUS) and Islamic units of conventional banks (UUS) distribute their financing based on this contract. However, there was one Islamic rural bank offered *salam*-based financing contract in an insignificant amount. The detail of Islamic rural bank's number of financing account based on contracts can be seen in Table 1.

Table 1: Number of Account of Islamic Rural Bank

Jenis	2005	2006	2007	2008	2009	2010											
						Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Dana Pihak Ketiga *(Depositor Funds)*	**221,070**	**287,203**	**339,914**	**437,464**	**517,944**	**485,927**	**498,060**	**500,327**	**507,948**	**523,479**	**516,919**	**519,898**	**516,855**	**534,996**	**552,415**	**553,204**	**558,927**
Giro IB *(Demand Deposits)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tabungan IB *(Saving Deposits)*	214,866	279,046	329,272	423,550	500,414	467,928	479,827	482,184	489,352	504,600	498,325	501,049	498,294	515,702	532,674	533,401	538,552
Deposito IB *(Time Deposits)*	6,204	8,157	10,642	13,914	17,530	17,999	18,233	18,143	18,596	18,879	18,594	18,849	18,561	19,294	19,741	19,803	20,375
Pembiayaan *(Financing)*	**47,627**	**70,415**	**110,415**	**115,050**	**131,258**	**131,811**	**134,900**	**134,610**	**138,302**	**140,387**	**142,827**	**144,957**	**144,946**	**145,190**	**147,897**	**147,872**	**148,997**
Akad Mudharabah *(Mudharaba)*	2,079	2,312	2,777	2,446	2,595	2,467	2,302	2,188	2,029	1,933	1,890	1,895	1,865	1,872	1,903	1,864	1,816
Akad Musyarakah *(Musharaka)*	2,959	3,915	4,633	4,442	4,990	5,134	5,378	5,563	5,740	6,047	6,194	6,305	6,372	6,370	6,156	5,941	5,641
Akad Murabahah *(Murabaha)*	38,928	58,895	91,121	92,843	105,030	105,429	107,798	107,202	109,624	111,944	113,146	114,374	114,684	115,612	118,154	118,314	119,084
Akad Salam *(Salam)*	10	1	5	5	1	-	1	1	3	3	3	3	-	-	-	-	1
Akad Istishna *(Istishna)*	314	310	403	438	768	765	773	795	805	809	816	820	821	818	809	783	775
Akad Qardh *(Qardh)*	2,547	3,991	8,816	11,795	13,712	13,775	14,253	14,482	15,327	14,625	15,461	15,845	15,327	14,426	14,573	14,479	15,061
Akad Ijarah *(Ijara)*	790	991	727	577	903	931	954	981	1,025	1,023	1,019	1,047	1,078	1,060	1,088	1,096	1,080
Multijasa *(Multi Purpose Financi*	-	-	1,933	2,504	3,259	3,310	3,441	3,398	3,749	4,003	4,298	4,668	4,799	5,032	5,214	5,395	5,539
Total	**268,697**	**357,618**	**450,329**	**552,514**	**649,202**	**617,738**	**632,960**	**634,937**	**646,250**	**663,866**	**659,746**	**664,855**	**661,801**	**680,186**	**700,312**	**701,076**	**707,924**

Source: Bank Indonesia, December 2010

There are at least three main issues related with above situation. First, unavailability of sufficient business model for the use of *salam* contract. Second, unavailability of sufficient risk management framework especially related with asset risk and default risk which may emerge. Third, there are perceptions that this contract is not profitable enough for Islamic banks to execute (Dewi and Ferdian, 2011). Observing the mentioned condition, this research is humbly attempted to be one of the first study which find out more about the *salam* financing by taking case study in BPRS Dana Mulia located in Surakarta, Central Java as the only Islamic bank practicing the contract. In this study, we also analyze the compliance of the *salam* financing with the fatwa issued by National Sharia Board - Indonesian Ulama Council (DSN-MUI). Additionally, to improve the discussion, this study also put a section which discuss how BPRS Dana Mulia conducts its accounting practice which relate to its *salam* financing.

LITERATURE REVIEW

Literally, *salam* means advance. It is also called as an ancient form of forward contract (Ayub, 2007). Under *salam* contract*,* the price is paid in advance at the commencement date of the contract for prescribed goods to be delivered later. *Salam* have been used interchangeably with *salaf* in the *hadith* of Prophet Muhammad p.b.u.h.to describe the contract for future delivery of specified goods with up-front payment of the price. The parties stipulate a certain time for supply of goods of specified quantity and quality.

ISLAMIC PERSPECTIVE ON SALAM

The permissibility of *salam* is unquestioned by the majority of *Fuqaha* based on the hadith of the Prophet (p.b.u.h) narrated by Bukhari and Muslim: "Whosoever make buying and selling by way of *salaf* (*salam*), he should do the buying and selling with a clear dose and scales up to the time limit". The Hanafis, Hanbalis, Shafi'is and Malikis agree that the *salam* is permissible although each of the jurisdictions has their own definitions regarding the *salam* contract.

PILLARS OF *SALAM*

Majority of *fuqaha* as well as DSN-MUI in its *fatwa* No. 05/DSN-MUI/IV/2000 concerning *salam* contract considered that *salam* is valid when five pillars are fulfilled:

1) Buyer (*al-muslim*),
2) Seller (*al-muslam ailaih),*
3) Transaction objects/goods (*muslam fihi*),
4) *Salam* capital,
5) Agreement of offer and acceptance (*sighat ijab qabul*)

REQUIREMENTS FOR *SALAM*

Ayub (2007), Usmani (n.d) and Sabiq (2006) consider some important similar things about *salam*:

1) The Islamic legal basis for buying and selling greeting comes from Al - Qur'an, *hadith* and consensus of the jurist (*ijma*). According to Ibn Abbas, the Qur'an verse 2:282 also refers to *Salam*. He says that according to analogy if postponement of payment is allowed then postponement of the delivery can also be allowed.
2) Another *hadith* reported by Imam Bukhari and Imam Muslim described about how *salam* should be practiced. The *hadith* mentioned that upon migration from Makkah, Prophet Muhammad p.b.u.h. came to Madinah, where the people used to pay in advance the price of fruit (or dates) to be delivered within one, two and three years. However, such sale was carried out without specifying the quality, measure or weight of the commodity or the time of delivery. The holy Prophet commanded: "Whoever pays money in advance (for fruit) (to be delivered later) should pay it for a known quality, specified measure and weight (of dates or fruit) of course along with the price and time of delivery".
3) The sale of a commodity which is not in the possession of the seller is not permitted.
4) As reported by Imam Bukhari, Abdur Rahman bin Abza and Abdullah bin Abi Aufa, Companions of Prophet Muhammad p.b.u.h., upon asking about *Salam* goods said, " … when the peasants of Syria came to us, we used to pay them in advance for wheat, barley andoil to be delivered within a fixed period". They were again asked, "Did the peasants own standing crops or not?" They replied, "We never asked them about it". Therefore, it is not necessary that the *Salam* seller himself produces the goods to be delivered in the future.
5) It is permissible to ask for security or a pledge in a *salam* transaction as proved from the Sunnah of Prophet Muhammad p.b.u.h. Imam Bukhari has captioned two chapters "*Kafeel fis Salam*" and "*Al-Rihn fis Salam*" and reported that the holy Prophet borrowing grain from a Jew against the pledge of an iron breastplate. The seller can be required to furnish any security, personal surety or a pledge. In contemporary world, the bank, in the event of the seller's default, has the right to sell out the pledge and purchase the stipulated goods from the market in collaboration with the customer or take away his advance payment out of the sale proceeds and return the balance to the owner. If the bank gets its money back, it cannot be more than the price paid in advance, as the advance price is like a debt outstanding on the seller. Purchase of the stipulated commodity by the bank from the sale proceeds of the pledge should not result in any exploitation of the customer.

Furthermore, Ayub (2007) described the provision of goods / commodities that can and cannot be traded through *salam* contract. As how the Prophet Himself practiced, *salam* contract is suitable for agricultural commodities, even though it is not limited to that type of goods, along with the development of *fiqh*. Commodities have to be, among essentially the same type, not differ from each other significantly. For example, plants, although grown on different land, if it comes from the same type, would look similar to each other. Money, or commodities that have the same character of money, cannot be traded through *salam* contract. Not only that, in *salam*, both seller and buyer can enter into a parallel contract. In contemporary condition, bank as seller can sell goods on parallel *salam* on similar conditions and specifications as it previously purchased on the first *salam*, without making one contract dependent on the other. Meanwhile, the date of goods delivery may be set the same between the two *salam* contracts. Besides the financing of agriculture, this type of *salam* can also be used to finance trade inventory, where the Islamic bank pays an advance for the customer to purchase inventory from a wholesaler and deliver to the bank which the bank can either resell to the customer at a higher price or to a third party (Ayub, 2007).

SOME PREVIOUS STUDIES ON *SALAM*

Uthman (2003) called *salam* as a combination of financing, production and sales. The transaction based on *salam* is attractive to buyers because it can serve as a hedge against the risk of rising commodity prices, the goods / services in the future. On the other hand, it is also attractive to sellers because there is no financial debt burden represented by the contract. There is also no interest has to be paid on the principal, and any risk of change of the commodities price in the future will be transferred to the buyer. Afterward, Elheraika (2003) wrote about how *salam* is implemented in Sudan. In his perspective, Islamic financial system, particularly through *salam* contract, offers great opportunities for development of the agricultural sector in Sudan. That is because the system is suitable to be applied to meet the main needs of farmers, as a source of long-term financing with shared risk and relatively affordable pledge burdened to farmers. At the national level, the Islamic financial system could reduce the pressure on inflation, because the financial aspect related closely with real economic activity in the economy. On the other side, just like Sudan, Rosly and Ismail (n.d) wrote that Islamic banking industry in Malaysia has also implemented the *salam* contract. The market uncertainty and price volatility makes investment in the agricultural sector has relatively risky. However, under the *salam* contract, market risks could be reduced, whereby the banks can provide financing in cash in advance.

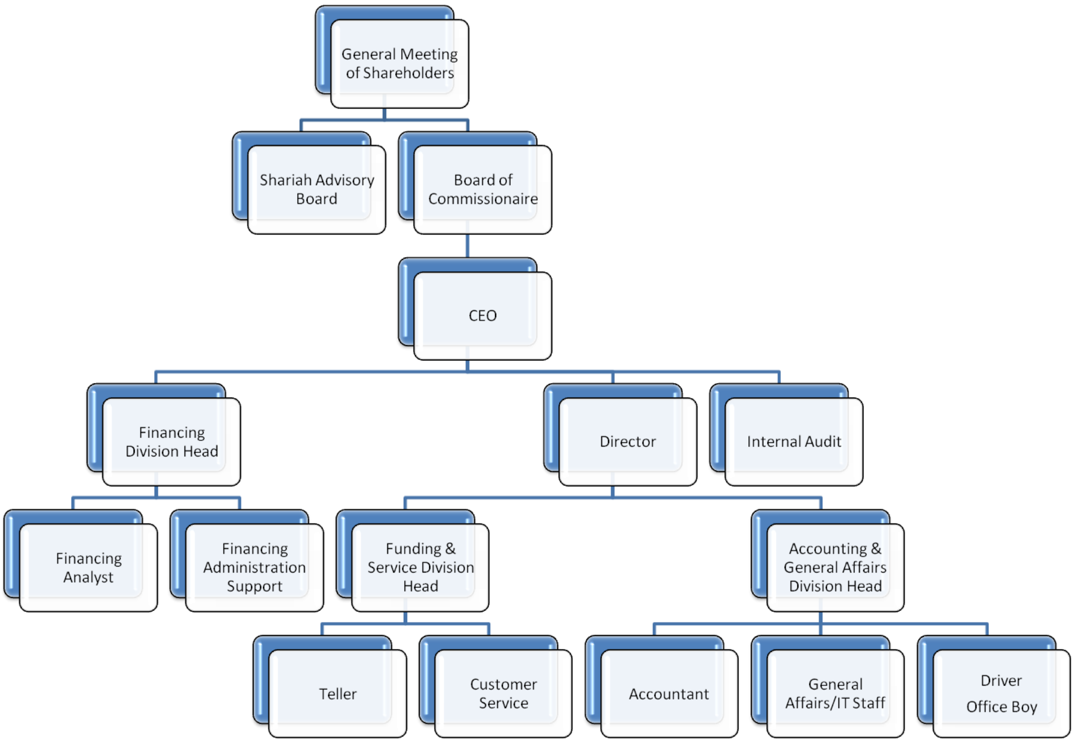
RESEARCH METHODOLOGY

This study also employs qualitative method by analyzing data collected through in depth interviews with several people[1], field research, and site visit to the agriculture business which use the *salam* financing, as well as library research. As this study applies a case study, thus, data used in this study includes literatures about *salam* contracts, *salam* financing's business model which currently practiced by BPRS Dana Mulia and opinion from the experts on Islamic finance. This study is considered an inductive and exploratory study based on real problems faced by IFIs. The specific case analyzed is the BPRS Dana Mulia and some of its clients. Sekaran (2003) points out that this type of research can be conducted to increase understanding on specific issues which may frequently or occasionally occur in organization context. Beside, this study is also purposed to find methods to deal with those issues. Moreover, it examines problems faced by the Islamic rural bank that tried to introduce a seemingly *salam*-based financing in its operations and accordingly proposes some alternative solutions for the problems which identified by this study. The following part elucidates the profiles of BPRS Dana Mulia and elaborates its current *salam* financing testing. Another section of this study also discovers and examines some issues related with the financing scheme.

ABOUT BPRS DANA MULIA

Located in Laweyan, Surakarta, Central Java, BPRS Dana Mulia was legitimated as the first Islamic rural bank in Surakarta on March 26, 2008 and commenced operations on April 1, 2008. The bank operates under the Governor of Bank Indonesia Decree No. 10/12/KEP.GBI/2008. During its business operation, BPRS Dana Mulia's growth of assets is amounted in between Rp5Billion. To run its business, BPRS Dana Mulia is supported by the organizational structures as can be seen in Figure II below. As an Islamic rural bank aiming to serve the society throughout Islamic banking products, especially targeted to the small and medium enterprises, BPRS Dana Mulia provide various kinds of financing. One of the financing is based on *salam* contract. Clients of the *salam* financing include farmers or entrepreneurs operating in agricultural business sectors. With regard to the*salam* financing, BPRS Dana Mulia exercised the first financing on 17 December 2010 and the second financing on February 2011. The agriculture business area reached by BPRS Dana through *salam* financing is not very huge. It is due to its unavailability around the business operation area of BPRS Dana Mulia. To expand the market shares, BPRS Dana Mulia set a certain radius to find out whether agriculture business area exists. If they are cannot be found, then the radius will be set larger.

Figure II. Organization Structure of BPRS Dana Mulia



Source: BPRS Dana Mulia

DISCUSSIONS AND ANALYSIS

CURRENT PRACTICE OF SALAM FINANCING IN BPRS DANA MULIA

The study comes out with a finding that BPRS Dana Mulia has done a modified *salam* financing. The bank's *salam* financing is different from the one described in Islamic teachings. This is because in the financing, there is no handover imposed between the client (farmer) and the bank. The bank just trusts the client to sell the harvested commodities directly to the end buyer (wholesalers). The reason which underlies the bank to take this decision is because the clients more experienced in the agricultural sector compared to the bank and has used to sell the harvest directly to wholesalers. Besides, the bank also considers that under the modified *salam* financing, the scheme is relatively more simple and feasible to be conducted (Nasir, 2011, March 14, 15). Up to this stage, readers may then ask about what the BPRS Dana Mulia gets from this contract. When the contract is commenced, the client will notify the bank about margin it will receive from the sale of its harvest to the end buyer. After that, it agrees to share some margin to the bank and pay the bank in instalment every month. Basically, the policy of margin payment will be discussed between bank and client themselves, whether it will be paid through in instalment basis or be paid totally at the settlement of the *salam* contract. Though this option is available, as long as the clients agree, the bank prefers to receive the margin to be paid in instalment each month. By this mode of payment, the bank considers that it can obtain some benefits, such as to monitor how client's business has been going, to bind client's commitment, to maintain the banks' cash inflow so that it later can be calculated as basis for profit sharing. Eventually, the money from the harvest sold will be paid to the bank as to complete the initial debt settlement. In short, the process of *salam* financing practiced by BPRS Dana Mulia is presented in Figure III.

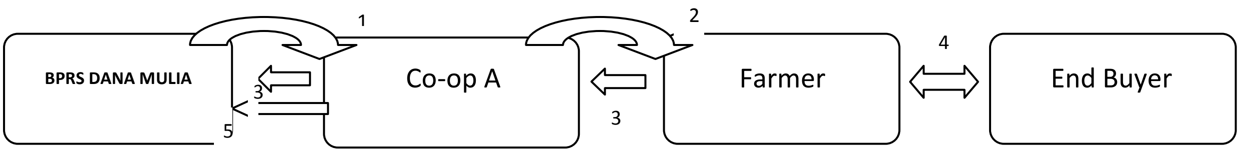
Figure III. General Mechanism of *Salam* Contract Implemented in BPRS Dana Mulia

Source: Interview with BPRS Dana Mulia's Directors

Where:
1: *BPRS* Dana Mulia, as a buyer, grant *salam* financing amounted the commodities price
2: Client pays the margin instalment each month
3: Client sale the commodities directly to the wholesaler
4: At the end of the contract term, client pay the last instalment of the margin, added with the initial *salam* financing amount.

Moreover, the formula is not applied exactly the same to the two clients of BPRS Dana Mulia. One of the two clients, say A, is a co-operative which grants financing to rural society. Client A, as BPRS Dana Mulia's agent will directly distribute the *salam* financing to farmers as the co-operative's members. The bank use executing mode in financing the co-operative. Thus, the bank does not involve in any transactions between the co-operative and its members. However, since financing granted by Client A to its members use conventional mechanism, the whole transaction could not be recognised as parallel *salam.* Subsequently, the rest of the mechanism of the financing is relatively similar and will be briefly shown in the Figure IV below.

Figure IV. Mechanism of *Salam* Financing Implemented in *BPRS* Dana Mulia to Client A

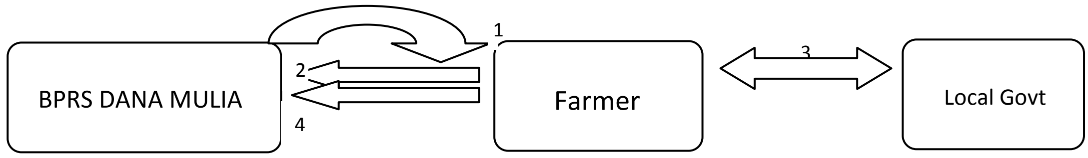


Source: Interview with BPRS Dana Mulia's Directors

Where:
1: BPRS Dana Mulis, as a buyer, grant *Salam* financing amounted the commodities price
2: Client A directly distributes the *Salam* financing to the farmers
3: The farmer pays the debt instalment each month or according to the contract with A, and A pays the margin instalment each month to BPRS Dana Mulia
4: The farmers make sell and purchase transaction directly to their wholesaler
5: At the end of the contract term, Client A pays the last instalment of the margin, added with the initial financing amount.

As compared to the first *salam* financing scheme, the second *salam* financing scheme applied to another BPRS Dana Mulia's client, say B, seems more simple. Client B who is a big-operating farmer received tenders from local government to plant a variety of commodity crops. However, since the Government has not provided the capital to Client B, then he applied for financing proposal to the BPRS Dana Mulia. This time, similar as the previous, BPRS Dana Mulia also acts as a buyer. Through *salam* contract, it pay the agreed full amount of the agricultural commodities. Because the customer already has the Government as its end buyer, then when harvest time arrives, the BPRS Dana Mulia will not receive the commodities but will just let the Client B to sell directly to the local Government. In short, the *salam* financing granted to Client B was conducted using scheme which can be seen in Figure V below.

Figure V. Mechanism of *Salam* Financing Implemented in *BPRS* Dana Mulia to Client B



Source: Interview with BPRS Dana Mulia's Directors

Where:
1: BPRS Dana Mulis, as a buyer, grant *Salam* financing amounted the commodities price
2: Client B directly distributes the *Salam* financing to the farmers
3: The farmers make sell and purchase transaction directly to their wholesaler
4: At the end of the contract term, Client B pays the last instalment of the margin, added with the initial financing amount.

COMPLIANCE OF SALAM FINANCING IN BPRS DANA MULIA TO SHARIAH ASPECTS

Since the *salam* financing implementation has to properly follow all the rules and policies stated in *fatwa* DSN-MUI No.05/DSN-MUI/IV/2000 concerning *salam* contract, this research compares and analyzes the implemented *salam* financing in BPRS Dana Mulia with the *fatwa* and finds out these following inappropriate matters :

a. The *salam* contract does not mention detailed criteria of the ordered goods. In contrast, it has only attached offering letter which reveals kind of seeds and other capital goods which the client intends to buy. While on the other side, *salam* contract regulates the ordered goods in detail to keep the buyer away from uncertainty (*gharar*).
b. In the applied *salam* financing in BPRS Dana Mulia, there is no delivery of goods. Thus, the contract is yet to be concluded. This happens because the bank (purchaser) prefers its *salam* client (buyer) to sell the harvested commodities to other party (end buyer). That transaction consists of certain amount of margin it may be proceed as if the bank acts to sell the commodities by itself. At last, bank only provides the client some amount of *salam* financing and receives it back with additional margin.
c. No matter how better or worse the quality of the harvested goods is, the bank still earns the same amount of money it ought to receive from the *salam* client (including the margin). Yet, bank also has no certain policy concerning default of harvesting caused by *force majeure*.
d. Fund channelling to co-operative which still re-distribute the fund using conventional scheme is considered not appropriate. This can be analogue that the BPRS contributed in investing its funds through questionable financing target. It would be saver for the BPRS to channel its funds to Islamic co-operative or put some special conditions for the conventional co-operative to channel the funds using acceptable Islamic financing scheme.

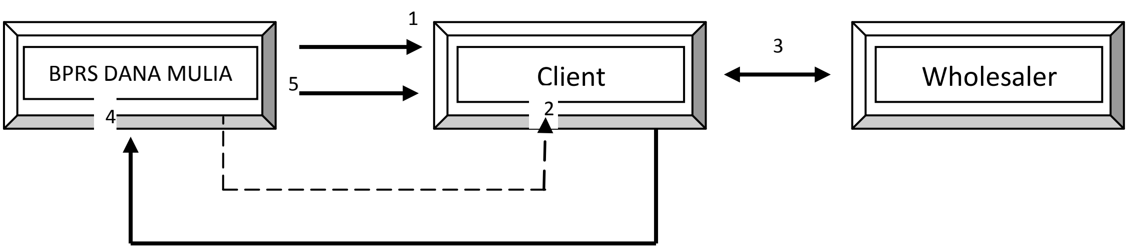
SUGGESTIONS TO IMPROVE THE COMPLIANCE OF *SALAM* FINANCING IN BPRS DANA MULIA TO SHARIAH ASPECTS

Since the *salam* financing implementation has to properly follow all the rules and policies stated in *fatwa* DSN-MUI No.05/DSN-MUI/IV/2000 concerning *salam* contract, this research compares and analyzes the implemented *salam* financing in BPRS Dana Mulia with the *fatwa* and finds out these following inappropriate matters. Beside had compared and analyzed the applied *salam* financing in BPRS Dana Mulia with the *fatwa*, researcher had also interviewed Mr. Cecep Maskanul Hakim (a member of National Sharia Board - Indonesian Ulama Council and a Researcher in the Central Bank of Indonesia) and Mr. Imam Wahyudi (lecturer of the Faculty of Economics University of Indonesia). Based on the researchers' analysis and interviews, it is wrapped up as these points showed below:

- The margin instalment every month the client pays to the bank violates the *salam* contract. As its basic feature, in *salam* contract, the bank purchases the commodity to the customer, so handover of commodities should be done as well. *Fuqaha* from the Shafi'is allows commodities not to be delivered in a lump sum, but none of any *madzab* allows margin paid to the bank through the instalment per month, especially before the completion of the sale of commodities to the end buyer
- Although bank has the right to possess the margin is, the margin is actually may not be paid through instalment, because before the contract end, client won't have earned the margin as well as the commodities have not been sold
- The distribution of money in the *salam* financing, followed by the payment of some money which is more than the amount of initial financing amount is as similar as usury in the conventional loan
- Bank must involve the end buyer at the end of the contract. If bank doesn't want to accomplish delivery of agricultural commodities to itself that will be recorded and recognized as inventories, at least on the same day with delivery of commodities, the bank makes a *wakalah* contract. Its function is to delegate the role of banks as the seller to the customer to help bank selling the commodities to the end buyer. However, about who the final buyer is needs to be known by both parties and clearly mentioned in the contract
- As a business entity, it is very reasonable to charge the margin instalment per month to maintain the cash flow or as a pledge so that the bank has received partial payment of the financing in case there will be the problem of the financing settlement in the future. But, the bank should consider that compared to the ideal *salam* contract, the mechanism is not permitted because the instalment will violate the aim of the contract itself. The financing based on *salam* contract aim is to help the client get the initial capital, meanwhile the instalment policy will reduce the capital possessed by that client.

Although the practice of *salam* financing in BPRS Dana Mulia is not ideally conducted based on Islamic principles pertaining *salam* contract, still it is not impossible to perform the financing scheme with few adjustments. The main adjustment is to eliminate the implementation of margin instalment. The second adjustment is to make *wakalah* contract at the end of the *salam* contract term, for client to directly sell the commodities to the end buyer, then give the outcome of the sale back to bank, with the shared margin between them. The recommended new design of the *salam* contract mechanism is shown in the figure VI.

Figure VI. Recommendation of Mechanism of *Salam* Financing to be Implemented in BPRS Dana Mulia



Where:
1: *BPRS* Dana Mulia, as a buyer, grant *salam* financing amounted the commodities price
2: At the end of the contract, after the commodities have been harvested, bank made the initial *wakalah* contract to delegate the sale of commodities to the wholesaler. The two parties also set the commission (*ujrah*) will be given to the client, at some percentage from the selling price
3: Client makes the sell and purchase transaction directly to his wholesaler
4: Client gives the money from the transaction to the bank
5: Bank gives the commission to client

COMPLIANCE OF SALAM FINANCING IN BPRS DANA MULIA TO ACCOUNTING RULES

In practice, BPRS Dana Mulia use PAPSI 2003 issued by Bank Indonesia and PSAK No. 59 issued by Ikatan Akuntan Indonesia to maintain its accounting records as well as to prepare its financial statements. From the interview, it can be found that BPRS Dana Mulia did not aware that some areas in PSAK No. 59 about Accounting for Islamic banks had been revised and improved in some new accounting standards. That which related to *salam* is now explained in PSAK No. 103 concerning Accounting for *Salam*. Up to the study was carried out; BPRS Dana Mulia has not received a correction from Bank Indonesia. Thus, it still continues the usage of the old-version accounting standards. To this fact, Hakim (2011) explains that PAPSI 2003 is still relevant to be used as a reference in recording the transactions. However, for the reference for *salam* operational as well as more update and comprehensive accounting practice, BPRS Dana Mulia is suggested to follow the newer version of accounting standard, in this case is PSAK No. 103.

CONCLUSION

This study basically examines the case study of BPRS Dana Mulia, an Islamic rural bank in Surakarta, Central Java, Indonesia which tries to develop a new Islamic financing product, termed as *salam* financing. After analyzing the operational aspects of the *salam* financing, this study found that the practice of *salam* financing in BPRS Dana Mulia is yet ideal as it violates some of the important *shariah* aspects drawn by the *fatwa.* However, this finding does not immediately mean that the practice is not good at all. The researcher appreciate the experiment conducted by BPRS Dana Mulia to contribute in developing wider range of Islamic financing products which can be improved further to make the experiment more successful. Thus, this study provides some suggestions to adjust the current *salam* financing mechanism especially those which relate with payment and delivery mode. It is expected that the suggested financing mechanism can make the *salam* financing be more feasible (in term of *sharta* compliance and Islamic banking operational) to be applied by the Islamic banks. In the long-run perspective, *salam* financing which frequently related (although it is not a must) with agricultural sector can contribute play an important role to escalate welfare and decrease poverty which basically the goals of Islamic economics. However, to achieve that, thorough supervision especially from the *fatwa* authority as well as Bank Indonesia should always be maintained in order to keep the financing aligns with the regulations attached to it. In addition, this study also finds out how BPRS Dana Mulia conducts its accounting practice for its *salam* financing. It can be observed that the bank still use PAPSI 2003 and PSAK No. 59 as its reference for preparing its financial report. As currently there is PSAK No. 103 which contains more update and comprehensive accounting standard for *salam* contract, BPRS Dana Mulia is suggested to use this standard for its reference in preparing financial report for its future *salam* financing. Lastly, we recommend that this study can be continued further by observing how pricing policy as well as risk management system be applied for *salam*-based financing.

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