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Reforming Ineffective Subsidies through Bay' al-Salam: A Conceptual Framework

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Abstract

This paper explores the possibility of Bay' al-Salam as a tool for reforming ineffective government agricultural subsidies. Using a qualitative and literature-based conceptual analysis, it reviews Salam literature alongside studies on agricultural subsidies and documented cases of ineffective subsidies such as cases in Malaysia and Indonesia. This study reveals that Salam can effectively replace fiscal subsidies as it demonstrates superior potential in enhancing farmer empowerment including their autonomy and financial capacity, ensuring shariah compliance. The novelty of this paper lies in proposing Salam as a substitute for conventional subsidies, departing from the prevailing focus of Salam literature on structural modifications. Adopting Salam in place of subsidies may help reduce fiscal burden, help alleviate farmers socioeconomic conditions by breaking the cycle of ineffective subsidy, offering a practical, Shariah compliant support to expedite agriculture sector development and economic reform.

Keywords: Islamic Agricultural Finance, Ineffective Agriculture Subsidy, Subsidy Substitutes, Subsidy Reform, Shariah-Compliant Policy Instruments

Introduction

The objective of this paper is to develop the idea of Bay'al-salam or Salam as a potential substitute for agricultural subsidies. This is considering how the two share analogous notions in the way the two works i.e. providing capital in advance, comprising in the form of monetary aids, or any other support in exchange for obtaining production. Moreover, the objective between Salam and Agricultural subsidies are comparable in the gist of mitigating the economic hardships faced by the farmers and uplifting their socio-economic status. At the same time, this allows to explore the government entities as a potential financier of Salam especially

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considering that the government would have the "interest" to receive commodities as repayments.

In the recent decade, there has been a rising interest in the modern Islamic finance literature to revitalize Salam as an agriculture financing. However, in reality, the practices of Salam is scarce and not daringly ventured. Salam is underutilized in the financial institution settings and this is commonly associated with the high-risk factors, in particular, risks are heightened as attributable to risks in agriculture ventures. Furthermore, the lack of proficiency in handling Salam and unparallel interest of handling agriculture commodities as repayments further agitates bankers or financial institutions to be the financiers of Salam (Kaleem & Ahmed, 2016; Manoori et al., 2018; Muneeza et al., 2011; Rahma & Saud, 2020). This is because the benefit of Salam can only be successfully or equally enjoyed by financiers through the profit gained from selling commodities.

Contemporary researchers believe that Salam is expedient despite the risks that it poses. Considering the modern context consisting of different success rate factors, there is ample room for innovations and market opportunities. Different models of Salam have been proposed to counter the variety of risks that the instrument and agriculture venture poses to improve Salam's feasibility in the current setting. Salam is deemed relevant in the present especially when issues of lack of proper financing remain a persistent problem among farmers, particularly smallholder farmers who are still trapped in poverty.

Unlike the present trend in literature which proposed financial institutions to adopt avant-garde approaches or hybrid contracts of Salam, this paper looks into the possibility of shifting from subsidies to employing Salam. This paper's novelty lies in the perspective of exploring the government as a financier to Salam, instead of financial institutions. This is because Salam model is suitable for financiers who are associated with the agricultural sector to keep the execution of Salam more direct, less complex, and uphold the virtue of Shariah rulings (Ehsan & Shahzad, 2015). Additionally, the conditions of farmers who are in a poor state are normally non-bankable, they often do not have collateral to fulfil the requirement of banks as security (Muneeza et. al., 2011).

In light of this, the objective of this study is to explore Salam as a substitute for agricultural subsidies by analyzing its viability by identifying:

1. Understanding Salam as agriculture financing
2. Comprehending agricultural subsidies and exploring instances in countries in which Salam can potentially be implemented

3. Conceptualizing Salam as a subsidy replacement and the government as the financier

This study contributes to addressing issues of ineffective subsidies through Salam. At the same time, it adds value to contemporary Salam literature and literature related to agriculture financing. Section 2 will provide an overview of Salam and its application as agriculture financing followed by Section 3 which unfolds a general overview on subsidy. The research approach is explained in Section 4. Subsequently, Salam as a replacement for agricultural subsidy is discussed in Section 5. Section 6 concludes this paper and Section 7 outlines Practical Implications and limitations to this study.

Bay al-Salam or Salam: A General Overview

In unfolding the idea of Bay' al- Salam as agriculture financing, this particular portion of this paper will delve into the definition of Bay' al-Salam which is the exact depiction of how it works, the elements constituting Bay' al-Salam, stipulated conditions which the author of this paper finds it necessary to comprehend how Salam works and the linkage with prerequisites to complement Salam gaps, remove uncertainty and ensure optimal benefit to both buyer and seller as it is known that Salam itself is risky, top off with agriculture which has its risks. This section will be concluded with instances of adjustments that are tailored to contemporary challenges and opportunities.

Notion of Bay' al-Salam as Agriculture Financing

Systematic Salam is defined as a sale transaction involving an advance full spot cash payment for a specified commodity that is deferred in nature but needs to be supplied by the seller at a predetermined future date (Usmani, 1998). Bay' al-Salam is commonly recognizable as an agricultural financing instrument because of its historical account as financing support to farmers replacing interest-bearing loans after rulings of interest (riba) prohibitions were revealed (Ehsan and Shahzad, 2015; Parveen, 2022; Putri et al., 2019). Salam was practised by the people of Madina before the arrival of the Prophet, after the prohibitions of Riba, Salam was formally allowed but bound to certain conditions to remove the uncertainty (gharar) elements.

Salam became a prevalent subsistence to farmers as the advance full payment from Salam serves as a stopgap for them allowing them to support their livelihoods, starting and performing their farming activities while also fulfilling their daily necessities until harvest (Putri et. al., 2019). Compared to loans with Riba, Salam able to fulfil farmers' needs in general while eases farmers' financial burdens as they are only required to make repayments in the form of commodities they produce. Additionally, Salam is beneficial to aid especially the marginalized small-holder farmers who have serious financial constraints compared to the upper-scale farmers. Apparently, farmers especially the small-scale are unnecessarily eligible to access formal financing because of the requirement of collateral as security, so there are still groups of non-bankable farmers. Therefore, Salam allows equal financial power to all farmers groups especially the indigent segment as highlighted by Parveen (2022):

1. Smallholder farmers are not guaranteed to enjoy profit all the time. Salam can significantly help farmers in general, but it would especially be advantageous to the lower-level farmers, whose condition often experiences critical funding issues and are barely able to preserve profit earnings after covering the input necessities and incurring extra expenses such as agricultural transportation needs. Against this backdrop, full cash advancement through Salam which not only encompassed the financing needs for cultivation purposes but also topped off with profits allows securing farmers' revenue and income.
2. Salam will further help to secure farmers' income as it also can supplement maintenance funding such as for their machinery or other equipment, as well as other expenses like labour charges, water charges, utility charges, and other operational costs.
3. Salam also may help resolve poor irrigation issues which are commonly faced by indigent farmers in rural areas.
4. Salam can help to solve the issues of finding buyers who are not within the expertise and capacity of smallholder farmers who do have limited commercial networks.

Overall, Salam can be a powerful agricultural financing tool as it empowers farmers through upfront full capital which is not only inclusive of cultivation needs but also profits to farmers. Salam could make a difference in the industry because full upfront funding ensures farmers have the optimal capacity and accessibility to inputs to initiate farming and have the financial means to also maintain their farm thus ascertaining production and quality output. To assist in discussing further, the following section will explain the components of Salam as agricultural financing as well as the concept of parallel Salam which functions to enable financiers to have guaranteed buyers.

Salam: Key Elements and Conditions

Based on the above explanations, it can be grasped that four important elements constitute the execution of Salam namely buyer (Rab al-Salam), seller (Muslim ilayhi), goods or subject matter (Muslim Fihi), and price (Ras al-Mal). To be more succinct and facilitate discussion i.e. contextualizing Salam as agriculture financing, firstly it is needless to say that the buyer will be the financier. Secondly, farmers are the sellers who are obliged to supply determined goods at pre-agreed dates. Thirdly, commodities are the determined agricultural goods, and finally, price is the advance full spot payment which is composed of the expenses needed as well as the profit of sold goods. Salam is subjected to several strict conditions to eliminate the gharar element and protect the interests and rights of both contracting parties, Usmani (1998) concisely outlines these conditions as follows:

1. The validity of Salam is only satisfied when the buyer pays full price to the seller at the time of executing the sale contract. Because without full payment it would be equivalent to a sale of debt against debt which is prohibited in Shariah. Furthermore, the rationale behind Salam's permissibility is to cater to the prompt necessities of sellers. Notably, Muslim jurists unanimously indicate the full-price payment as essential in Salam. However, according to Imam Malik, buyers may be granted by the seller a concession of two to three days, but this concession should not constitute a portion of the agreement.
2. The subject matter or commodities allowed in Salam are restricted to commodities of which quality and quantity can be precisely determined.
3. Salam cannot be conducted on commodities that are restrictively asked to be supplied from a particular field or farm. This is to eliminate an element of uncertainty as there are risks of a failed supply of production due to unforeseen circumstances happening to that particular field or tree.
4. The quality of commodities should be fully and expressly specified entailing all possible details.
5. The quantity should be expressly stated in unequivocal terms knowing quantifiable value either by weight or measurement. Weight and measurement cannot be used interchangeably, of which items meant to be weighed are not quantifiable as measure and the other way around. Weighable items are determined by weights and measurable items are indicated by measurements.
6. It is necessary to specify the precise date and place of delivery in the contract agreement.
7. Salam cannot take place for things that require spot delivery like transacting gold for silver or wheat in exchange for barley. Salam is not feasible for transactions that require simultaneous delivery between the exchanges.

Additionally, it should be noted that 'availability of commodities in the market' and 'allocated time farmer of delivery' are the other conditions where the School of Thoughts have different opinions on, these are elaborated in the paper by Usmani (1998).

From the foregoing discussion, it can be understood that Salam is permissible to satisfy the needs of farmers and traders. Salam is advantageous to farmers as sellers as they receive full spot payment to cater to their necessities. Correspondingly, financiers as buyers can also reciprocally enjoy the benefit of Salam as Salam allows them to buy lower than the spot price and sell at a higher price to the market. The difference between the two prices will be the profit accrued to the buyer or financier. However, it should be noted that it is not essential that the price paid in Salam is lower than the spot market price.

Adjusting Salam to Modern Setting: The Use of Parallel Salam and Innovative Approaches

In evaluating the application of Salam in the contemporary setting, the most pertinent issue to financiers is the issue of receiving commodities as repayment. Modern banks or any financial institutions are more well-conversed in monetary dealings (Kaleem & Ahmed, 2016; Usmani, 1998). Handling of commodities, including storing, finding buyers, and selling the commodities to the market is not commonly within the expertise of financial institutions (Kaleem & Ahmed, 2016; Manoori et. al., 2018; Muneeza et. al., 2011; Rahma & Saud, 2020). But Usmani (1998) emphasizes that the notion of a financial institution solely dealing with monetary only and their reluctance to employ Salam because of the lack of expertise, is rather bizarre in Islamic Shariah because profit is considered not legit if earned through lending loan only. Instead, he stated that financial Institutions should embrace the risks of dealing with commodities innovatively to earn halal profit. This is because a basic change in approach is one of the fundamental foundations of the Islamic economy. The Scholar also suggests establishing a professional cell that is proficient in agriculture to mitigate the issues of commodity dealings.

Notably, modern scholars depict that one of the possible ways to tackle this is through the use of Parallel Salam (Muneeza et. al., 2011; Muneeza & Mustapha, 2020; Usmani, 1998). Not to mention, modern scholars also innovate several fresh approaches that can be used other than employing Parallel Salam. For context, Parallel

Salam is a back-to-back Salam where financiers will make a separate Salam contract after successfully undertaking the first Salam with farmers. It should be noted that Parallel Salam should be independent of the first Salam (Rahma & Saud, 2020). In parallel Salam, the financier or in this study, the government, can make a separate sale agreement with a third party to buy the commodities that the government has contracted earlier with the farmers. This parallel Salam will be based on wa'ad i.e. a willing promise. In parallel Salam, the third-party buyer promises to buy the commodities from the government for same-date delivery.

Usmani (1998) explained that financiers can earn profit through parallel Salam which usually have a shorter time frame and may sell at a little higher price compared to the price they paid to farmers in the first Salam transaction. He asserts that financiers can govern their short-term financing portfolios because the shorter the horizon of Salam, the higher the price thus the higher the return. He also adds that, similar to Salam, there are additional stipulated rules that should be observed to execute Parallel Salam legitimately and properly, the following will explain the government and farmers as contracting parties (Usmani, 1998):

1. In the dealing of Parallel Salam, the government entered two separate Salam contracts i.e. as the buyer in the first Salam and a seller in the second Salam. It is crucial to note that these two contracts are independent and unrelated in the sense of obligations and virtue. The contracts should respectively have their drive and their accomplishments should not be conditional on the other.
2. Parallel Salam is only permissible for selling the commodities to a third party. Farmers cannot be the buyers in parallel Salam contracts.

Although Salam is currently not as famously used in practice, issues of proper and accessible financing call for any potential innovative and novel approaches including Salam. The risk that Salam poses should not be regarded as the ultimate excuse to deny its practicability. Muneeza et. al (2011) emphasizes the essence of the legal maxim "Al-Ghunm Bil Ghurm" which means "No pain No gain" and underlines the prospect of innovation as the potential key to Salam's breakthrough.

Many contemporary scholars attempt to innovate Salam to make it more practical for financiers like banks. In the recent literature on Salam, it can be seen that the literature trend of rejuvenating Salam is inclined to modify Salam structures exploring hybrid Salam and employing technology-driven approaches. Tech-centric approaches to Salam were proposed in several research papers such as Online Crowdfunding (Saiti et. al., 2018), integrating Salam with blockchain and the Internet of Things (Muneeza and Mustapha, 2020), and another recent digitalization idea was E-Salam via mobile application proposed by Allaymoun and Hamid (2020). These innovative approaches were proposed to easily connect farmers who are commonly in remote areas and potential financiers. Other potential ways to make Salam viable are devising hybrid Salam structures as illustrated, employing Salam and Wakala (Muneeza et. al, 2011), and Salam and Takaful (Atah et. al., 2019).

The above innovations are in response to improvised Salam to counter several issues that are commonly linked to Salam. Some of the above approaches were proposed to mitigate the issues of handling commodities and finding buyers, especially through exploiting technological platforms such as the use of online crowdfunding (Saiti et. al., 2018), E-Salam (Allaymoun & Hamid, 2020), Blockchain and Internet of Things (Muneeza and Mustapha, 2020). All are intended to reach farmers in remote areas and increase the chance of connecting them with a wide range of buyers and potential investors. These are intended to benefit both financiers and farmers. Financiers can also use Salam and Wakala in which farmers are appointed to sell the goods as some of the farmers are more conversant in selling these commodities (Muneeza et. al, 2011).

Agricultural Subsidies

Overview of Agriculture Subsidies

Subsidy generally refers to governmental actions to grant advantage to producers or consumers (Atanasov & Lubeniqi, 2019). Versatility of subsidies makes it a crucial instrument for the government to steer and achieve variety of policy goals including for farmers and agriculture (Bellman, 2019; Horlick et. al., 2017). Subsidies to small farmers help boost farmers earnings, ensure fair income, this subsequently contributes to socio-economic adjustment, reducing the income inequality gap while also securing necessary public goods (public goods in the context of agricultural subsidy here refers to environmental services such as conservation of landscape and biodiversity) (Atanasov & Lubeniqi, 2019; Bellman, 2019; Horlick et. al., 2017; Salunkhe & Deshmush, 2012).

Additionally, it can be tactically used for bigger aims. Governments can exploit subsidies to influence the patterns of production and supply of commodities

(Bellman, 2019; Horlick et al., 2017). This is because subsidies would create a gap between production costs and consumer prices thus also affecting the supply and demand trend (Salunkhe & Deshmush, 2012). So, subsidies are undoubtedly useful as a market correction tool, they can be used to advance sectors and develop poor regions, especially as they possess attributes to attract investments, so it is not impossible for subsidies to stimulate economic transformation (Bellman, 2019; Horlick et. al., 2017). On the other hand, there are concerns appertaining to subsidies such as in papers by Bellman (2019) and Horlick et. al. (2017) mentioned that the perverse distribution of subsidies can be counterproductive thus resulting in economic distortion. This distortion happens because it will biasedly benefit only the large farmers and successful farmers. Against this backdrop, agricultural subsidies can be both a boon or a bane to the society and economy depending on how they are designated in place.

These subsidies can be classified into direct and indirect subsidies according to Bosch (1985) which was also adopted in a study paper by Atanasov and Lubeniqi (2019). Bosch (1985) explains that direct subsidies intend to influence the prices of input and output as well as farm revenue without direct implications on other prices. Meanwhile, indirect subsidies usually can either affect both industry and agriculture at the same time or affect industry first to influence agricultural prices (Atanasov and Lubeniqi, 2019; Bosch, 1985). Notably, Bosch (1985) stated that indirect agricultural Subsidies are not necessarily aimed to support agriculture. Some instances of indirect subsidies that he listed are subsidies influencing agricultural prices such as local food programs or nutritional (school) programs, which may promote domestic demand and thus would affect relative agriculture prices. Another way of affecting industry is through the supply of domestic resources, variation in economic policy or state may affect prices of internal variables like energy and land that are related to production. A few other indirect subsidies are taxation policies, monetary policies, and trade policies.

Instances of Ineffective Subsidies in Indonesia and Malaysia

While subsidies are often pivotal in helping farmers and boosting the growth of agriculture sectors, there are still limitations to which extent they can help, and this section intends to unfold some issues arising from subsidies. Additionally, this section will specifically look at existing agricultural subsidies in Islamic countries of which the countries are also where Salam potentially be implemented because of existing potential financiers and Muslim farmers market segments. This segment takes examples of rice as subsidized agriculture to make a consistent comparison across different countries. This is also based on different crops require different assistance. Furthermore, rice is one of the staple foods in many countries thus it becomes one of the crops that is given special attention and is subsidized not just to help farmers and increase production but also to attain a satisfactory benchmark of domestic and global food security. Instances of governmental incentives and subsidy schemes or programs derived in this study are in the case of subsidies of paddy or rice in Indonesia and Malaysia. These countries fund subsidies through special allocations from annual budgets.

For example, a study by Alta et. al. (2021) discussed several peculiar incentives and forms of subsidies in Indonesia such as fertilizer subsidies, seed subsidies, seed assistance programs, and Farmer Card (Kartu Tani). Additionally, Indonesia also has a government purchase price policy in which the government directly purchases rice from the producer to ensure price stability and secure rice reserves (Saleh et. al. 2024). The government provided these subsidies and assistance to help boost productivity however based on the data that Alta et. al. (2021) gathered, there are shortcomings in these existing interventions rendering ineffective signs such as flat output growth on subsidized agriculture and subsidies coughing up a relatively high expenditure outweighing the intended benefit i.e., fail to stimulate domestic production.

Firstly, Alta et. al. (2021) highlighted some issues on fertilizer subsidies which include scarcity of demanded fertilizer i.e. the government is majorly subsidizing chemical fertilizers while the most demanded by farmers are organic fertilizers. Not to mention, the supply of these fertilizers is often not timely and when it is available the supply does not meet the demanded quantity. So, at the time subsidized fertilizers are not available, the farmers would resort to non-subsidized brands. However, not all farmers can access equivalent best resorts to still maximize output. This is only within the capacity of large holder farmers while the smallholders had to cut down fertilizer amount or use compost as they cannot afford better quality fertilizers. Alta et. al., (2021) suggest sustaining the use of Farmers' cards but tweaking its function such as adopting direct payments.

Secondly, Alta et. al. (2021) discussed the Farmer card (Kartu Tani), which is deemed to be dispensable based on its attribute and how it functions. While it was developed to claim and pay a certain quota of subsidized fertilizer, Farmers are still required to spend with their own money and top up the account with a balance. This is because the card is only equipped with details on the available quantity of subsidized fertilizer purchasable by the cardholder. The card poses limited freedom and selections to farmers in which farmers are restricted to one input (fertilizer) option, and the selections are limited to the subsidized fertilizers provided by Pupuk Indonesia only. The card does not help eliminate the long complex process of acquiring inputs.

Thirdly, the government of Indonesia aids in seed provisioning via seed subsidies and seed assistance programs. Both incentivize the use of high-yielding inbred and hybrid seeds. The difference between seed subsidies and seed assistance is that farmers can buy subsidized seeds at discounted prices. On the other hand, seed assistance allows only certain eligible farmers to access the best quality seeds free of charge. But, because of the heavy fiscal burden that subsidies inflict and the inefficiency of seed distribution due to competition with assistance, which was concurrently offered, seed subsidy programs were terminated in 2018 and the government only hinged on the latter, seed assistance programs. The Seed assistance program still poorly promotes the use of best-quality seeds, especially on rice plantations. This program is supposed to make the process of accessing the best quality seed fast and efficient.

Similarly, studies by Kari (2018) found that subsidies are taking a toll on the paddy and rice industry in Malaysia. She highlighted that the government has been actively assisting the industry through subsidies and support as it is the main staple food in the country. It is also one of the most safeguarded industries in the country (Daño & Samonte, 2005; Kari, 2018). The government of Malaysia not only provides management and extension services but also subsidies and in-kind interventions channeled to the sector are guaranteed minimum prices, Paddy Price Subsidy Scheme, Seed subsidy and Fertilizer subsidy, credit facilities, research and development, irrigation infrastructure (Kari, 2018; Ramli et. al. 2012).

Kari (2018) highlighted some issues in Malaysia’s rice farming of which some are similar to the problems discussed earlier in Indonesia's case. Among highlighted are:

1. Information gap among farmers, they do not understand the respective roles of varieties of subsidies offered other than the usual ones like fertilizer, pesticides or improved seeds that are easily recognized
2. input subsidies are considered good by the majority of farmers however there are still issues which are cumbersome such as subsidized fertilizers are not suitable to soil type, pesticides leading to secondary problems like diseases, untimely delivery and the quality of inputs in the open market are superior than subsidized inputs;
3. Subsidies for fertilizers are majorly on chemical-based types, while the organic kinds are not resorted to by farmers due to their costs and dubiety of their benefits. Degradation of soil quality preceded by continuous dependence on subsidized chemical-based fertilizers. Resultantly, yields are only able to be maintained by intensifying the use of fertilizer.
4. Based on the majority of respondents an increase in the Producers' Price support scheme seems to not result in any substantial short and medium-term effect on the size of farm acreage, quantity of yield, farmers' productivity and earnings. The researcher linked this minimal effect possibly caused by the heavy use of chemical-based inputs which have worsened the quality of soil top off with some geophysical factors that influence land fertility.
5. There is a negative impact from displacement caused by the crowding out of multiple commercial input demands. This is because it was found common that either the subsidized inputs get into the hands of unproductive farmers who lack necessary resources like land and labour or used by productive well-resourced farmers.
6. Government intervention controlling input and output markets has distorted the markets and weakened their structures. Consequently, the rice industry is impeded and restrains the progress of attaining self-sufficiency and food security in the country.

She also pinpointed the quality issue of subsidized inputs, including:

- The quality of subsided fertilizers did not suit the type of soil at the farm.
- subsidized pesticides created secondary problems such as new diseases; and
- In general, the quality of subsidized inputs is inferior to the quality of inputs available in the open market.

Research Methodology

Synthesis Process

This paper primarily relies on a literature-based conceptual analysis using a three-step synthesis approach. First, a thematic synthesis sorts the literature into two core themes: (i) Salam's application as modern agriculture financing and instances of new approaches to mitigate risks, and (ii) the application of agriculture subsidies and instances of limitations such as in Malaysia and Indonesia. Utilizing literature review on papers in the two core themes are deemed valuable to allow understanding ongoing highlights and challenges, as well as for comparison purposes. As asserted by Snyder (2019), literature reviews are useful to develop an overview of a specified issue of interest. Employing literature review focusing on certain determined issues allows to make assessment on the present state of knowledge of that particular issue of interest (Snyder, 2019). Correspondingly the approach enables developing research agendas, detecting knowledge vacuum, or even merely to make discussion on the predetermined topic of interest (Snyder, 2019).

Secondly, a comparative conceptual analysis was conducted to identify the gap of existing subsidies which could be bridged through Salam-based financing. Finally, an integrative synthesis was employed to merge the insights from both core themes leading to the propositions that Salam offers an efficient and more-shariah compliant alternative which acts as a better structural reform tool that directly mitigates the drawbacks of ineffective agricultural subsidies, and gear towards a more sustainable agriculture sector growth.

Inclusion Criteria

The selection of literature for conceptual review followed several criteria:

1. Temporal Scope: Publications considered for review range from 1990s up to 2024. Early works such as by Umar (1995) and Usmani (1998) were considered essential due to their foundational discussions on Salam application in "contemporary context" and particularly concerns of Salam application from financiers' perspective.
2. Topical Relevance:
    a. Literature on modern Salam applications, risks, and novel approaches by contemporary scholars

   b. Studies on agricultural subsidies, and cases of ineffective subsidies such as in countries potentially could adopt Salam like Malaysia and Indonesia
3. Conceptual Contribution: Sources that provide essential theoretical or conceptual insights relevant to the comparison between Salam and subsidy
4. Sources type: Peer reviewed academic journal and authoritative publications (formal documents or paperwork published by formal organizations and authorities).

Discussion: Conceptualizing Salam to Reform Ineffective Subsidies

The earlier sections have unveiled the application of Salam as agricultural financing in this modern setting. On top of that, it has also highlighted some shortcomings of subsidies. Based on the review on the two separate subjects, this paper managed to identify the common grounds and projected some ways in which Salam can be leveraged as a better alternative to the current subsidy incentives. While bridging Salam as a better option, this section will also shed light on the prospect of the government entity as an ideal financier to furnish Salam and the potential benefit of replacing the current subsidies with Salam.

Better Sector's Promotion through Better Farmers' Empowerment

One of the potential advantages of shifting to Salam is the likelihood to get expedited growth of the sector. This is considering how Salam has the capacity to empower farmers financially in comparison to the existing subsidy schemes. Among the different types of subsidies, Salam is analogous to direct subsidies thus it has the potential to achieve the same goal of why the incentive was provided in the first place. Firstly, the bottom line between two (Salam and direct subsidies) are similar especially in the gist of providing upfront assistance and other supports in-kind of monetary or any other visible and invisible assistance to farmers. But the very distinctive difference between the two is in the extent of the financial assistance provided as capital. Subsidies only provide partial coverage of financing expenses needed by farmers whereas Salam extends capital promptly in advance and in full cash to farmers. Thus, if compared between the two, Salam has a better advantage in empowering farmers financially hence also a better speed to promote the sector's growth.

For example, Ogunbado and Ahmed (2015) addressed that farmers in Nigeria experienced shortages in many sorts of necessities and facilities needed in their farming activities leading to stunted growth of the agriculture sector. Correspondingly, the researchers suggested the implementation of Salam would help mitigate these issues which are asserted to be rooted from lack of fundings and capital (Ogunbado and Ahmed, 2015). They asserted that with Salam in place liquidity problems would essentially be tackled, thus the mentioned problems would also gradually be resolved, eventually rejuvenating the sector back.

On the other hand, subsidies only provide benefits to farmers through discounted prices on inputs such as seeds, pesticides, and fertilizers. In contrast with Salam, subsidies only partially alleviate a fraction of expenses, meaning they will need to pay remaining expenses from their own funds. Unfortunately, in reality, taking into account different socio-economic levels exist in the society, not all farmers have the financial capacity to fulfill their farming necessities comprehensively and sufficiently. In this instance, subsidies fail to cater to the different socio-economic groups of farmers equally, especially the marginalized groups, the poorer class farmers, who are incapable of supplementing the cost of input subsidies to access the best quality inputs. Resultantly, these small-holder farmers are often compelled to either reduce the number of inputs used or use a lower quality cheaper input such as compost as fertilizers.

In contrast, Salam has the capacity to provide farmers with full capital needed for their essential expenses. This attribute of Salam makes it able to cater for all different socio-economic status of farmers including the small-scale farmers or the poorer class farmers to access the best quality inputs equally like the large holder farmers; which were not achievable through the previous discussed subsidy case. Furthermore, Salam is in a way better than subsidy in the regards of mitigating the issues of limited options of inputs to farmers which also affects their yield. It is projected that with Salam, farmers will be able to promptly and sufficiently purchase the best and necessary inputs that area appropriate for their soil quality hence subsequently has a better chance to attain increased production. Additionally, subsidies have caused difficulty in accessing inputs promptly because of the long process leading to untimely and insufficient supply. But through Salam, the varying individual farmers' demand could still be promptly catered as farmers are given full cash payment comprehensive of their farming needs as well as profits which they can use for their livings or upgrading their farming activities. So, in comparison to subsidies, Salam is better in terms of farmers empowerment which not only helps improve the sector but also gradually uplifting their socio-economic status.

Up to this point, it is evident that Salam has a better likelihood in expediting the sector as opposed to subsidies. In the earlier discussions, it was highlighted that the process of subsidies is inefficient, typically time-consuming, complex, not to mention, different subsidies would have different processes. The delay in supply has significantly hampered farmers' performance hence also slowing the progress of the sector development. Furthermore, not all farmers are able to cover the late supply of inputs, especially the indigent farmers who do not have the financial advantage to do so. All these arising issues and counterproductive outcomes indicate that the provision of subsidies defeats the objective it was provided in the first place. In contrast, it could be argued that using Salam will be more straightforward, and could avoid the issue of long and complex processes. If farmers are contracted under Salam, they would be able to access their agriculture cultivation necessities promptly and sufficiently through a single contractional procedure. Salam guarantees farmers with full cash capital on the spot, inclusive of covering all their farming necessities and profit, securing their income. In the idea of replacing Salam with subsidies, not only that the farmers are better served and supported, but the government could also reap many advantages in return. Salam would be able to help the government achieve its objective of supporting farmers while at the same time advancing the sector's growth. When farmers are empowered financially, their performance will also likely to improve, production is expected to increase so thus the performance of the sector. With the sector developed, it could become an alternative source of income to the country. In this view, Salam has a better prospect and an ideal recourse to replace the ineffective subsidies.

Assessing the Ideal Attribute of Government as Salam Financier

Scarceness of empirical evidence portraying the success of Salam in the banking industry makes Salam remain uncommon in practice. Some literature has proposed Islamic banks to exploit Salam, but there are also studies addressing the reluctance of bankers to adopt Salam. There are multiple studies inclining towards proposing Salam to be adopted in Islamic banks such as studies by Ahmed and Fida (2020), Allaymoun and Hamid (2020), Atah et. al., (2019), Ehsan and Shahzad (2015), Kaleem and Wajid (2009), Mulyani et. al. (2021), Muneeza et. al. (2011), Muneeza and Mustapha (2020), Saiti et. al (2018). Salam for agriculture anguishes the bankers as they are concerned about high-cost problems such as covering costs reaching remote rural areas and the high amount of comprehensive capital to farmers; issues of non-proficiency in commodity handling; and inexperience in the actual undertaking of Salam (Kaleem & Ahmed, 2016; Manoori et. al., 2018; Muneeza et. al., 2011; Rahma & Saud, 2020).

Despite all the concerns, it is noteworthy to mention one of the legal maxims in Shariah which is “Al-Ghunm Bil Ghurm” as emphasized by Muneeza et. al (2011) which implies "No pain No gain”. The silver lining of the scarceness of Salam is that there are vast innovation openings that have yet to be explored theoretically and to be materialized in reality. While much preceding literature explores banks as financiers, this paper attempts to observe from a different angle, that is finding financiers who would not be distressed in providing Salam. Based on considering aligned interest, this paper finds that the government seems to be more fitting as Salam financier in comparison to the Islamic financial institutions like banks. This is based on how it was commonly pinpointed that the notion of receiving commodities as repayment in Salam is one of the main conundrums inhibiting banks to consider adopting Salam. As earlier highlighted, non-proficiency in Salam and in the commodities handling such as finding buyers, storing and transporting were among the reasons Salam not daringly ventured by banks (Kaleem & Ahmed, 2016; Manoori et. al., 2018; Muneeza et. al., 2011; Rahma & Saud, 2020).

The bank agitations could be understood from the historical practices of Salam and could be linked to the nature of financiers back then. The earlier practices of Salam were prevalent because both financiers and farmers equally reap benefits from Salam. This could be tied to the nature of financiers during the earlier practices which was pinpointed by Zaman (1990), of which he explained that back then the financiers were consumers or traders. Comparing the nature between present banks and previous financiers, the previous financiers had the interest to receive commodities as repayments which they used for consumption or trading. Thus, making Salam serviceable in a quite long-term underscoring the important aspect of ensuring fulfilment of financiers’ interest. Undoubtedly, back then, the financier genuinely could enjoy the benefit of undertaking Salam as it allowed them to acquire their desired goods at lower prices. The previous financiers also knew how to handle the subject matter of Salam, which is the opposite if Salam is to be practiced by Islamic banks, which is expected to be not as straightforward and require many adjustments.

Taking commodities as repayment is beyond the typical responsibilities of the banks. Regardless, there is still rising interest among modern scholars to revitalise Salam in Islamic banking as it is relevant to address the persisting financial problems among farmers.

Many new forms of Salam structures were proposed to ensure that banks would equally be benefitted from Salam structures ranging from proposing hybrid Salam like Salam and Wakala (Muneeza et. al, 2011), Salam and Takaful (Atah et. al, 2019) and using digital-led approaches such as Online Crowdfunding (Saiti et. al., 2018), using Salam with blockchain and the Internet of Things (Muneeza and Mustapha, 2020), using an easily accessible mobile application such as an "E-Salam" as proposed by Allaymoun and Hamid (2020). These innovative approaches were proposed to easily reach remoted farmers and linked them to potential financiers. Looking at these suggested approaches, implementing Salam in Islamic banks is expected to cough up an extra-cost on top of the existing high cost of providing capital to farmers.

But among many proposed ideas from the modern scholars, there is one straightforward way of which Salam could be employed such as underscored by Ehsan and Shahzad (2015), financiers who are related to agriculture will be more fitting, less complex, more straight forward to use Salam and would easily comply with Shariah rulings. This study intends to widens the literature field of Salam and contributing to the knowledge gap of finding and assessing the ideal financier for Salam. Thus, considering expertise aspect, financial aspect, and the aligned interest aspect, this study finds the government as another alternative of feasible Salam financier in these modern settings. Especially, after bearing in mind that the financier should be able to reap mutual benefit of Salam, have aligned interest to take commodities as repayments in addition to also have the capability in terms of financing and have the expertise in agriculture. Considering all the characteristics, this paper finds it worthy to explore the Government as Salam financier. Moreover, to consider exploiting Salam as an alternative to subsidy. The government has almost all suitable features to potentially implement Salam in practice, especially to counter the issues ineffective subsidies. Using Salam to replace the ineffective subsidies could help end the heavy fiscal burden cycle and put stop to counterproductive annual subsidies allocations. In replacing subsidies with Salam, the government would readily have available funds to use for Salam which is the annual budget that is supposedly channeled to subsidy.

In comparison, if Salam is to be implemented in financial institutions settings, it might require to create a new portfolio and allocate a new investment funds, in addition to finding human resources to form a competent unit to handle the agriculture venture under Salam. On top of that, the government could easily find readily available group of expertise and manpower who are skilled in agriculture-related matters to help the supply of Salam and ensures its serviceability in a long run. For example, the government can rely on the agriculture expert departments like the Department of Agriculture to facilitate observing the progress of output production through Salam.

Furthermore, in comparing Salam and subsidies, there is not necessarily profit generated through subsidies to recover the expenses that have been provided and to be cycled for future subsidies extensions. This is considering from earlier discussions of which subsidies were often not fittingly tailored to what is genuinely demanded and needed by the famers, which are best to produce yields. Consequently, the subsidies have slowly shown signs of taking a toll on the agriculture industry based on the deterrent outcomes and the incentives becoming a futile heavy fiscal burden. Meanwhile, if Salam is used in place, capital will be provided to farmers in full amount and promptly on the spot and the government would be able to make contractual arrangements with farmers stipulating the production of a certain commodities of known attributes i.e. quantity, quality, and so forth. In this fashion, it allows the government to pay for necessary expenses on farmers, the amount of funds used is more transparent and precise knowing the outcomes to be expected. The advantage of using Salam is that the amount is precisely tailored to the needs of farmers to produce the desired outputs contracted by the government. In this sense, it could prevent the issues of futile investments and avoid misallocations of funds.

Comparison of Ineffective Subsidies and Salam-based Alternatives: Policy implications

Table 1: *Linking Salam implementation to the mitigation of ineffective subsidies*

Problem context: Ineffective subsidies	Expected outcome of *Salam* Intervention
Fiscal Burden- continuous high subsidization, expenses but low or uncertain productivity	Potentially economical - reduce fiscal wastage and enhance general sector's productivity
High leakage and poor resource targeting	Efficient and clear resource allocations
Market Distortions - market dominated by government, price manipulations, crowding out private sector making supply fragility and high reliant on government supply	Restoring private markets role - eliminate competitions from subsidised price
Low productivity Increase farmers dependence to government aids i.e. subsidies	Financial empowerment enhances farmers productivity and helps establish farmers independence and socioeconomic empowerment Overall, helps create a sustainable agriculture development

Source: Author

Major government subsidies particularly in agriculture are often poorly targeted, and prone to leakages for example benefits failing to reach small producers. This defeats the initial purpose of subsidies. Moreover, ineffective subsidies can create a broader issue, market distortion. Although lower input prices may reduce farmers' expenses in the short term, they also generate an artificial price signal which disfavours private sector actors who cannot compete with the highly subsidized prices. Resulting in crowding out of private sectors and markets becoming dependent on the government who dominated the supply market. Exits of private firms also means farmers are deprived of several other benefits such as a diverse supplier network, variety of quality products, technology and services, creating weak market resilience. There is a risk of supply fragility and continuous dependency on the government aid system. As illustrated in the cases of Malaysia and Indonesia, this dynamic creates high vulnerability to supply disruptions resulting in input shortages that directly affects farmers and impedes the sector's overall productivity.

The conceptual analysis of Salam as an alternative to conventional subsidies posits several significant policy implications for development agencies.

1. Reforming Agriculture Support system: Salam reforms agriculture subsidies and enhanced support through advance purchase arrangements. It helps reduce leakages and is better in targeting and allocating resources. Salam directly links buyer and seller, and full advance capital goes straight forward to farmers to fulfil their true necessities for agriculture.
2. Improve productivity and enhance management and planning: unlike subsidies, which involves price manipulations, Salam focuses on productivity improvement through productive investment by injecting upfront capital through contractual certainty, encouraging better planning, clear role assignment, ensuring quality inputs and quality expected outputs, instilling proper production management; avoiding overuse and inefficient inputs channeling.
3. Restoring Market Stability and Empowerment: Salam helps restore market stability, by fixing sale price in advance ascertaining farmers income, empowers farmers financially to access better quality products in private sector markets, reducing continuous dependency on subsidy interventions.
4. Reduce Fiscal Burden and Improve Expenditure Management: In comparison to subsidies, Salam has the potential to reduce fiscal burdens and helps manage and make predictable expenditure.

Conclusion

This study conceptualizes Salam as a replacement for agricultural subsidies especially to mitigate the issues of some ineffective subsidies which gives counterproductive outcomes. Among all the forms of subsidies, direct subsidies are the type that is almost analogous to the concept of Salam i.e., providing upfront support. As depicted earlier, common direct subsidies are input sources like fertilizers subsidies, seed assistance like in Malaysia and Indonesia, and upfront farmers' cards found in Indonesia. However, upon unfolding how direct subsidies work, there are gaps potentially bridged through the use of Salam. Subsidies were meant to promote the growth of the sector and provide farmers with essential cultivation needs, but despite the in-kind support and subsidies having been practised for a significant period, the results do not mirror the expected expedited outcome and unfortunately, are unable to supply farmers timely. Salam on the other hand has many advantages. Providing farmers with full capital in advance which already comprehensively covers their needs and tops off with a secured income can substantially make a difference in the industry. Because farmers' financial means are no longer constrained, they can access inputs and necessary maintenance promptly to subsequently repay the government with optimal performance and produce the best quality and high-yielding outputs. The government was also found to be an ideal financier as they have both the financial capacity and expertise resources to leverage Salam.

Practical Implications, Limitations and Recommendations

This paper has explored the advantages of using Salam as agriculture financing and it lays foundation for researchers and policymakers to consider the use of Salam and develop the framework of Salam, in this case is using Salam in replacement of the counterproductive subsidies. But it should also be taken into account that implementing Salam as a replacement to subsidy might not be as straightforward as this paper did not go in depth on other potential restrictions especially in terms of regulatory frameworks that might or might not be conducive for Salam to be adopted by the government entity. This study is also limited in terms of the scope of subsidy context explored. Moreover, knowing that different agriculture has different subsidies so thus how Salam should be devised respectively. Furthermore, in understanding the potential opportunities and challenges of Salam in this present setting, it is recommended to compare and contrast Salam with other similar forward Sale undertakings that are presently being used in practice such as contract farming. It is at least to provide a degree of understanding of the fitting scope of venture that would be ideal for Salam as well as grasping other implicit factors that should be taken into account to precisely depict and portray up-to-date situation of practicing forward sale.

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