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Optimizing Salam and Istisna Contracts as Productive Financing in Islamic Banking

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ABSTRACT

Salam and Istisna contracts are Islamic financing instruments that play a vital role in supporting productive economic activities, particularly in real sectors such as agriculture, manufacturing, and construction. These two contracts provide solutions for the need to order goods that are not yet available at the time of the contract, while maintaining the principles of certainty, fairness, and avoidance of gharar, riba, and maisir. This study aims to analyze the concept, legal basis, operational mechanisms, and risk management of Salam and Istisna contracts in Islamic banking practices. The research method used is a qualitative approach with library research through analysis of classical fiqh sources, DSN-MUI fatwas, AAOIFI standards, and contemporary Islamic banking literature. The study results indicate that the Salam contract is more suitable for standardized commodity financing with upfront payment obligations, while the Istisna contract is more flexible and relevant for financing goods or projects requiring a production process. In Islamic banking practice, the use of Parallel Salam and Parallel Istisna schemes is a key strategy in mitigating financing risks and maintaining business sustainability. With the implementation of clear contracts, detailed specifications, and adequate production supervision, Salam and Istisna contracts can be effective productive financing instruments in encouraging the strengthening of the real sector and sustainable Islamic economic development.

1. Introduction

Salam and Istisna financing are important instruments in the Islamic financial system, designed to support productive economic activity, particularly in real sectors such as agriculture, agribusiness, manufacturing, and construction. These two contracts provide solutions to the public's need for ordering goods that are not yet available at the time of the contract while remaining within the framework of Islamic principles, which emphasize fairness, legal certainty, and the avoidance of *gharar*, *riba*, and *maisir* (Arzhanti et al., 2025; Wulandari, 2024; Rofik et al., 2025; Trimulato et al., 2025).

In conventional economic practice, future goods ordering transactions are generally conducted through forward contracts. However, these contracts often contain elements of speculation and uncertainty that conflict with Sharia principles. Therefore, Salam and Istisna contracts were developed as legitimate and structured Sharia-compliant alternatives, with clear provisions regarding product specifications, price, delivery time, and payment mechanisms. Salam contracts emphasize full upfront payment for standardized commodity goods, while Istisna contracts provide payment flexibility and focus on goods that must be produced through manufacturing or construction processes.

DOI: 10.26618

The existence of Salam and Istisna contracts is not only important from a normative Islamic jurisprudence perspective but also has strategic significance in encouraging the strengthening of the real sector and productive financing in Islamic banking. Through the Parallel Salam and Parallel Istisna mechanisms, Islamic banks can act as facilitators between producers and consumers without directly engaging in production activities while simultaneously managing financing risks more effectively. This scheme allows banks to earn halal profits from the difference between the selling and buying prices while also providing capital certainty for businesses (Chandra et al., 2024; Pratami et al., 2025; Sandia et al., 2025; Wahid et al., 2023).

Despite their strategic role, the implementation of Salam and Istisna contracts in Islamic banking practices is not without challenges. These financing instruments are exposed to various operational and business risks, including production failure, discrepancies in product quality, delayed delivery, and market price fluctuations. Such challenges require Islamic financial institutions to implement effective contractual arrangements and risk management strategies to ensure that financing activities remain compliant with Sharia principles while maintaining operational sustainability.

Although Salam and Istisna contracts have been widely recognized as productive financing instruments within Islamic finance, existing discussions generally emphasize their normative legal foundations or their practical applications separately. Comprehensive discussions that systematically integrate the Sharia concepts, legal foundations, implementation mechanisms in Islamic banking, and associated risk management aspects remain relatively limited. Consequently, there is a need for a more integrated analysis that provides a holistic understanding of how these contracts function as productive financing instruments in strengthening the real sector within the Islamic economic system.

Based on the foregoing discussion, the research problem addressed in this study is how Salam and Istisna contracts are conceptually established under Sharia principles, how these contracts are implemented in Islamic banking practices, and how they contribute to productive financing while addressing the associated implementation risks.

Accordingly, this study aims to examine comprehensively the concept and Sharia basis of Salam and Istisna contracts, the mechanisms of their implementation in Islamic banking, and their role as productive financing instruments in supporting the strengthening of the real sector of the Islamic economy. The study also seeks to provide a systematic understanding of the operational characteristics and risk management considerations associated with both financing contracts.

From a theoretical perspective, this study contributes to the Islamic finance literature by presenting an integrated discussion that links the conceptual foundations, Sharia principles, operational mechanisms, and risk management of Salam and Istisna financing within a single analytical framework. From a practical perspective, the findings are expected to provide useful insights for Islamic banking practitioners, regulators, academics, and other stakeholders in optimizing the implementation of Salam and Istisna financing while maintaining compliance with Sharia principles. The novelty of this study lies in its comprehensive examination of Salam and Istisna contracts by simultaneously analyzing their conceptual foundations, implementation mechanisms, productive financing functions, and risk management within the context of Islamic banking.

2. Literature Review

2.1 Conceptual and Theoretical Foundations

2.1.1 The Concept of Productive Financing in Islamic Banking

Productive financing in Islamic banking refers to the distribution of funds used for

DOI: 10.26618

business activities that produce goods or services, thus having a tangible impact on the growth of the real sector. Unlike consumer financing, productive financing is oriented towards creating added value, increasing production capacity, and creating jobs. From a sharia economic perspective, productive financing is assessed not only in terms of financial profit but also in terms of its compliance with the principles of justice, welfare, and sustainability (maqāṣid al-syarī'ah)

Islamic banking literature explains that order-based sale and purchase contracts, such as Salam and Istisna, are the most relevant instruments to support productive financing because they are directly linked to production activities. These two contracts enable Islamic banks to channel funds to business actors through a measurable mechanism, while ensuring the existence of clear and halal underlying assets (Badruddin, 2023)

2.1.2 Salam Contract from the Perspective of Islamic Jurisprudence and Banking

The Salam contract is defined as a sale and purchase contract in which payment is made in full upfront, while delivery of the goods takes place at an agreed-upon time in the future. In classical Islamic jurisprudence literature, Salam is seen as an exception (rukhsah) to the prohibition on the sale of goods that do not yet exist, provided that the specifications of the goods, price, and delivery time are clearly specified. Scholars from the four schools of thought agree on the permissibility of the Salam contract, with differences in the level of stringency of the requirements (Hikmah & Maulana, 2025)

Contemporary studies show that Salam contracts are highly relevant for standardized financing of the agricultural and commodity sectors. In modern Islamic banking practices, Salam is generally implemented through a Parallel Salam scheme, where the bank enters into a Salam contract with the producer and another Salam contract with the end buyer. This model allows banks to minimize the risks of ownership and price fluctuations while simultaneously generating legitimate profits. Several studies also emphasize the importance of risk management, quality control, and contract clarity in implementing Salam contracts to avoid disputes and losses.

2.1.3 Istisna Agreement in the Perspective of Jurisprudence and Sharia Banking

An Istisna contract is a custom-made sale and purchase agreement where the object is an item that must first be manufactured through a production or manufacturing process. Fiqh literature states that the essence of an Istisna contract lies in the manufacturing process, not the obligation to pay upfront. Therefore, payment under an Istisna contract is flexible, and can be made upfront, in installments, or upon completion of production.

In contemporary Islamic banking studies, Istisna is widely used to finance the construction and manufacturing sectors, such as housing, building, infrastructure, and machine manufacturing. The Parallel Istisna scheme is a common practice in Islamic banks, where the bank acts as an intermediary between the customer and the contractor or manufacturer. Previous research has shown that the successful implementation of the Istisna contract is highly dependent on production scheduling, a progress-based payment system, and strict quality control mechanisms (Abdurrahman et al., 2024).

2.1.4 Comparison of Salam and Istisna Agreements in Productive Financing

The literature also extensively discusses the fundamental differences between Salam and Istisna contracts, particularly in terms of payment, type of goods, and contract flexibility. Salam is more suitable for standardized, mass-produced commodities with full payment obligations upfront, while Istisna is more appropriate for custom goods or projects requiring a production process. From a risk management perspective, Istisna is considered more flexible, while Salam requires a higher

DOI: 10.26618

level of specification certainty (Furqoni et al., 2025)

Despite their distinct characteristics, the two contracts are considered complementary in supporting productive financing in Islamic banking. With proper implementation and effective risk management, Salam and Istisna contracts can be strategic instruments in driving real sector growth and strengthening the role of Islamic banking in sustainable economic development.

2.2 Review of Empirical Studies

Recent empirical studies demonstrate that Salam contracts have become increasingly relevant for financing standardized agricultural commodities and other productive sectors characterized by predictable outputs. Contemporary Islamic banking commonly applies Salam through the Parallel Salam arrangement, whereby the bank enters into one Salam contract with producers and another independent Salam contract with end buyers. This mechanism enables Islamic banks to reduce ownership and market price risks while generating legitimate profits consistent with Sharia principles. Existing studies further emphasize that successful implementation of Salam financing depends on comprehensive risk management, effective quality assurance, and contractual clarity to minimize disputes and operational losses (Hikmah & Maulana, 2025).

Similarly, empirical evidence indicates that Istisna financing has been widely implemented in sectors requiring customized production, including housing construction, infrastructure development, industrial manufacturing, and machinery production. Islamic banks generally employ the Parallel Istisna model, acting as intermediaries between customers and contractors or manufacturers. Previous studies consistently report that the effectiveness of Istisna financing depends heavily on appropriate production scheduling, progress-based payment systems, and rigorous quality control throughout the manufacturing process (Abdurrahman et al., 2024).

Comparative empirical literature also highlights the operational differences between Salam and Istisna contracts. Salam financing requires complete advance payment and is primarily applicable to standardized commodities with predetermined specifications. In contrast, Istisna offers greater contractual flexibility because payments may be adjusted according to project progress, making it particularly appropriate for customized production and construction activities. From the perspective of risk management, researchers argue that Istisna provides greater flexibility in managing production risks, whereas Salam requires a higher degree of certainty regarding product specifications and delivery commitments (Furqoni et al., 2025).

Collectively, previous studies consistently indicate that both Salam and Istisna contracts contribute significantly to productive financing by facilitating capital allocation to the real sector. Nevertheless, differences in contractual structures imply that each contract possesses distinct advantages, operational requirements, and risk characteristics depending on the nature of the financed economic activities.

2.3 Identification of the Research Gap

The existing literature has extensively discussed Salam and Istisna contracts individually, particularly regarding their jurisprudential foundations, operational mechanisms, and applications within Islamic banking. Previous empirical studies have also examined their implementation in sectors such as agriculture, manufacturing, construction, and infrastructure financing (Badruddin, 2023; Hikmah & Maulana, 2025; Abdurrahman et al., 2024; Furqoni et al., 2025).

However, the literature remains relatively fragmented in providing an integrated comparison of both contracts specifically from the perspective of their strategic roles in supporting productive financing within Islamic banking. Most

DOI: 10.26618

previous studies emphasize operational implementation or legal aspects of individual contracts rather than comprehensively synthesizing their comparative characteristics, financing mechanisms, flexibility, and contributions to sustainable economic development.

Accordingly, this study seeks to address this gap by providing a comprehensive literature-based synthesis comparing Salam and Istisna contracts as complementary financing instruments in Islamic banking. The study contributes by integrating findings from previous literature to explain how both contracts collectively strengthen productive financing and support real sector development within the framework of sustainable Islamic economic development.

2.4 Development of the Conceptual Framework

This study does not develop a conceptual framework or conceptual model because it adopts a literature review approach rather than an empirical quantitative or qualitative research design involving relationships among variables. Instead, the study synthesizes theoretical and empirical literature concerning the implementation of Salam and Istisna contracts in productive financing within Islamic banking.

The discussion focuses on analyzing the characteristics, operational mechanisms, comparative advantages, and complementary roles of Salam and Istisna contracts in promoting productive financing. Despite their different contractual characteristics, both contracts are recognized as complementary instruments capable of supporting productive financing in Islamic banking. With proper implementation and effective risk management, Salam and Istisna contracts can become strategic instruments for promoting real sector growth and strengthening the contribution of Islamic banking to sustainable economic development.

2.5 Hypotheses or Research Propositions

This study does not formulate research hypotheses or research propositions because it is conducted as a literature review rather than an empirical quantitative or qualitative study. Consequently, the research does not examine causal relationships among variables through statistical testing.

Instead, the study systematically reviews and synthesizes previous theoretical and empirical literature to provide a comprehensive understanding of Salam and Istisna contracts, their operational characteristics, comparative advantages, and strategic roles in strengthening productive financing within Islamic banking. The analysis emphasizes knowledge synthesis and conceptual integration rather than hypothesis testing.

3. Research Methods

3.1 Research Design

This study employs a qualitative research design using a library research approach. This design was selected because the objective of the study is to conceptually and normatively analyze Salam and Istisna contracts as productive financing instruments in Islamic banking from the perspectives of Islamic jurisprudence and contemporary Islamic banking practices. Library research enables an in-depth exploration of theoretical foundations, legal principles, and scholarly interpretations derived from authoritative Islamic and academic sources, making it appropriate for addressing the research objectives.

3.2 Research Context and Setting

The research is situated within the context of Islamic banking and Islamic commercial jurisprudence (fiqh muamalah), with a particular focus on the implementation of Salam and Istisna contracts as productive financing instruments. The study examines the normative foundations of these contracts based on Islamic legal sources and evaluates their application in contemporary Islamic banking practices. This context is relevant because

DOI: 10.26618

Salam and Istisna financing plays a strategic role in supporting productive sectors such as agriculture, manufacturing, and construction within the Islamic financial system.

3.3 Population and Sample / Research Participants

As a qualitative library research, this study does not involve a population or research participants in the conventional empirical sense. Instead, the unit of analysis consists of documentary sources selected purposively based on their relevance, authority, and contribution to the research objectives. The selected documents include classical Islamic legal references, contemporary Islamic legal standards, and scholarly publications discussing Salam and Istisna financing in Islamic banking.

3.4 Data Sources and Data Collection

The data sources in this study consist of primary and secondary sources. Primary sources include the Qur'an, the Hadith of the Prophet Muhammad (peace be upon him), classical Islamic jurisprudence (fiqh) books representing the four major schools of thought (mazhab), official fatwas issued by authoritative institutions such as the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), and standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Secondary sources include Islamic banking textbooks, scientific journal articles, conference proceedings, and other relevant academic publications discussing Salam and Istisna financing within the framework of modern Islamic economics and finance.

Data collection was conducted through systematic literature searching, document identification, selection, collection, and comprehensive review of literature relevant to the research topic.

3.3 Measurement of Variables and Research Instruments

Since this study adopts a qualitative library research approach, it does not employ measurable research variables or quantitative research instruments. Instead, the primary analytical instrument is document analysis, focusing on key concepts related to Salam and Istisna contracts. The analysis emphasizes the legal principles, contractual characteristics, financing mechanisms, and implementation practices discussed within Islamic jurisprudence literature, contemporary fatwas, and Islamic banking references.

3.6 Data Analysis Techniques

The collected data were analyzed using descriptive-analytical methods. This analysis involved systematically describing the concepts, principles, legal provisions, and operational mechanisms of Salam and Istisna contracts before examining their implementation within Islamic banking practices. Furthermore, a comparative analysis was conducted to identify the similarities and differences between the two contracts, particularly regarding their contractual characteristics, financing mechanisms, risk allocation, and implications for productive financing in Islamic banking (Amalia et al., 2024).

3.7 Validity, Reliability, and Trustworthiness

To enhance the credibility and trustworthiness of the findings, this study employed source triangulation. The triangulation process involved comparing information obtained from classical Islamic jurisprudence (fiqh), contemporary fatwas, Islamic banking standards, and findings from previous academic studies. This approach enables cross-verification of information and provides a more comprehensive, balanced, and objective understanding of the role of Salam and Istisna contracts as productive financing instruments in Islamic banking.

3.8 Ethical Considerations

This study exclusively utilizes publicly available documentary sources and does not

DOI: 10.26618

involve human participants, personal data, or confidential organizational information. Therefore, informed consent was not required. Nevertheless, ethical principles of academic research were maintained by accurately citing all referenced sources, respecting intellectual property rights, and ensuring that interpretations were presented objectively without misrepresenting the original authors' viewpoints.

3.9 Research Procedure

The research was conducted through several systematic stages. First, the research problem and objectives were formulated based on issues related to Salam and Istisna financing in Islamic banking. Second, relevant literature and authoritative documentary sources were identified and collected from primary and secondary references. Third, the selected documents were reviewed and classified according to the research themes. Fourth, the collected data were analyzed using descriptive-analytical and comparative approaches to identify the concepts, characteristics, implementation practices, and implications of Salam and Istisna contracts. Finally, the findings were synthesized to formulate comprehensive conclusions regarding the role of both contracts as productive financing instruments in Islamic banking.

3.10 Methodological Limitations

This study is limited by its reliance on documentary and literature-based sources without incorporating empirical data from Islamic banking practitioners or customers. Consequently, the findings primarily reflect normative and conceptual perspectives derived from Islamic jurisprudence, official standards, and existing academic literature. Although source triangulation was employed to strengthen the credibility of the analysis, future studies are encouraged to complement these findings through empirical approaches, such as interviews, case studies, or surveys involving Islamic financial institutions, to provide broader practical insights into the implementation of Salam and Istisna financing.

4. Results and Discussion

4.1 Research Results

4.1.1 Sample Description and Units of Analysis

This study employed a qualitative library research approach. Therefore, the units of analysis consisted of scholarly literature, Islamic jurisprudential sources, DSN-MUI Fatwas, and previous studies discussing the implementation of Salam and Istisna contracts in Islamic banking. The analyzed literature focuses on productive financing practices, Sharia compliance, risk management mechanisms, and the practical implementation of Parallel Salam and Parallel Istisna contracts. Since this research does not involve respondents or primary survey data, descriptive statistics such as frequencies, percentages, means, or standard deviations are not applicable.

4.1.2 Data Quality and Preliminary Analysis

As this research is based on qualitative library research, preliminary statistical analyses such as normality tests, reliability tests, validity tests, multicollinearity, or model fit assessments were not conducted. Instead, data quality was ensured through the selection of credible academic literature, Islamic legal sources, DSN-MUI Fatwas, and relevant previous studies that directly address the implementation of Salam and Istisna contracts in Islamic banking.

4.1.3 Main Analytical Results

a. Implementation of Salam Contract as Productive Financing

The study results show that the Salam contract has highly relevant characteristics for financing the real sector, particularly in agriculture and standardized commodities. In Islamic banking practice, the Salam contract is implemented with a mechanism where the bank makes full payment upfront to the producer, while delivery of the goods occurs at a predetermined time. This scheme provides capital certainty for producers to begin the

DOI: 10.26618

production process while ensuring the existence of clear and halal underlying assets (Mufitasari et al., 2024).

The implementation of Salam contracts in Islamic banks is generally carried out through the Parallel Salam scheme. The bank acts as the buyer in the first contract with the producer and as the seller in the second contract with the end buyer. Based on literature and the DSN-MUI Fatwa, these two contracts must be executed separately and not directly interdependent. The findings indicate that the implementation of Parallel Salam is effective in mitigating the risk of price fluctuations and marketing risks while allowing Islamic banks to obtain legitimate profits from the difference between the selling and buying prices.

However, the Salam contract also faces several challenges, particularly related to production risks such as crop failure, non-conforming product quality, and delayed delivery. Therefore, the findings highlight the importance of establishing detailed product specifications, monitoring the production process, and utilizing risk mitigation instruments such as Islamic insurance (takaful). With proper risk management, the Salam contract can function optimally as a productive financing instrument (Adawiah et al., 2025).

b. Implementation of Istisna Contract as Productive Financing

Unlike Salam, the Istisna contract is more commonly used to finance goods or projects that require production or manufacturing processes, such as the construction of houses, buildings, and infrastructure. The analysis shows that payment flexibility is the main advantage of the Istisna contract, as payments can be be made upfront, in installments, or upon project completion, as agreed by the parties (Hafid et al., 2025).

In Islamic banking practice, the Istisna contract is generally implemented through a Parallel Istisna scheme, where the bank enters into a contract with the customer and a separate contract with the contractor or manufacturer. A progress payment mechanism is used to ensure the project is completed according to schedule and specifications. The reviewed studies indicate that this model protects banks from construction risks while enabling continuous quality monitoring.

Nevertheless, the Istisna contract also carries risks, including project delays, increased production costs, and products that do not conform to the agreed design. Consequently, the findings emphasize the importance of clear contractual clauses, quality control systems, and the implementation of Sharia-compliant compensation mechanisms (ta'wīḍ). With appropriate management, the Istisna contract has proven effective in supporting productive financing within the manufacturing and construction sectors (Solihin et al., 2022).

c. Comparison of Salam and Istisna Contracts

The analysis demonstrates that Salam and Istisna contracts possess fundamental differences regarding payment mechanisms, the nature of financed goods, and contractual flexibility. Salam is more appropriate for standardized commodities with a high level of certainty, whereas Istisna is more suitable for customized products or projects requiring manufacturing or construction processes.

Despite these differences, both contracts complement one another in supporting productive financing within Islamic banking. The implementation of Parallel Salam and Parallel Istisna strengthens Islamic banks' capacity to balance Sharia compliance, operational efficiency, and risk management while enhancing their intermediary role in supporting the real sector (Adawiah et al., 2025).

4.1.4 Key Findings

Since this study is qualitative and does not formulate statistical hypotheses, hypothesis testing was not conducted. Instead, the principal findings are summarized as

DOI: 10.26618

follows:

a. The Salam contract is highly suitable for financing productive sectors, particularly agriculture and standardized commodities, through advance payment mechanisms that provide capital certainty for producers (Mufitasari et al., 2024).
b. The implementation of Parallel Salam effectively reduces marketing and price risks while maintaining compliance with Sharia principles (Adawiah et al., 2025).
c. The Istisna contract provides flexible payment arrangements and is well suited for financing manufacturing and construction projects (Hafid et al., 2025).
d. Parallel Istisna enables Islamic banks to monitor project implementation while reducing construction-related risks (Solihin et al., 2022).
e. Effective implementation of both contracts depends on contract clarity, production supervision, and comprehensive risk management.

4.1.5 Visual Presentation of Results

Because this study is based on qualitative library research, no statistical tables, figures, or charts are presented. The research findings are synthesized narratively from previous studies, Islamic legal references, and DSN-MUI Fatwas to explain the implementation of Salam and Istisna contracts as productive financing instruments in Islamic banking.

4.2 Research Discussion

4.2.1 Interpretation of Key Findings

The findings demonstrate that Salam and Istisna contracts are strategic instruments for productive financing in Islamic banking. Salam effectively supports agricultural and commodity financing by providing producers with working capital before production begins, whereas Istisna accommodates manufacturing and construction financing through flexible payment arrangements. These findings directly answer the research objective by showing that both contracts strengthen the intermediary function of Islamic banking in financing productive economic activities.

The implementation of Parallel Salam and Parallel Istisna further indicates that Islamic banks can achieve an appropriate balance between operational efficiency, Sharia compliance, and financing risk management. The effectiveness of these contracts depends largely on contract clarity, production monitoring, and prudent risk management practices.

4.2.2 Comparison with Previous Studies

The findings are consistent with previous studies indicating that Salam contracts are particularly effective for agricultural financing because advance payment mechanisms improve producers' liquidity while minimizing financing uncertainty (Adawiah et al., 2025). Likewise, the present findings support previous literature showing that Parallel Salam enables Islamic banks to mitigate marketing and price risks while maintaining compliance with Islamic contractual principles.

Similarly, the findings regarding Istisna contracts align with Hafid et al. (2025), who emphasize payment flexibility as one of the primary advantages of Istisna financing. The present study also supports the findings of Solihin et al. (2022), demonstrating that Parallel Istisna facilitates quality control, project monitoring, and construction risk management throughout the production process.

While previous studies generally examine Salam and Istisna separately, this study contributes by comparatively analyzing both contracts as complementary productive financing instruments within Islamic banking.

4.2.3 Theoretical Contributions

This study contributes to the theoretical understanding of Islamic banking by reinforcing the conceptual role of Salam and Istisna contracts as Sharia-compliant financing mechanisms that support real-sector development. The findings confirm that productive financing in Islamic finance is not limited to profit generation but also

DOI: 10.26618

emphasizes fairness, asset-backed transactions, and risk sharing.

Furthermore, the study extends existing conceptual discussions by demonstrating how Parallel Salam and Parallel Istisna schemes integrate Sharia principles with contemporary banking risk management practices while maintaining compliance with Islamic jurisprudence.

4.2.4 Practical and Policy Implications

The findings have practical implications for Islamic banking institutions by highlighting the importance of strengthening contract governance, detailed product specifications, production monitoring systems, and comprehensive risk mitigation strategies. The implementation of takaful, quality assurance mechanisms, and clearly defined contractual obligations can improve financing effectiveness while reducing operational risks.

From a policy perspective, regulators and Islamic banking authorities should continue encouraging the development of productive financing instruments based on Salam and Istisna contracts to increase support for agriculture, manufacturing, and infrastructure sectors while ensuring continued compliance with Sharia principles.

4.2.5 Integration with the Research Gap

This study addresses the research gap identified in the literature by providing a comparative conceptual analysis of Salam and Istisna contracts within the context of productive financing in Islamic banking. Previous studies often discuss each contract independently, whereas this research demonstrates how both contracts function complementarily in supporting different productive sectors through distinct financing mechanisms and risk management approaches. Consequently, the study contributes to a more comprehensive understanding of productive financing based on Islamic contractual principles.

4.2.6 Acknowledgement of Study Limitations

This study is limited to a qualitative conceptual analysis based on library research and therefore does not evaluate the empirical performance of Salam and Istisna financing across individual Islamic banks. The findings primarily reflect normative and theoretical perspectives derived from existing literature and Islamic legal sources. Consequently, future research is recommended to investigate the empirical implementation of Salam and Istisna contracts in specific Islamic banking institutions in order to provide a more comprehensive understanding of their effectiveness, operational performance, and implementation challenges.

Overall, the findings indicate that Salam and Istisna contracts are strategic productive financing instruments in Islamic banking. Their successful implementation depends heavily on contract clarity, production oversight, and prudent risk management. In practice, the use of Parallel Salam and Parallel Istisna has proven to be a key strategy for minimizing financing risks, maintaining Sharia compliance, and improving operational efficiency. Therefore, Islamic banks are encouraged to continue developing innovative financing products based on Salam and Istisna contracts while adhering to the principles of prudence and Sharia compliance. Future empirical research is expected to further enrich the understanding of these contracts in actual Islamic banking practice.

5. Conclusion

5.1 Summary of Key Findings

This study concludes that Salam and Istisna contracts are Sharia financing instruments that play a crucial role in supporting productive financing and strengthening the real sector in Islamic banking. Based on the findings, the Salam contract is more appropriate for standardized commodity financing with a full upfront payment mechanism, whereas the Istisna contract is more suitable for financing goods or projects that require a production process through a flexible payment scheme. These

DOI: 10.26618

distinct characteristics make the two contracts complementary within Islamic financing practices.

The study further finds that the implementation of Salam and Istisna contracts in Islamic banking is generally conducted through the Parallel Salam and Parallel Istisna schemes as mechanisms for risk mitigation and operational efficiency. The success of implementing these contracts depends on clear contract specifications, effective supervision of the production process, and comprehensive risk management in accordance with Sharia principles. Consequently, Salam and Istisna contracts have proven to be effective and sustainable instruments for productive financing when supported by appropriate governance and operational management.

5.2 Theoretical Contributions

This study contributes to the literature on Islamic banking by reinforcing the conceptual distinction and complementary functions of Salam and Istisna contracts as productive financing instruments. The findings clarify that each contract serves different financing characteristics while collectively supporting the development of the real sector in accordance with Sharia principles. By systematically analyzing the implementation mechanisms, including the application of Parallel Salam and Parallel Istisna contracts, this study strengthens the theoretical understanding of how these contracts can simultaneously achieve Sharia compliance, operational efficiency, and risk mitigation. These findings enrich the existing body of knowledge concerning productive financing models within contemporary Islamic banking.

5.3 Practical and Policy Implications

The findings imply that Islamic banks should further optimize the utilization of Salam and Istisna contracts, particularly in financing productive sectors such as agriculture, manufacturing, and construction. Improving contract planning through more detailed product specifications and strengthening production monitoring systems are essential to minimizing financing risks and ensuring successful contract implementation.

From a policy perspective, regulators and supervisory authorities are encouraged to continuously update guidelines and regulatory frameworks governing the implementation of Salam and Istisna contracts to ensure their relevance to evolving business practices, technological developments, and market needs. Such improvements are expected to strengthen the effectiveness and sustainability of productive financing within the Islamic banking industry.

5.4 Limitations of the Study

This study is limited to a qualitative library research approach that relies on conceptual analysis and existing literature concerning Salam and Istisna contracts in Islamic banking. Consequently, the findings primarily provide normative and theoretical insights without empirical verification through field observations or quantitative analysis. In addition, the discussion focuses on the implementation of Salam and Istisna contracts within the context of Islamic banking, which may limit the generalizability of the findings to other Islamic financial institutions or different regulatory environments.

5.5 Directions for Future Research

Future studies are encouraged to complement the present conceptual findings with empirical investigations involving Islamic banks, customers, regulators, and other stakeholders to evaluate the practical effectiveness of Salam and Istisna financing. Researchers may also examine the implementation of these contracts across different countries or institutional settings to compare regulatory practices and operational models.

Furthermore, future research may employ quantitative, mixed-method, or case study approaches to analyze factors influencing the effectiveness, risk management, and sustainability of Salam and Istisna financing.

DOI: 10.26618

Additional studies could also explore the integration of digital technologies, financial innovation, and emerging Sharia-compliant financing models to support the broader development of productive financing in Islamic banking.

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