
The Jurisprudential Framework of Bai' Salam: Contemporary Applications and Its Role in Agricultural Development

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Abstract

This study explores Salam-based financing by introducing its conceptual framework, examining its Shari'ah legitimacy, and outlining the governing conditions that regulate its application. It further explores its contemporary applications and critically evaluates existing practices. Based on a comprehensive review of the relevant literature, the study concludes that Bay' Salam is a valid and efficient contractual arrangement, holding considerable significance and practical utility within the agricultural sector. Moreover, Salam, Parallel Salam, and, only in cases of unavoidable necessity, the appointment of the seller as an agent for the sale of commodities are all permissible, provided that the prescribed Shari'ah conditions are strictly adhered to. However, Organized Salam is not considered permissible due to its underlying structure.

Additionally, the study proposes a practical model in which Islamic banks extend financing to farmers through Bay' al-Salam, while the government undertakes to purchase the commodities acquired by these banks at fair and reasonable prices. This arrangement not only benefits farmers by ensuring financial support but also provides investment avenues for Islamic banks, facilitates government procurement, and contributes to national food security.

The researcher further emphasizes that although Bay' al-Salam has been operationalized within Islamic banking institutions, its application remains limited in scope within banking transactions, and only a relatively small segment of farmers currently benefit from it. There is, therefore, a pressing need to broaden the application of Salam-based financing at the institutional level and to actively encourage farmers to utilize this Shari'ah-compliant mode of finance, so that its benefits may reach a wider agricultural community.

Moreover, it is recommended that Salam-based commercial activities be promoted not only within the formal banking sector but also at the private and local levels. Such an approach would enable a more effective utilization of the substantial potential inherent in Bay' Salam.

Keywords: Salam Financing, Advance Payment, Agriculture Sector Financing, Islamic Banking

1. Introduction

Bay' al-Salam refers to a contractual arrangement in which the price is paid in advance while delivery of the specified goods is deferred to a specified future date. Although Shariah generally prohibits the sale of goods that are not in the possession of the seller, an exception has been made in the case of Bay' Salam, as its permissibility is explicitly established by the Prophet Muhammad(S.A.W)

Upon migrating from Makkah to Madinah, the Prophet (peace be upon him) observed that people commonly paid in advance for dates to be delivered after one, two, or even three years. The Prophet (peace be upon him) established clear guidelines, instructing that anyone engaging in such forward transactions must precisely define the quantity, weight, and fixed time of delivery.

Given that this study focuses on the potential applications of Bay' Salam in the agricultural sector and its role therein, it is methodologically appropriate to refrain from an immediate discussion of Salam. Instead, it is necessary to first examine the significance of agriculture within the Pakistani economy, followed by an analytical overview of agricultural financing. This contextual foundation will facilitate a more coherent and rigorous examination of Salam in the subsequent discussion.

2.The Role of Agriculture in the National Economy

Agriculture plays a highly significant and multifaceted role in our economy. It is not limited merely to fulfilling food requirements; rather, it also holds a fundamental position in ensuring economic stability, generating employment, and supporting industrial development. Agriculture is the backbone of the rural economy, and a large portion of the country's population is directly dependent on this sector for their livelihood. Below, we briefly highlight some of its important dimensions.

2.1 Agricultural Sector's Contribution to GDP

The agricultural sector contributes approximately 23.5 percent to Pakistan's Gross Domestic Product (GDP) and plays a pivotal role in the national economy. ¹Major crops such as wheat, rice, cotton, and sugarcane are produced within this sector. These crops not only meet the country's domestic food requirements but also support economic stability and drive broader economic activity through their linkages with industry, trade, and employment.

2.2 Agriculture as a Major Source of Employment in Pakistan

The agricultural sector is one of the primary sources of employment in Pakistan. A significant proportion of the population resides in rural areas, where livelihoods are largely dependent on agriculture, either directly or

indirectly. This includes farmers, livestock keepers, agricultural labourers, as well as individuals engaged in various allied activities across the agricultural value chain.

It is estimated that the agricultural sector provides employment to approximately 37 percent of the country's labor force. This highlights its critical role in sustaining livelihoods, particularly in rural areas, where it serves as the backbone of economic and social stability.²

2.3 Supply of Raw Materials to the Industrial Sector

Pakistan is predominantly an agricultural economy, and a substantial portion of its industrial sector relies heavily on agriculture for raw materials. The agricultural sector serves as a vital source of inputs for a wide range of industries, thereby strengthening the overall economic structure.

For instance, cotton constitutes the primary raw material for the textile industry, which is one of the largest and most significant sectors of Pakistan's economy. The production process begins with the manufacturing of yarn, including cotton yarn and polyester yarn, as well as sewing thread. This is followed by the production of various types of fabrics, such as cotton and polyester fabrics.

The textile value chain further extends to garment manufacturing, encompassing products such as shirts, trousers, T-shirts, jackets, sweaters, sportswear, and children's clothing. In addition, a wide range of home textile products are produced, including bed sheets, pillowcases, towels, curtains, and tablecloths.

Moreover, Pakistan also manufactures various other textile items, such as socks, gloves, shawls, and handkerchiefs. Similarly, sugarcane serves as a key raw material for the sugar industry, while numerous other agricultural products support the food processing and related industries.

2.4 Agriculture as the Backbone of Food Security in Pakistan

The agricultural sector plays a key role in ensuring food security in Pakistan. Basic food items such as wheat, rice, vegetables, milk, yogurt, and fruits are all produced through agriculture.

Therefore, agriculture is essential for meeting the food needs of the population and maintaining a stable food supply in the country.

2.5 Contribution of Agriculture to Pakistan's Exports

The agricultural sector also contributes to Pakistan's exports. Many agricultural products are exported to different countries, including rice, mangoes, and citrus fruits such as kinnow.

These products are popular in international markets because of their quality and taste. They also help the country earn foreign

exchange. Pakistan's agro-food exports are estimated at approximately USD 8.02 billion.³

Despite its importance, the agricultural sector faces several challenges. These include limited use of modern technology, a shortage of water, climate change, and natural disasters such as floods. Another major issue is the increasing cost of agricultural production. As this study is concerned with the financing of the agricultural sector, it deliberately confines its scope to an in-depth examination of the challenges associated with agricultural financing, rather than engaging with other peripheral issues.

3. Challenges in Agricultural Financing

The following are the principal challenges faced by farmers in agricultural financing:

3.1 Limited Credit Access for Small Farmers

Most farmers in Pakistan are small landowners. Studies show that more than 90 percent of farmers own less than 12 acres of land. Because of their limited financial resources, they often cannot meet the requirements for formal loans. As a result, their access to the formal financial system remains limited.⁴

3.2 Dependence on Informal Credit Sources

Due to limited access to formal loans, many farmers depend on informal sources of credit. For example, they take loans from middlemen and commission agents. Although these sources provide easy access to loans, they usually charge high interest rates. This puts financial pressure on farmers and reduces their savings and profits.

3.3 The Complex Procedure of Obtaining Loans from Formal Sources

An important question arises: why do farmers prefer informal sources such as middlemen and commission agents for borrowing? The primary reason lies in the complexity of obtaining loans through formal channels.

The process typically begins with extensive and often complicated documentation, which many farmers find difficult to understand and complete. This alone discourages a large number of applicants. In addition, banks usually require various forms of collateral before approving loans. In many cases, farmers are required to mortgage their agricultural land.

This requirement creates significant concern among farmers. They fear that if they are unable to repay the loan due to unforeseen circumstances, the bank may seize their land. Since land is often the farmer's most valuable

and essential asset, they are understandably reluctant to expose themselves to such risk.

Moreover, there are situations where the value of the land pledged as collateral is much higher than the loan amount granted. Regulatory requirements related to land valuation and default further add to the hesitation of farmers in approaching formal financial institutions. These factors highlight the need to revisit existing policies and design a more accessible and farmer-friendly financing system.⁵

3.4 Preference for Informal Lending

In contrast, informal lenders such as middlemen tend to offer more flexible arrangements. If a farmer is unable to repay the loan on time, the lender usually does not take over the land. Instead, the lender accepts whatever amount the farmer can repay at that time and reschedules the remaining balance. In many cases, the farmer is also provided with additional funds for the next crop cycle.

This flexibility makes informal borrowing more attractive and accessible for farmers compared to formal banking institutions. However, this system also has serious drawbacks. Informal lenders generally charge very high interest rates. As a result, farmers often become trapped in a cycle of debt, where a large portion of their income is consumed by repayments. This limits their ability to save, invest, and achieve long-term financial stability.⁶

As noted in the preceding discussion, farmers face multiple challenges in agricultural financing, particularly the burden of high interest rates. To address these issues, the following section explores a Shariah-compliant alternative, Salam financing. It first outlines the definition and fundamental conditions of Salam, and subsequently presents a financing model based on its principles.

4. Definition of Salam

Bay' Salam refers to a sale contract in which the price is paid in advance while the delivery of the specified goods is deferred to a specified future date. Ibn Qudāmah says:

”أن يسلم عيناً حاضرة في عوض موصوف في الذمة إلى أجل”⁷

A payment made in the present is exchanged for a clearly defined liability to be fulfilled at a specified future date.

5. Legitimacy of Salam

The permissibility of Bay' al-Salam is established through both the Qur'an and the Sunnah.

Allah Almighty says:

{يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدِينٍ إِلَى أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ} ⁸

“ O you who believe, when you transact a debt payable at a specified time, put it in writing...”

This verse establishes the principle of documenting deferred financial transactions. Since Bay' Salam involves deferred delivery and creates a liability, it falls within the scope of debt-based transactions, and its permissibility is supported by this verse.

It is reported that Ibn 'Abbās (RA) affirmed the permissibility of Salam and recited this verse as evidence.⁹

The permissibility of Salam is also established through Hadith. Ibn 'Abbās (RA) reports that when the Prophet (peace be upon him) arrived in Madinah, people used to engage in Salam transactions involving fruits. The Prophet ﷺ said:

«مَنْ أَسْلَفَ فَلْيُسَلِّفْ فِي كَيْلٍ مَعْلُومٍ وَوَزْنٍ مَعْلُومٍ إِلَى أَجَلٍ مَعْلُومٍ»¹⁰

“Whoever engages in a Salam contract is required to define the measure, weight, and known delivery time .”

Ibn Rushd states that there is a consensus on the permissibility of Salam in measurable and weighable commodities.¹¹

Although the Prophet (peace be upon him) generally prohibited the sale of non-existent goods, an exception was made in the case of Salam due to the ease it provides and its significance in addressing genuine economic needs.¹²

In this arrangement, the seller, typically a farmer, receives an advance payment, which enables him to procure essential agricultural inputs such as seeds, fertilizers, and pesticides, thereby facilitating the production process. At the same time, the buyer benefits by securing the commodity at a predetermined price before it enters the market, which may allow for potential profit upon its future sale. This mutual benefit underscores the practical wisdom and economic facilitation inherent in the permissibility of Salam.

6. Essential Element(Rukn) and Conditions (Shurūṭ) of Salam

Below is a comprehensive analysis of the essential element and conditions of Salam, incorporating the viewpoints of the jurists and their evidence.

6.1 Offer and Acceptance

The essential element of Salam consists of offer and acceptance. According to the Hanafi, Maliki, and Hanbali schools, the use of specific terms such as Salam, Salaf, or Bay' is required for a valid offer. Al-Kāsānī states:

“أما ركن السلم فهو لفظ السلم والسلف والبيع بأن يقول رب السلم: أسلمت إليك في كذا أو أسلفت؛ لأن السلم والسلف مستعملان بمعنى واحد، يقال: سلفت وأسلفت وأسلمت بمعنى واحد فإذا قال المسلم إليه: قبلت فقد تم الركن¹³”

The essential element (*rukn*) of Salam is effected through the use of expressions such as Salam, Salaf, or Bay'. For instance, the buyer may state: “I have entered into a Salam (or Salaf) contract with you concerning such and such.” As Salam and Salaf are employed interchangeably in this context, the contract is concluded once the seller expresses acceptance.

The use of the term *Bay'* is also considered permissible, as Salam is fundamentally a form of sale and has been explicitly sanctioned by the Prophet (peace be upon him). However, Imām Zufar maintains a more restrictive view. He argues that since Salam constitutes an exception to the general prohibition of selling non-existent goods, its permissibility should be confined strictly to the expressions transmitted in the textual sources. Therefore, according to his opinion, the contract should be concluded only through the specific terms associated with Salam, rather than by using the general term *Bay'*.¹⁴

6.2 Conditions of the Capital (Price)

The validity of the capital in a Salam contract is subject to the following essential conditions:

1. The genus of the capital must be clearly known. For example, it must be specified whether the capital consists of dirhams or dinars.
2. Its type must also be determined. For instance, it should be clarified whether the dinars are Iraqi or Syrian.
3. Its quality must be specified, such as whether it is of high quality or inferior.
4. In cases where the capital consists of items in which quantity is a determining factor, such as goods measured by weight, volume, or number, mere identification or pointing to the item is not sufficient. Rather, the exact quantity must be clearly specified, such as ten kilograms, five liters of oil, or two dozen eggs. This is the position of Imām Abū Ḥanīfah and Sufyān al-Thawrī. However, if the capital consists of items in which quantity is not the primary consideration, then simple identification is sufficient. Imām Abū Ḥanīfah's reasoning is that ambiguity and uncertainty must be eliminated as far as possible; therefore, in measurable items, precise quantification is necessary. In contrast, the two companions, Abū Yūsuf and Muḥammad, maintain that explicit mention of quantity is not required; rather, proper identification alone is sufficient. They argue that the fundamental

objective is to clearly identify the capital, and this objective can be achieved without specifying quantity.¹⁵

This view is also shared by the Shāfi'ī and Ḥanbalī schools. Although no explicit narration is reported from Imām Mālik on this specific issue, he permits the sale of a heap of goods, provided that it does not involve excessive uncertainty.¹⁶

5. The dirhams and dinars must be of sound and recognized quality. Any ambiguity in this regard may lead to disputes between the contracting parties, which could invalidate the contract. Imam Abu Yousuf and Muhammad (The two companions), however, do not consider this condition essential.¹⁷
6. The capital must be delivered at the time of the contract session. Otherwise, the fundamental objective of Salam is not fulfilled, as the purpose of the contract is to provide immediate financial support to the seller. Furthermore, delaying the capital would result in an exchange of a debt for a debt, which is prohibited in the Hadith.¹⁸

According to Imām Mālik, however, a delay of up to three days in delivering the capital may be permitted if it is stipulated in the contract. This allowance is based on the understanding that Salam is a commutative contract, and a minor delay does not invalidate it, just as in other commutative transactions. Such a short delay is considered close to immediate delivery and is therefore treated as equivalent to payment within the contract session.

He further explains that anything closely related to a foundational principle may be given the same ruling as that principle. Since immediate payment constitutes the foundational principle in Salam, a delay of up to three days, being minimal, is treated as falling within that principle.¹⁹ However, if the delay exceeds this period and is made a condition of the contract, the contract becomes invalid.²⁰

6.3 Conditions of *Muslam Fīh* in Salam

The subject matter of a Salam contract is referred to as *Muslam Fīh*. Its validity is subject to the following conditions:

1. The genus of the *Muslam Fīh* must be clearly known. For example, it must be specified whether the item is wheat or rice.
2. Its type must also be determined. For instance, it should be clarified whether the rice is basmati or another variety.
3. Its quality must be specified, such as whether the basmati rice is of first grade or second grade.
4. The quantity of the *Muslam Fīh* must be clearly specified. Furthermore, if it is a commodity, it should be explicitly determined whether the commodity is to be sold by measurement or by weight. Otherwise, it

may be determined by length or by number. In all cases, a clear and standard unit must be specified.

Al-Kāsānī explains that the purpose of this requirement is to ensure clarity in transactions and to prevent disputes arising from uncertainty. This principle is also reflected in the statement of the Prophet (peace be upon him):

«²¹من أسلم منكم فليسلم في كيل معلوم ووزن معلوم إلى أجل معلوم»

“Whoever enters into a Salam contract must ensure that the quantity, weight, and delivery time are clearly specified.”

Imām al-Marghīnānī further emphasizes that the *Muslam Fīh* must be precisely determined through its attributes. Based on this principle, Salam is valid in items that are relatively uniform when counted, such as walnuts and eggs, because variation among them is minimal. However, Salam is not valid in items that exhibit significant variation, such as ostrich eggs or pomegranates.²²

4.1 The unit of measurement or weight used for the *Muslam Fīh* must be commonly known and readily available. It should not be based on something rare or uncertain. For example, it is not valid to say: “I purchase wheat according to the weight of this stone,” if the weight of that stone is unknown. If the reference object is lost, it may lead to disputes. Therefore, standard units such as kilograms or liters must be used.²³

4.2 It is not permissible to link the *Muslam Fīh* to a specific source or location, such as saying: “I will deliver one hundred maunds of wheat from this particular field.” This prohibition is based on the Hadith in which Zayd ibn Sa‘nah asked the Prophet (peace be upon him):

هل لك أن تبيعني تمرًا معلومًا في حائط بني فلان إلى أجل كذا وكذا؟ فقال: ((لا يا يهودي، ولكن

أبيعك تمرًا معلومًا إلى أجل كذا وكذا))²⁴

“Would you sell me a specified amount of dates from the orchard of Banū so-and-so?” The Prophet ﷺ replied, “No, O Jew. Rather, I will sell you a clearly specified quantity of dates for a defined term.”

The Prophet (peace be upon him) disallowed linking the sale to a specific location and instead permitted the sale of a specified quantity for a specified period without tying it to a particular source.

5. For the validity of Salam, it is also necessary that the capital and the *Muslam Fīh* do not share a common effective cause of *ribā*. They must not be of the same genus, nor should both belong to categories measured by weight or volume in a way that would lead to *ribā al-nasī’ah*. If such a cause exists, the contract becomes invalid.

However, if they differ in both genus and measure, such as money exchanged for wheat, the Salam contract remains valid. Mālikī jurists

similarly state that the difference in genus and deferment between the two counter-values is a condition for validity. Accordingly, Salam is not permissible in the exchange of gold for silver, nor in food items exchanged for one another. However, it is permissible when gold or silver is exchanged for animals, or when trade goods are exchanged for non-ribā items.²⁵

6. The delivery of the Muslam Fīh must be deferred, and the period of such deferment must be clearly defined and specified. According to the view of Imām Abū Ḥanīfah, the minimum deferment period should be one month. This is because the permissibility of Salam in Hadith is explicitly linked to a specified term. Compliance with this guidance requires that delivery be postponed. Furthermore, Salam is permitted as a legal concession, specifically for deferred delivery.

However, according to Imām al-Shāfi‘ī, deferment is not a strict condition. He allows Salam even in cases where immediate delivery is possible, arguing that if it is permissible with deferment, it should be even more permissible without it. He further explains that the mention of a time period in the Hadith serves to ensure clarity when deferment exists, rather than to make deferment obligatory in every case.²⁶

7. According to the Ḥanafī school of thought, the Muslam Fīh must remain available in the market from the time of contract until the time of delivery. If it becomes unavailable during this period, the Salam contract becomes invalid, as delivery would become uncertain. The purpose of this condition is to ensure certainty in fulfillment.

This is supported by the statement of the Prophet (peace be upon him):

لا تسلفوا في الثمار حتى يبدو صلاحها²⁷

“Do not enter into Salam contracts for fruits until their ripeness becomes apparent.”

This ḥadīth prohibits the sale of fruits prior to the emergence of their ripening potential on the basis that the element of *gharar* (excessive uncertainty) is present; it is possible that the fruit may not grow on the tree at all. By analogy, a similar risk exists in the present context: at the time of delivery, the *muslam fīh* may not be available, thereby introducing uncertainty into the contract.

According to the Mālikī, Shāfi‘ī, and Ḥanbalī schools, the essential requirement is that the Muslam Fīh must be available at the time of delivery, regardless of whether it existed at the time of contract or not. This is because the fundamental objective in Salam is the assured delivery of the Muslam Fīh at the agreed time. When the Prophet (peace be upon him) permitted Salam with specific conditions, he did not stipulate that the Muslam Fīh must exist at the time of contract.²⁸

8. The Salam contract must be firm and binding, and the parties must not have the option of *Khiyār al-Sharṭ*. If such an option is included, the contract becomes invalid.²⁹

10. If the Muslim *Fīh* is of a type that requires transportation, the place of delivery must be clearly specified. This condition is emphasized by Imām Abū Ḥanīfah, whereas his two companions, Imām Abu Yousuf and Muhammad, do not consider it essential.

If the contract remains silent on this matter, the two companions hold that the place of contract will be treated as the place of delivery. However, Imām Abū Ḥanīfah argues that since the contract is absolute, the place of contract cannot be assumed as the place of delivery. This would result in ambiguity, which may lead to disputes.³⁰

According to the Mālikī school, specifying the place of delivery is preferable but not mandatory. The Shāfi'ī position is that if the place of delivery is unsuitable, or if transportation costs are involved, then it must be specified. However, if the location is suitable and no transportation cost is involved, then it need not be mentioned, and the place of contract will be treated as the place of delivery.

Similarly, according to the Ḥanbalī school, specifying the place of delivery is not a strict condition. However, if the contract is concluded in an unusual location, such as a deserted area or on a vessel, then specifying the place of delivery becomes necessary.³¹

11. Jurists differ regarding the types of items that may qualify as Muslim *Fīh*.

According to the Ḥanafī school, Salam is valid only in items that can be precisely determined through measurement, weight, length, or number, such as grains, fruits, textiles, and metals. It is not valid in items that are highly irregular or cannot be standardized.³²

The Mālikī school adopts a broader approach. They permit Salam in both measurable and non-measurable items, provided that the buyer clearly specifies the genus, quality, and quantity, along with the unit of measurement. They also give significant weight to customary practice (*'Urf*), as standardization may be achieved through measurement, weight, counting, or other commonly accepted methods.³³

According to the Shāfi'ī school, Salam is permissible in measurable items. Uniform countable items may be transacted based on number, weight, or length, whereas non-uniform items must be transacted based on weight.

The Ḥanbalī school also permits Salam in measurable items. In relatively uniform countable goods, it is permissible based on the number. However, regarding non-uniform items, there are two opinions: one

allowing it based on the number and the other restricting it to weight-based determination.³⁴

7. Role of Salam in Agricultural Development

The Salam contract holds significant economic importance, particularly in the agricultural sector.

1. Interest-Free Loan

Through Salam, farmers receive advance cash payments, which help them overcome financial constraints. This enables them to avoid interest-based loans that often lead to compounded debt.

2. Facilitating Access to Capital for Small Farmers through Salam

This arrangement is especially beneficial for small farmers, who require capital to purchase essential inputs for production. The advance payment received under Salam allows them to acquire these inputs.

3. Elimination of Market Uncertainty

Salam relieves farmers from the burden of searching for buyers in uncertain market conditions. Since the sale is concluded in advance, their production is effectively pre-sold, reducing the risks associated with price fluctuations and demand uncertainty.

4. Advantages for the Buyer

On the other hand, the buyer benefits by securing goods at a price generally lower than the prevailing spot price. Moreover, the deferred delivery provides sufficient time for planning, storage, and marketing strategies, particularly if the buyer intends to resell the goods. Thus, Salam ensures mutual benefit and reflects the balanced nature of Shari'ah principles.³⁵

5. Contribution to Export Growth

Salam can play a significant role in enhancing exports. Islamic financial institutions may purchase agricultural commodities from farmers through Salam contracts and subsequently sell them in international markets, thereby contributing to foreign exchange earnings.

6. Support for Agro-Industrial Development

Islamic banks can also facilitate the growth of agro-based industries by financing inputs and machinery through Salam-based arrangements and purchasing finished goods for onward sale in domestic and global markets.

7. Productive Utilization of Surplus Liquidity

Salam offers an effective avenue for Islamic banks to invest surplus liquidity in real economic activities. Islamic financial institutions often hold substantial idle funds, and Salam enables the deployment of these resources into productive sectors. For instance, in 2003, out of total assets amounting to 13.6 billion dollars held by Islamic banks, approximately 6.3

billion dollars remained in cash and were not engaged in productive economic activity.³⁶

8. Contemporary Applications of Salam

In the preceding sections, an extensive analysis has been undertaken regarding the concept, legitimacy, conditions, and economic significance of Bay' al-Salam. The following section outlines some possible contemporary applications of the Salam contract.

8.1 Initial Model of Salam Financing(Pure Salam Model)

The first possible form of *Salam* is that only the contract of *Salam* is executed. A farmer who requires financial assistance may be financed on the basis of *Salam* by an Islamic bank, private organizations, or local individuals. In return, the specified quantity of goods or crops is delivered after a fixed period of time.

8.1.1 Post-Delivery Options for the Islamic Bank

When the farmer delivers the crop to the Islamic bank, the bank may adopt two possible approaches regarding its sale:

8.1.1.1 Government-Backed Salam Mechanism

The first approach is that the government's Food Department(PASSCO³⁷) participates with the Islamic bank in the process of *Bay' al-Salam*. If the government wishes to promote *Salam*-based financing through Islamic banks, this is not difficult. The Islamic bank will provide financing to the farmer, and upon delivery of the crop, the bank will sell it to the government's Food Department.

In this regard, the Food Department may also undertake a promise to purchase the *Salam* crops from Islamic banks. If such arrangements are implemented on a large scale, the promotion of *Salam* becomes feasible, and reliance on interest-based loans can be reduced.

In 2023, the Pakistan Agricultural Storage and Services Corporation (PASSCO) procured 1,130,798 tons of wheat against a target of 1.8 million tons, equivalent to approximately 28.27 million maunds. With a government support price of PKR 3,900 per maund (about PKR 97,500 per ton), the total procurement value reached around PKR 110 billion.³⁸

Despite the substantial volume, this represented about 63% of the target, likely due to higher provincial procurement, better open-market prices, and limited storage capacity. In light of this example, we may assume that if Islamic banks finance farmers on the basis of *Salam* and subsequently sell the agricultural produce to PASSCO, then a business volume exceeding one trillion rupees among Islamic banks, farmers, and PASSCO could be conducted in a more efficient and organized manner.

8.1.1.2 Salam Execution through Intermediary (Ārhtī)

Facilitation

The second model is that the Islamic bank, the farmer, and the middleman (*ārhtī*) collectively facilitate the completion of the *Salam*. In this arrangement, the Islamic bank first agrees with the middleman to provide the required financing to farmers, and, in return, the crops will be purchased from them.

At the time of delivery, when the farmer hands over the crop to the Islamic bank, the bank may simultaneously sell the crop to the middleman. Alternatively, the middleman may receive the crop on behalf of the Islamic bank, store it, and later sell it in the market at a suitable price.

8.1.1.2.1 Role of Wakālah (Agency Contract)

For this purpose, the Islamic bank will enter into a contract of *Wakālah* with the middleman, under which he will be responsible for selling the bank's crop. In return for this service, he will be paid a wage. Additionally, to incentivize the intermediary, a commission may be fixed, for example, at two percent of the sale proceeds.

Elimination of Exploitation and Interest-Free Financing

If this method is adopted, the exploitative role sometimes played by middlemen can be avoided, and farmers can be provided with interest-free financing. This approach will promote agricultural development and strengthen the agricultural sector.

Impact on Agricultural Productivity

It is evident that when farmers have timely access to capital, they will be able to procure fertilizers, seeds, and other inputs on time. Agricultural operations such as irrigation, plowing, and spraying can also be carried out efficiently. If all these activities are managed through effective planning, higher yields will be achieved, and better prices will be obtained for the crops.

Economic Benefits and Financial Circulation

Through this mechanism, Islamic banks will also earn substantial profits, middlemen will receive appropriate wages or commissions, and the profits of Islamic banks will be distributed among depositors and shareholders. This will enhance their purchasing power, stimulate further trade activities, and ultimately set the wheel of the economy in motion. Consequently, not only will the agricultural sector develop, but other sectors of the economy will also benefit from its positive impacts.

8.2 Parallel Salam

In Islamic finance, Parallel Salam is a well-recognized and widely practiced mode of financing. It essentially involves two separate Salam

contracts, which may appear to be closely interconnected with each other but are, from a Sharī'ah perspective, independent and distinct from one another.

The structure operates in such a way that when a Salam contract is concluded between two parties, the buyer may not wish to retain the Muslim Fih upon delivery. Instead, the buyer intends to sell it onward immediately in order to avoid storage and handling costs. For this purpose, the buyer enters into a second Salam contract with a third party in advance.³⁹

For example, on 1st December 2024, an Islamic bank enters into a Salam contract with a farmer. Under this agreement, the bank pays an advance amount of 10,00,000 rupees, and the farmer undertakes to deliver 200 maunds of wheat to the bank on 1st June 2025.

The bank anticipates that upon receiving the wheat after six months, it will not store it but will instead sell it immediately to recover its investment along with profit. Therefore, the bank enters into another Salam contract with a third party, for instance, Company ABC.

Under this second contract, Company ABC pays 110,0000 rupees to the Islamic bank on 1st December, and the bank undertakes to deliver 200 maunds of wheat to Company ABC on 1st June.

In this arrangement, one Salam contract exists between the Islamic bank and the farmer, through which the bank is to receive wheat, while another Salam contract exists between the bank and Company ABC, through which the bank undertakes to supply the same quantity of wheat to the third party.

8.2.1 Application of Parallel Salam in Imports and Exports

An example of Parallel Salam can be observed in the context of agricultural financing for exports. For example, an agricultural enterprise engaged in the cultivation of canola requires capital to cover expenses such as seeds, fertilizers, pesticides, and other production costs. To meet this need, an Islamic bank enters into a Salam contract with the enterprise on 1 October 2024 and provides an advance payment of 60,000,000 rupees. In return, the enterprise undertakes to deliver 400 metric tons of canola seeds of specified quality on 31 April 2025. The port of Karachi is designated as the place of delivery to facilitate export operations.

This advance financing proves highly beneficial for the enterprise, as it enables timely procurement of agricultural inputs, leading to improved production and better-quality output that meets international standards. At the same time, the enterprise gains certainty regarding the sale of its produce, which provides economic stability.

During the same period, on 10 October 2024, the Islamic bank enters into a separate Parallel Salam agreement with an international buyer, for example, an importer in the United Arab Emirates. Under this contract, the

bank undertakes to deliver 400 metric tons of canola on 5 May 2025 at the designated port. In return, the bank receives 75,000,000 rupees, or its equivalent in foreign currency, in advance. In this agreement, the bank acts as the seller, namely the *Muslam Ilayh*.

In this way, the entire structure forms an effective export-oriented financing model. The financing provided by the Islamic bank directly supports agricultural production, enhances the output of key crops such as canola, and facilitates their entry into international markets, thereby contributing to foreign exchange earnings. Thus, it represents a *Sharī'ah*-compliant and economically beneficial export financing mechanism.

8.2.2 Separate Status of Salam Contracts

Although these two Salam contracts may appear interconnected in practice, they are entirely separate and independent agreements. The validity of one contract does not depend on the existence or performance of the other.

According to the *Sharī'ah* standards issued by AAOIFI, it is strictly prohibited to make one Salam contract conditional upon another or to link the completion of one contract to the completion of the other. Each contract must remain independent in both form and substance.

Accordingly, if one party fails to fulfill its obligations in the first Salam contract, the affected party does not have the right to transfer that liability or loss to the third party involved in the Parallel Salam arrangement. Similarly, the affected party cannot terminate, delay, or alter the terms of the second contract based on non-performance in the first contract.⁴⁰

For clearer understanding of the above-mentioned principle, we present the following example. An Islamic bank enters into a Salam contract with a farmer, *Aḥmad*, under which 1,000 maunds of wheat will be delivered after six months, while the full price is paid in advance. At this stage, the bank assumes the role of the buyer, *Rabb al-Salam*, and *Aḥmad* acts as the seller, *Muslam Ilayh*.

Subsequently, to manage its financial risk, the bank enters into a separate Parallel Salam agreement with *Al-Habib Flour Mills*. In this second contract, the bank becomes the seller, while the flour mill assumes the role of the buyer.

According to the *Sharī'ah* standards issued by AAOIFI, these two contracts must remain completely independent and separate. It is not permissible to make one contract conditional upon the other.

Accordingly, if *Aḥmad* fails to deliver the wheat at the agreed time due to crop failure, the bank is not permitted to refuse delivery to the flour mill, nor may it terminate the contract, delay delivery, or alter the agreed price on that basis. Rather, the bank remains fully responsible for fulfilling its obligation, even if it has to procure the wheat from the market and incur

a financial loss. At the same time, the bank may pursue separate legal or contractual remedies against the farmer.

From a juristic perspective, this ruling is based on the principle that each contract is independent in its legal effect. Since the bank assumes liability as a seller, it must honor its contractual commitment. Moreover, linking the two contracts would introduce gharar, which is prohibited in Sharī'ah.

8.2.3 Classical Basis of Parallel Salam

Shaykh al-Sālūs clarifies that Parallel Salam is not merely a modern innovation; rather, its foundations can be traced back to classical juristic literature. He states:

أما السلم الموازي فهو جائز، ففيه عقدان منفصلان، وهو ليس من مبتكرات المعاصرين كما يظن الكثيرون، فإن الإمام الشافعي ذكره حيث قال: من سلف في طعام ثم باع ذلك الطعام بعينه قبل أن يقبضه لم يجز، وإن باع طعاماً بصفة ونوى أن يقبضه من ذلك الطعام فلا بأس⁴¹.

Parallel Salam is permissible because it involves two independent and distinct contracts. Contrary to the common assumption, it is not a modern innovation introduced by contemporary scholars. Rather, it has roots in classical jurisprudence. Imām al-Shāfi'ī addressed this concept by explaining that if a person enters into a Salam contract for food items and then sells those exact items before taking possession, such a sale is impermissible. However, if the person sells goods defined by specific attributes, with the intention of fulfilling that obligation from what he will later receive through the Salam contract, then this arrangement is permissible.

8.3 Financing Operating Expenses through Salam

Operating expenses refer to all the financial costs incurred by a business in maintaining its day-to-day and core operational activities. These include employee wages and salaries, rent, utility bills such as electricity and gas, advertising and marketing expenses, as well as costs related to raw materials or inventory. These expenses are generally divided into two main categories. The first is fixed costs, which remain relatively constant regardless of the level of production or sales, such as rent, insurance, and permanent staff salaries. The second is variable costs, which fluctuate with changes in production or sales volume, such as raw materials, packaging, and transportation expenses.⁴² Therefore, it is essential for any business to properly understand and effectively manage these expenses, as they play a crucial role in determining overall performance and long-term success.

For example, a company such as Habib Ghee and Cooking Oil requires capital to meet its operational needs, including the purchase of raw palm oil,

payment of staff salaries, and utility expenses. To address this need, an Islamic bank may enter into a Salam contract with the company on 1 April 2025.

Under this agreement, the bank pays an advance amount of 60,000,000 rupees, while the company undertakes to deliver 100 metric tons of ghee at a future date. Subsequently, the bank may sell this quantity of ghee to distributors at both cash and deferred prices.

Naturally, the bank purchases the goods at a lower price from the company and sells them to distributors at a profit. It may also appoint distributors as agents on a *Wakālah* basis and provide them with a commission to sell the product in the market. In this way, the bank is able to utilize its surplus liquidity for investment purposes, while the company's operational needs are effectively fulfilled.

8.4 Organized Salam (Structured Salam)

Organized Salam refers to a structure in which a client enters into a contract with a bank to sell a specified commodity with defined attributes to be delivered in the future. This commodity is often one that is traded in international markets. In return, the bank pays the price immediately.

After receiving the payment, the client appoints the same bank as an agent to purchase the specified commodity on their behalf from a particular supplier. Since the client maintains an account with the bank, the client authorizes the bank to deduct the cost of the purchased goods from his account.

Once the commodity is acquired, the bank sells it in the market on its own behalf. In substance, this arrangement results in the client becoming indebted to the bank and repaying an amount greater than the original sum received. For this reason, it closely resembles organized *Tawarruq* and is considered a legal stratagem (*Hilāh*) to obtain an interest-based loan. Consequently, many scholars regard this structure as impermissible.⁴³

8.4.1 Example of Organized Salam

For instance, a client (A) makes a promise to Al-Ameen Islamic Bank to sell a specified quantity of a commodity at a predetermined price. The client agrees to sell a certain quantity of platinum to the bank under a Salam contract. The bank then pays the full price in advance.

After receiving the payment, the client appoints the bank as their agent and instructs it to purchase the same quantity of a commodity of platinum from the international market on their behalf. The bank proceeds to acquire the commodity, often in multiple instalments over time. The customer maintains an account with the same bank; therefore, he instructs the bank to release payment upon receipt of the commodity. Since the commodity is often delivered in instalments, the bank correspondingly

makes the payment in instalments. Subsequently, the bank sells the commodity in the market on its own account.

Scholars argue that this structure is merely a device to obtain financing in the form of a loan, and in reality, it serves as a means of acquiring an interest-based loan through legal form without changing its substance. Such arrangements are considered impermissible, as they maintain only the outward form of a contract while concealing an underlying interest-based transaction.⁴⁴

Diagram:

8.5 Appointing the Seller (Muslam Ilayh) as an Agent for the Sale of Muslam Fih

Islamic banks, in their practical operations, are exposed to various types of risks. One significant risk arises when the bank receives goods from the client but is unable to sell them promptly, resulting in additional storage costs. In practice, most Islamic banks do not possess adequate warehousing facilities to store such goods.

This issue becomes more pronounced in Bay' Salam, as it typically involves agricultural commodities. The Islamic bank pays the price in advance and receives the commodity, such as wheat, rice, sugarcane, potatoes, or maize, after an agreed period, for example, three or six months. If the bank is then required to store these goods for a certain period, it may face operational difficulties.

Ideally, Islamic banks should establish their own storage and warehousing facilities so that they can engage in trade in a manner fully consistent with Sharī'ah principles. However, in the current practical environment, such arrangements are generally not available.

A possible solution to this issue is that the Islamic bank appoints the same client as its agent. In other words, the farmer who receives financing may also be appointed as an agent to sell the commodity. In this arrangement, once the crop is ready, the farmer, acting as an agent, sells the production in the market and transfers the amount to the bank.

AAIOFI permits the bank, when acting as the buyer in an Istisnā' contract, to appoint the seller as its agent to sell the asset after the bank has taken possession. In light of this permission, it can be suggested that the bank may appoint the seller (client), after taking possession, to sell the commodities in the open market.⁴⁵

However, an objection may arise in this structure, namely that it combines two contracts within a single arrangement. The Prophet (peace be upon him) prohibited such practices. It is reported from Abū Hurayrah (RA):

نَبَى رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ عَنْ بَيْعَتَيْنِ فِي بَيْعَةٍ 46

This concern arises because the primary contract is Salam, while agency (Wakālah) is also incorporated into the same arrangement.

To avoid this objection, the two contracts should be kept separate. First, the Salam contract should be concluded independently. Then, after the crop is ready and the bank has taken actual possession, a separate Wakālah contract should be executed. These two contracts must not be made conditional upon one another, as linking them in such a manner would render the arrangement impermissible.⁴⁷

Nevertheless, the ideal approach remains that Islamic banks should develop their own storage facilities. Even in the above arrangement, precaution must be exercised: the bank should first take possession of the commodity through its representative, and only thereafter appoint the farmer as an agent to sell it in the market.

Findings

1. Salam is a well-established and Sharī'ah-compliant contract, supported by the Qur'ān and Sunnah. It serves as a valid exception to the prohibition of selling non-existent goods to meet genuine economic needs.
2. Salam is particularly beneficial for farmers, as it provides advance capital for essential inputs like seeds, fertilizers, and labor, reducing reliance on interest-based financing.
3. Islamic jurists have defined detailed rules for Salam, ensuring transparency, minimizing uncertainty, and preventing disputes.
4. The contract benefits all parties: farmers receive funds, buyers obtain goods at favorable prices, and financial institutions invest productively.
5. Parallel Salam is permissible if both contracts remain fully independent and are not conditionally linked.
6. Islamic banks face practical issues such as storage, price fluctuations, and lack of proper infrastructure.
7. Appointing the Muslim Ilayh as an agent is allowed, provided Salam and Wakālah contracts remain separate.
8. Organized Salam may resemble Tawarruq and risk replicating interest-based financing, consequently, many scholars consider it impermissible.

Recommendations

1. Authorities and Islamic financial institutions should actively advance Salam as a viable Sharī'ah-compliant alternative, especially for agricultural financing.
2. Banks should invest in storage and logistics systems to manage Salam commodities effectively and reduce operational risks.
3. Strict adherence to Sharī'ah standards is essential, ensuring Salam and Parallel Salam contracts remain fully independent in line with AAOIFI guidelines.

4. Institutions should avoid Organized Salam models that replicate interest-based financing in substance.
5. Governments must strengthen legal protections to prevent exploitation of farmers by intermediaries.
6. Financing processes should be simplified to enable small farmers to access Islamic financial services more easily.
7. Training programs should educate stakeholders on Shari'ah-compliant finance and ethical business practices.
9. Salam financing should be incorporated into national agricultural strategies to enhance productivity and food security.

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