Islamic Infrastructure Project Finance: A Literature Review

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ABSTRACT

Infrastructure plays an important role in supporting economic growth and competitiveness of a country, and well-developed infrastructure is often considered as the foundation for economic growth (Abdurraheem & Naim, 2018); (Amel et al, 2020). Infrastructure investment and economic growth are interrelated, because infrastructure improvements will have an impact on increasing economic growth, which in turn will encourage infrastructure investment (Selim et al, 2019). Infrastructure projects have a very large scope, long time span, and involve many stakeholders, and the need for investment in infrastructure also becomes less liquid (Mohamad, 2015). Infrastructure projects have two important characteristics that must be considered in terms of financing. The first is the long-term investment period and the second is the high cost involved in infrastructure projects (Manzoor et al, 2017). Most large-scale infrastructure projects are financed non-recourse to the sponsoring companies, this type of financing is commonly known as project finance (Camacho, 2005). Project finance has been implemented globally in infrastructure financing both in developed and developing countries. The current condition faced by developing countries, besides the high investment value required and short-term for financing in infrastructure development are the high interest rates (United Nations, 2021). Project finance with a sharia scheme (Islamic project finance) is expected to be one of the best alternatives in overcoming infrastructure financing problems. Sharia financing is the most appropriate instrument for infrastructure financing because the basic asset is the project itself that it can be used as a method for financing infrastructure investment (Abdulkareem & Mahmud, 2019) and other activities that are prohibited by Islamic finance principles (Rarasati et al, 2013).

Keywords: Infrastructure; Long-term Investment; Project Finance; Sharia Scheme; Sukuk.