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Developing Conceptual Framework for Public–Private Partnership Projects via Mobilization of Islamic Finance in Indonesia

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Abstract

Indonesia needs to address the issue of widening infrastructure gaps by investing IDR 6445 trillion in infrastructure development until 2024. The investments, however, cannot be funded solely from the government budget as it can only cover 37 percent of the required amount. The concept of public–private partnership (PPP) has the potential to fulfill the requirements of the remaining 63 percent of the funding gap of infrastructure investment in Indonesia. Islamic finance has the potential to support the PPP projects as the alternative financing source to meet this objective. Islamic finance focuses on the risk allocation through distribution into the best possible parties in the transaction that is also in line with the concept of PPP. Despite the increasing efforts to mobilize Islamic finance for financing PPP projects, so far there have been no projects funded under Islamic finance instruments in the existing PPP projects that have reached “Financial Close” with total investment of US\$67.27 billion. This study aims to develop a conceptual framework based on the cycle of the PPP process using the institutional theory and value chain theory. The institutional theory is important to regulate the PPP arrangement from being an innovation to procure infrastructure asset outside the government budget. PPP projects present a contractual term of long-term concession agreement, and the applied PPP concept comprises the causal processes from inputs, related activities, outputs, and outcome as defined under value chain theory. The primary purpose of conceptual framework is to explore the status and challenges of Islamic finance mobilization in PPP infrastructure projects in Indonesia. The framework also assists the study in exploring the feedbacks from the relevant stakeholders and formulating way forward. The study is expected to contribute to proposing the applicable policy and framework recommendation, strategy, and incentives to mobilize proper Islamic finance resources for the development of PPP project in Indonesia. © 2023, The Author(s), under exclusive license to Springer Nature Switzerland AG.

Author Keywords

Conceptual framework; Islamic finance; Public–private partnership

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