CHAPTER 6

DISCUSSION AND CONCLUSION

6.1 Introduction

The objectives of this study are (1) to investigate the current practices and approaches of Islamic banks in Indonesia to finance construction companies, in particular to infrastructure contractors; (2) to identify the reasons for the low share of financing from Islamic banks to infrastructure contractors, and (3) to determine the appropriateness of *musharakah* contract to fulfil the financing needs of infrastructure contractors.

6.2 How Islamic Banks Finance Contractors

The first research objective is to investigate how Islamic banks have been financing contractors. Contractors, here, are restricted to infrastructure contractors. As discussed previously, contractors can be classified by specialisation. Infrastructure contractors only work on public projects, such as roads. The operations of the company are generally come, build, and go.

6.2.1 Financing to Contractors

First, in answering the research questions, the researcher analysed the annual reports of the Islamic banks. As mentioned in Chapter 3, among the sources of data were annual reports of the banks. Relevant parts were highlighted and extracted, as described in Chapter 4.

As previously shown in Figure 4.5, only BSM, of all Islamic banks, had a higher-than-national-average share of financing to the construction segment (9%) in 2017–2021. After BSM merged into BSI in 2021, only BSI has a decent share of financing to the construction segment, whereas other banks are trailing behind. Bank Muamalat, which in previous years had a rather high share, decreased to only 3 percent in 2021. Thus, no Islamic banks are able to compete with BSI. Only BSM, BNI, and BMI have provided more than a billion rupiah in financing, while the other banks have provided only small amounts of financing (Figure 4.4).

Information gathered from the interviews confirmed the information from the annual reports. Most Islamic banks answered 'no' when asked whether construction financing is a priority. Responses from infrastructure contractors also confirmed the previous information. When asked whether they have received any financing from Islamic banks, their reply was negative.

The above suggests that 'construction' or 'contractor' is understood broadly by Islamic banks. The terms may very well include suppliers and developers. Because the Islamic banks did not define what they mean by 'contractors' in their annual reports, it may be inferred that they include both construction firms and supporting firms (e.g., suppliers). Likewise, they referred to 'contractors' generally, not specifying their specialisation or role. During the interviews, they referred to the property itself rather than discussing the contractor's service. Consequently, the value of financing to the construction segment reported in the annual reports may not reflect the actual amount of financing to developers (i.e., the definition of contractors in this study), much less infrastructure contractors. These findings were supported by the interviews the Islamic bankers. When discussing the definition of contractors, they referred to them as the property or project owners, not a particular construction firm. The exception was an informant from BSI (previously BSM). As found during the interview, in Section 5.4.2.1, two informants from the same Islamic bank stated that, "*We also provided the financing for the construction of the toll road in Banten province*," and, "*Our (Islamic) bank also secured the issuance of sukuk with the construction works as the underlying asset*".

Additionally, contractors as understood by the Islamic banks are large, well-known state-owned firms, as discussed in Section 4.4.4. On the other hand, the infrastructure contractors selected as the respondents were not well-known. Their business information was not publicly available as they did not have any company website. Only two out of the 27 sample contractors have a company website. As a result, the researcher had to seek information about the remaining 25 firms directly from them. But this was not possible for four firms, as they had moved their offices without updating their addresses on the procurement website.

The meaning of 'contractor' is likewise understood differently by other interviewees. The informant from KNEKS stated that, "*The contractor is part of the construction process, and the contractor must work well in the project during the construction of the property*". Indeed, it is true that contractors are idle when they are not involved in any project. Other informants also referred to contractors as the construction project as a whole – building, properties, or projects – citing past issues where there had been stalled or suspended construction activities. Only one informant referred to the same definition as the researcher. This suggests that there is information asymmetry between the stakeholders, as 'financing to contractors' is understood as 'financing construction'.

6.2.2 Financing Contract for Contractor

According to their annual reports, Islamic banks have typically used two types of contracts when providing financing to the construction segment. The first is *murabahah* and the second is *musharakah*. Some reports also stated that the banks used *qardh* to finance their groups of companies. But these companies are not contractors; rather, they are suppliers of materials (e.g., concrete, steel) to the contractors.

Referring to the OJK statistics report, *murabahah* constituted 55 percent of the contracts used by Indonesian Islamic banks. This includes the construction segment. The report states that *musharakah* financing is used for the purchase of equipment, vehicles, shophouses, or other fixed assets of the customers. *Musharakah* is a contract used to finance contractors, but as mentioned in Section 4.2.4, Islamic banks do not use it much to finance contractors. When using *musharakah*, Islamic banks require collateral to secure their funding, hence they are not involved with the operations. However, this answer was not declared by the Islamic banks, which in the beginning explained that they do not consider contractors as their clientele.

Interview data support the above conclusion, that Islamic banks do not consider contractors as their customers. Only an informant from BSI (previously BSM) properly answered the method of treating infrastructure contractors. An informant from Bank Muamalat explained the that contract for contractor is aligned with the contractor's group of company. An informant from KB Bukopin Syariah explained that they only target public work contractors that develop schools and hospitals, not infrastructures like public roads. Though the project owner (government) and property user (public) are the same, the infrastructure is different.

6.2.3 Declared Statement

In some annual reports, the Islamic banks declared specific information regarding the construction-contractor issue. Table 4.1 in Section 4.2.7 summarises the Islamic banks' statements about their terminology. All statements relate to housing contractors, and some relate to state-owned contractors. None of them explain about infrastructure contractors. These statements are aligned with the interview answers, which related construction to housing specifically.

6.2.4 Supplier-Customer Relations

The interviews also revealed that there are no close relationships between the Islamic banks and infrastructure contractors. Out of 17 infrastructure contractors, only four answered that they knew Islamic banks well: Two infrastructure contractors because they have accounts in Islamic banks, while another two because they were offered personal financing products by Islamic banks.

Two informants of infrastructure contractors had been visited by the marketing team of Islamic banks to offer personal financing, not corporate financing. Most infrastructure contractors have no knowledge about Islamic banking operations. In fact, they assumed that Islamic banks and conventional banks are similar.

There is therefore information asymmetry between Islamic banking and its (potential) customers. However, analysing the marketing strategy of Islamic banks in their annual reports and websites, they have not targeted corporate customers, much less the construction segment. Regarding the awareness of the informants, the researcher sees that this task falls on OJK, not the Islamic banks, as it has just released a publication on increasing Islamic finance literacy (OJK, 2021c). This is expected to the market share of Islamic banking and finance (Mohammed et al., 2015).

6.2.5 Summary

Do infrastructure contractors obtain financing from Islamic banks? No, they do not. This answer was also confirmed from the interviews with the Islamic banks. From eight Islamic banks, only one answered the interview question with the proper concept of ‘contractor’. Four other Islamic banks decided against financing contractors, including infrastructure contractors.

The first research question can also be answered by referring to Sections 2.5 and 2.6, which discuss the current national plans to propel the growth of Islamic banking and the Islamic economy. In particular, the plans are still somewhat abstract, especially in terms of the customers segment of Islamic banks. There appears to be a discrepancy between the plan and current practices. The informant did not consider financing to contractors as the most important part of infrastructure plans in the Islamic Banking Roadmap. The plan therefore contrasts the current national policy.

Though Islamic financial institutions have established the target growth for the Islamic banking industry, Islamic banks must have their own target growth, as per the recommendation in Section 2.5.1.1.1 (Doski et al., 2013). Top management must use marketing strategies to increase customer awareness on the uniqueness of Islamic banks’ *musharakah* profit-and-loss-sharing-sharing product (Shah et al., 2022). Targeting this specific infrastructure segment is an opportunity. As discussed in Section 4.4.3, the value of public road projects in 2021 alone was significant. The value is much higher when all public infrastructure projects are considered.

6.3 What are the Reasons for the Low Share of Financing from Islamic Banks to Contractors?

This study aims to investigate why Islamic banks only have a small share of financing to the construction segment. The answers are discussed in the following subchapters. It discusses the reasons based on the ownership of Islamic banks, the limited area of operations of the banks, and the limitation imposed by the banks themselves on their own operations.

6.3.1 Shareholders of Islamic Banks

Section 4.2.1 has discussed the shareholders of Islamic banks. There were notable changes in ownership of most major Islamic banks in 2021. The first is Bank Muamalat, whose major shareholders changed from Kuwait's Islamic banks to the Hajj Fund Authority (BPKH). The second is the merger of three major Islamic banks, BSM, BNIS, and BRIS into BSI. Therefore, the major Islamic banks are now state-owned. This change of ownership is not an abrupt process but has been planned since years ago.

There were also changes in ultimate ownership of Islamic banks. Bank Bukopin Syariah became Bank KB Bukopin Syariah (Korean Bank). Bank BTPN Syariah changed ownership to Sumitomo Mistui Banking Corporation. Bank Aladin was divested from Maybank and kept changing ownership until 2021. As discussed by Shahar (2015) in Section 2.7.1, managers act in accordance to shareholders' interest, thus the changes of shareholders will result in changes in the banks' results.

The paragraph above should be associated with the paper entitled *Government Ownership of Banks* (La Porta et al., 2002). Meanwhile, the change of ownership in private entities will have consequences on various aspects, not only business policies, but also ethics, culture, and environment. In fact, the entity may even put aside the common business goal of growing (Andaswari et al., 2019).

6.3.2 Area of Operations of Islamic Banks

Some Islamic banks operate only within a certain region. Three out of 12 Islamic banks are only able to carry out their services in their respective provinces. These three banks are Bank Aceh Syariah (Aceh), Bank NTB Syariah (Nusa Tenggara Barat), and Bank Jawa Barat dan Banten Syariah (BJBS). While BJBS do have some branches in Jakarta, they are only for savings account services, not financing. Therefore, in reality, there are only nine Islamic banks operating nationwide. The remaining three are owned by provincial governments and their operations are restricted within their own provinces.

Data collection from BJBS was initiated with a visit to its branch in Tebet, Jakarta. However, the interview was conducted at the Serpong branch, around 20 km outside of Jakarta. During the interview, the branch manager explained that BJBS may not provide any financing in Jakarta. The branches in Jakarta mainly serve as an extension of the bank, whose main operations are based in West Java and Banten. He explained that construction financing is only available in the head office in Bandung (the capital of West Java). Even then, it is mostly financing public works under the West Java government, not projects from the central or other provincial governments. This condition shows the narrower opportunity of provincial Islamic banks. These three provincial Islamic banks constitute 13 percent of the total capital invested in Islamic banks.

An Islamic bank, Maybank Syariah, had suspended its operations five years ago. The bank was owned by the Malaysian bank, Maybank. Following its divestment, ownership of the bank had changed numerous times, eventually becoming Bank Aladin Syariah. During the data collection, the bank stated that it was not ready to operate nationwide, and it had no plans to provide financing to the construction segment.

Therefore, excluding the three provincial banks and one emergent Islamic bank, there are effectively eight Islamic banks, not 12. This means that only 87 percent of total capital was available to reach the construction segment in Indonesia. Furthermore, the level of maturity, experience, and risk appetite of these eight banks differ, thus it is a common practice to 'play it safe' when it comes to financing.

Therefore, reading and understanding the reports published by the authorities create information asymmetry. The reports cannot be understood by merely understanding their titles, but it is also necessary to understand how they are prepared (Setiawati et al., 2018). While those reports mention 12 Islamic banks, in reality there are only nine Islamic banks operating nationwide.

6.3.3 Share of Construction Financing of Islamic Banks is Similar to that of their Parent Banks

The operations of parent banks are likely to influence the operations of their subsidiary banks. In Indonesia, conventional banks constitute 73 percent of the total shareholding of Islamic banks. In fact, in eight (out of 12) Islamic banks, conventional banks hold almost 100 percent ownership. According to Ghoniyah and Hartono (2020), it is difficult to distinguish between the operations of Islamic banks in Indonesia from those of their owners. Islamic banks base their operations on a different vision than their owners, the conventional banks. While conventional banks operate based on the interest rate, Islamic banks derive their profits from profit-and-loss-sharing sharing (PLS) contracts. Nevertheless, the researcher found that the pattern or share of financing in Islamic banks is comparable to their parent conventional banks.

The researcher used three Islamic banks as a sample to compare the portion of financing to contractors in Islamic banks and their parent banks. These banks were Bank Negara Indonesia (BNI), which is the parent of Bank Negara Indonesia Syariah (BNIS); Bank KB Bukopin, parent of KB Bank Bukopin Syariah (KBBS); and Bank Victoria, parent of Bank Victoria Syariah (BVS). Their 2019/2020 annual reports detailed the following figures:

- The share of financing to construction of BNIS in 2019 and 2020 was 7 percent, whereas BNI was 9 percent (2019) and 7 percent (2020).
- The shares of KB Bank Bukopin Syariah were 4 percent and 6 percent in 2019 and 2020, whereas Bank KB Bukopin was 5 percent and 6 percent.
- The share of financing for the construction segment of Bank Victoria Syariah and Bank Victoria in 2019 and 2020 was equally 5 percent.

From these three samples, it was revealed that the subsidiary's operations were a reflection of their owners. The share of financing to the construction segment of these three Islamic banks were similar to that of their owners. These suggest that Islamic bank managers are acting in the shareholders' favour. In other words, the subsidiary acts according to the interest of its parent company (Shahar et al., 2015).

6.3.4 No to Construction Financing

Only a few of the 12 Islamic banks have provided financing to the construction segment. During data collection, some of them provided a direct reply in writing that they have not provided any financing to the construction segment. One of them stated they do not deal with infrastructure construction. These field data are in line with the figures stated in the annual reports. While the annual reports stated that the banks provided some construction financing, it may include non-infrastructure construction as well.

As shown in the previous chapter, the value of financing to the construction segment is not in line with the national government's infrastructure budget. While the national infrastructure budget has noticeably increased since 2016, the value of construction financing/loan has been growing at a much stable pace.

Most construction financing was provided by the major Islamic banks, and certain banks constituted 13 percent of total financing to contractors. However, some smaller Islamic banks did not provide any financing at all. On average, the smaller banks represented under 5 percent of total financing to contractors. It should be noted that these figures include all types of contractors, not only infrastructure contractors.

Referring to the theory of information asymmetry, the statement of major Islamic banks that they have provided financing solutions to contractors is correct. However, the statement does not reflect the Islamic banking industry.

Table 6-1: Construction Financing by Islamic Banks

Islamic Bank	Conclusion
Bank Syariah Indonesia	Currently financing construction
Bank Muamalat	
Bank Central Asia Syariah	Only under Rp 1 billion
Bank Panin Dubai Syariah	
Bank KB Bukopin Syariah	
Bank Victoria Syariah	
Bank Tabungan Pensiun Nasional Syariah	No financing for construction
Bank Mega Syariah	
Bank Aladin	
Bank Jawa-Barat Banten Syariah	Financing only within own province
Bank Aceh Syariah	
Bank Nusa Tenggara Barat Syariah	

While the object of financing chosen in the research was state-owned national road projects, some informants hardly connected their answers to the public administration. Santoso et al. (2020) found that contractors in Jakarta are always on the lookout for threats in the external environment, and that they typically have a good strategy. This is good to improve their position. They are also potential customers of Islamic banks. Santoso and Permana (2021) also found that the internal strength of contractors is more important in analysing their competitiveness.

Continuing the discussion in Section 5.4.2.1 regarding the meaning of 'construction' and 'contractors', most of the Islamic banks confirmed that there is no financing to contractors. The Islamic banks have not yet taken advantage of the opportunity provided by the OIC (COMCEC, 2019) or the national infrastructure plan (Bappenas, 2019).

6.3.5 Limited Value of Financing for Infrastructure Contractors

Significant construction financing value came only from two major Islamic banks: BSI and Bank Muamalat. The financing value from other banks was relatively small, below Rp1 billion. In 2020, the financing value of BSM was Rp10 billion, BNIS and BMI Rp2 billion, BRIS Rp1 billion, and the other six Islamic banks collectively Rp2.5 billion. Even though the three state-owned Islamic banks only provided financing to their own group of companies, the values were still remarkable.

It was revealed from the interview that construction only constituted a small part of financing of Islamic banks. One informant stated that the bank provided small financing value to contractors. An informant from a state-owned Islamic bank said, "*At the moment, our financing value to contractors is medium to low. Hopefully in the near future, our bank will be able to finance contractors with a wholesale financing value*".

Most Islamic banks, in fact, did not provide any financing to contractors, much less infrastructure contractors. Summarising the discussions above, the reasons for the low share of construction financing in Islamic banks are:

- Only two out of 12 Islamic banks have provided financing to the construction segment. This financing was provided to general contractors, not infrastructure contractors.
- The area of operations of Islamic banks are still limited. Some have not operated at a national scale.
- Islamic banks have not aligned their strategy with the government's increased focus on infrastructure. In other words, they have not focused on targeting contractors or infrastructure construction projects.
- The value of construction financing has been limited. Much of it comes from the major Islamic banks. Other Islamic banks have only provided less than Rp1 billion in financing to contractors.

Referring to the contractor grades (Figure 4.3), the value of financing from major Islamic banks has not yet reached the highest value of small contractors, Rp.2.5 billion. This means that the Islamic banks are still only considering micro and small contractors.

6.3.6 Summary

The answer to the second research question on why Islamic banks only have a low share of financing to the construction segment is summarised in the above paragraph. First is changes in major shareholders. Second, only nine out of 12 Islamic banks are operating nationally. Third, some banks are only allowed to provide financing in a limited area. This could be the policy of their parent companies. Only three Islamic banks target the construction segment. Finally, Islamic banks have not targeted the medium to high grade contractors.

6.4 Appropriateness of *Musharakah* to Finance Infrastructure Contractors

Musharakah is not a new financing contract or scheme in Indonesia's Islamic banking. It places second after *murabahah* in terms of usage. In the past five years, *musharakah* constituted between 40 and 45 percent of the total value of financing contracts.

Regulations on *musharakah* in Islamic banks in Indonesia are not purely developed from classic *fiqh* rules. They also combine common conventional banking practices, such as the management of risks faced by the Islamic banks and the customer's venture. These findings are aligned with Sadiyah and Aziroh (2014).

It should be noted that *musharakah* financing must be guaranteed with a collateral. This condition is clearly stated in almost all annual reports of the Islamic banks. Collateral is not supported by classical *fiqh* rules, but it is necessary to minimize the financing risks of Islamic banks (Astriah & Zubair, 2021; Maulana, 2014), It is also a practical solution for the challenge facing *musharakah* financing (Mohamad et al., 2023).

This condition, it appears, is an influence of the owners of the Islamic banks. As Section 4.2.1 indicates, Islamic banks are largely owned by conventional banks. It is difficult to imagine, then, that the subsidiary Islamic banks will act against the best interest of their major shareholders (Shahar et al., 2015).

The share of *musharakah* contract varies between banks. For example, before its merger, BNI Syariah only used *musharakah* in 15 percent of its financing activities, whereas Bank Muamalat around 50 percent. Some Islamic banks even used it in more than 80 percent of their transactions.

The customer segment for *musharakah* financing contract is also different. One Islamic bank mostly provided *musharakah* financing to the trading segment, while other Islamic banks to the manufacturing segment. However, no Islamic bank used *musharakah* as the primary financing contract for the construction segment, in particular for infrastructure contractors.

Musharakah has also been used to finance related firms, i.e., sister firms of the banks. For example, BSI, whose majority owner is the state, has provided *musharakah* financing to state-owned contractors.

Musharakah financing has grown from 2017 to 2020. In 2017, *musharakah* comprised 35 percent of total financing, and in 2020 it increased to 45 percent. The customers were mostly retail consumers, which increased from 40 percent to 45 percent within the same period. Meanwhile, the construction segment only increased by 2 percent. It bears mentioning, once more, that construction here refers to contractors in general.

From the interviews with Islamic banks, only one informant described the method of financing to contractors with the ideal *musharakah* concept. The informant explained that one of the methods in providing *musharakah* financing to a contractor is through a dedicated bank account controlled by both the Islamic bank and the contractor. After the project owner disbursed payments to the bank account, both parties will approve the use of the money. Another informant did not explain *musharakah* financing in a definite manner, stating it can either be given as a monthly stipend or based on the contractor’s preferences from the project owners. Their explanation of *musharakah* financing to contractors include the requirement of a guarantee.

As for the readiness of contractors for *musharakah* financing, it was found that they still had limited awareness and knowledge of Islamic banks. Information about Islamic banking was still obscure to them. The information provided by the researcher during the interview was insufficient, as time was limited. The researcher was only able to explain the basic definitions of terms relating to Islamic banking.

Musharakah as per Islamic accounting standards and the literature is defined as joint venture, coordination, or partnership (Sections 2.2.1 and 2.2.2). The uniqueness of infrastructure construction works requires contractors to coordinate with different parties in different places and time. Contractors are familiar with joint venture, joint operation, and sub-contracting (see Sections 2.4.1 and 2.4.2), thus the *musharakah* model has already been practiced. However, this important marketing point has never been touched upon by Islamic banks. As the interviews indicated, only major Islamic banks have opened their doors for contractors.

It can then be inferred that infrastructure contractors have not explored various solutions to their financing needs. They have only been aware of conventional banks. For Muslim firm owners, this may be problematic. It appears that the reason for the contractors' poor awareness is the lack of promotion from Islamic banks themselves. Because they do not focus on the construction segment, they do not approach the firms at all, except to promote personal banking services and products. This is unfortunate, given the significant opportunity for Islamic banks to grow from capturing the construction segment.

The general concept of interest and profit-and-loss-sharing financing cannot be digested in an hour, and what is offered by the Islamic banks will not be the same as the researcher's own explanation. This may related to a debt or capital theory (Shahar et al., 2015). The lack of awareness towards Islamic banking products must be addressed as it has become an important issue highlighted by the Islamic financial authorities (OJK, 2021c). Thus, it may be assumed that the contractors are ready for *musharakah* financing if they are approached by Islamic banks, just as they are open to be interviewed for this research.

All interviewees are familiar with conventional banks, as they have used their services in their personal and professional lives. They believe that interest-bearing loan is a necessary concept. Furthermore, the oldest bank in the country, certainly a conventional bank, has been operating for more than 120 years. This, of course, contributes to their familiarity with conventional banks.

Promoting the *musharakah* contract is therefore a challenge of the Islamic banking industry. *Musharakah* is a competitive financing method of Islamic banks to avoid interest. A strategy to promote *musharakah* is by understanding the venture capital method (A. A. Rahman et al., 2020).

6.5 Research Implications

6.5.1 Implications to Academics

Construction is a common subject of interest of past studies. Most of the literature focuses on the entire stages of construction, from the initiation of the project until its completion or until the property is used. It also covers property maintenance and repairs. Most of these issues were examined from the perspective of the project owners. Rarely did the literature investigated contractors, especially with regards to financial needs. Such studies were typically carried out by project management schools. This study focuses on two entities – Islamic banks and infrastructure contractors – to examine the extent to which the financial needs of the latter are fulfilled by the former.

As found during the literature review, most studies on Islamic banking focused on its internal operations and their impact on the external counterparts, such as their deposit and financing customers. Meanwhile, research on project financing from an Islamic viewpoint was conducted from the perspective of the owners, and it involved the financing of the entire phase of the construction through various Shariah-compliant means, e.g., sukuk financing.

However, there was less research on issues on the contractors' side. The contractor's issue was found in two studies, as discussed in the literature review, in which financing issue was one of the findings. Therefore, this research raised this issue and proposed a solution.

The researcher also kept abreast of the latest studies that are related to the research. A recent study discussed contractors located in Jakarta (R. Santoso & Permana, 2021), while another study discussed contractors around the island of Java (Suharjana et al., 2020). A dissertation proposed some financing strategies for small-scale contractors in Nigeria (Anamege, 2019). An article discussed home financing (Ibrahim & Sapian, 2022). However, there is still no research on Islamic banking financing to contractors, in particular to infrastructure contractors.

6.5.2 Implications to the Islamic Banking Industry

This research idea came from statistical reports that showed retail financing is higher than corporate financing. Further analysis revealed that the corporate customers are divided into several business categories, following the category classification by the authority. The research analysed only the construction industry. Islamic banks have not focused on a specific industry. It was found from the interviews and annual reports that Islamic banks focused more on personal *murabahah* financing.

Interviews with the infrastructure contractors also revealed that they had low awareness of the products of Islamic banks and their readiness to provide financing. Thus, the study found empirical evidence that Islamic banks have not promoted their products to, or sought to increase the awareness of, infrastructure contractors.

This study highlights that there is a segment which has not been well served by Islamic banks, namely infrastructure contractors. While this study was carried out in Jakarta, the same condition is expected in other cities in Indonesia, considering that the interviews were carried out in the head office of Islamic banks. By overcoming this gap, the increased share of financing to infrastructure contractors would increase the overall financing share of Islamic banks.

This study also revealed that not all Islamic banks in Indonesia are able to carry out financing activities. Three Islamic banks, due to the fact that they are owned by provincial governments, can only operate within their own provinces. Another Islamic bank has just initiated operations after changing ownership several times, and it is not ready to operate nationwide. Effectively, therefore, only eight of 12 Islamic banks are able to provide financing to infrastructure contractors.

Musharakah was found to be a challenging contract to offer. This study has specifically discussed the issue and the opportunity for infrastructure contractors as potential customers.

The issues are also related to Islamic financial literacy. Some recommendations have been proposed on how to increase financial inclusion, particularly to support the development of Islamic banking financing. These recommendations may be implemented to increase the awareness of infrastructure contractors as potential clients of Islamic banks (B. Santoso & Meera, 2017; Triki & Boujelbène, 2017).

6.5.3 Implications to the Construction Industry

The financing needs of the construction industry has been a topic of much research, but typically the studies focused on the entire construction project. This means that they perceive contractors only as a component in a given project, not as a subject that requires special attention and faces the same issues as the construction project itself.

The same explanation was gathered from the informant from the Islamic financial authority. He explained that construction and contractors are not halal products, unlike food, fashion, or tourism. However, construction is an element that must exist to support such halal products.

The literature review showed that contractors have not been the subject of much research on financing, especially Islamic banking financing. Contractors were assumed to be entities that are ready to execute construction plans without any obstacles, when in fact they have to first win a project and face financial constraints prior to starting the work.

The financing contract found to be the best for contractors is *musharakah*. The principles of the *musharakah* contract and project contracts of contractors share some similarities. Both are binding for a specific period, assets can be brought into the partnership, partners can exchange ideas, and labour can be coordinated. These can enable the procurement and use of the best materials. This study has discussed how the *musharakah* contract can help contractors perform their duties in cooperation with other elements of a construction project.

6.6 Limitations of the Study

The study was completed with a time constraint, as the researcher was pressed for time to complete PhD. Financial resources were also limited, hence the necessity to shorten the research period. During data collection, Covid-19 was at its peak. This made data collection difficult, considering the physical distance between the respondents. The researcher chose Jakarta as the study location because the head offices of the Islamic banks and contractor firms are located there. However, there are more contractors outside of Jakarta. Finally, only infrastructure contractors involved in national road projects in 2021 were chosen. It will be more challenging if other infrastructure works were included.

6.7 Recommendations

6.7.1 Recommendations for Actions

The Islamic banking industry has good, clear strategies and goals compiled in the Islamic Banking Roadmap 2020–2025. However, the operations results in the reports are not satisfactory. The researcher recommends that there should be an open evaluation of what was planned as the strategy, so that the success rate is publicly available.

Another strategy related to the future of Islamic banking is the halal economy masterplan. However, the scope of halal products is still confined to personal needs and yet to cover industrial products.

The government has established a medium-term plan on infrastructure, but the Islamic banks do not see their involvement in this plan. Infrastructure projects, particularly road projects, are recurring, as roads must be repaired and maintained. Islamic banks should perceive such projects as opportunities to expand their market shares.

Marketing activities are among the solutions to propel the growth of Islamic banks in Indonesia. A recent study discussed integrative Islamic marketing. The findings indicated the emergence of five major themes, namely Islamic marketing and its perspectives; activities in Islamic marketing; opportunities, controversies and challenges in Islamic marketing; Islamic principles; and determinants of consumers' behaviour and awareness towards Islamic products (Shah et al., 2022).

6.7.2 Recommendations for Further Research

Future research may study *musharakah* contract in a broader scope. This study has limitation due to the pandemic, forcing the interviews with Islamic banks to be conducted via video calls, telephones, and informal meetings. On the other hand, interviews with the contractors were carried out directly. The interview condition in the Islamic banks and in the offices of the infrastructure contractors was different. The pandemic has limited the interview time due to health and safety protocols, such as physical distancing and working from home.

Contractors are classified based on their specialisation. This research focused only on infrastructure contractors. Future studies may consider building contractors because the method of work is almost similar (come, build, and go). Private sector works may be more challenging as information is not open to the public. Buildings can be classified into several categories, for instance houses, housing complex, shophouses, four-storey building, ten-storey building, public utility building, and so forth.

6.8 Conclusion

Islamic banks still see contractors as their future customers. Contractors are only seen as a part of a construction project. The Islamic banks also defined contractors as housing developers. Thus, contractors are considered as a group of workers who carry out the demands of a household, not who are working in professional corporate operations. Most general contractors are financed using the *murabahah* contract.

Infrastructure contractors cannot be easily identified because most do not publish information to the public. In fact, most do not have a company website.

In practice, the *halalness* of infrastructure construction has never been argued. Infrastructures project like building roads are very important for the operations of entire industries or communities. Construction and contractors have barely been the focus of Islamic banking experts and practitioners. Moreover, infrastructure contractors are not seen as independent entities, but rather as necessary components attached to a construction project.

The interviews indicated that only one bank has dealt with infrastructure contractors. This bank has now merged with two other major Islamic banks. Contractor financing is expected to continue in the future. Four Islamic banks declared that they have no intention to finance contractors, as they focus on small personal financing. There is no indication that they will align their goals with the government’s focus on the infrastructure sector. Therefore, some Islamic banks are still focusing on financing retail customers.

Ideally, Islamic banks should establish solid business relationships with contractors, in particular infrastructure contractors, as customers or at least as potential customers. Such relationships can be developed based on a proper marketing strategy. This is also an implementation of the growth strategies established by OJK. This is in line with the strategy of Islamic banking to provide services to all customer segments (OJK, 2020a), objectives of the Islamic Economy Masterplan (Bappenas, 2018) , and the increasing focus of the government on infrastructure development.

Musharakah, which is the most preferred profit-and-loss-sharing sharing contract in Islamic banks, is the most effective method to support partnership and joint operations. With proper marketing strategies to improve the awareness of infrastructure contractors on *musharakah*, all parties involved in a construction project can harvest the blessing (*barakah*) of non-usury financing.

In conclusion, the researcher hopes that this thesis – God willing – can be a useful reference for Islamic banks, infrastructure contractors, Islamic financial institutions, and academicians.