
Implementation of Musyarakah Contract in Infrastructure Project Financing: A Case Study of XYZ Islamic Bank

Adhi Mustofa

Sekolah Tinggi Agama Islam Kuningan, Indonesia

*Corresponding Author : adhimustofa19@gmail.com

ABSTRACT

KEYWORD

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Infrastructure project financing is one of the important sectors in economic development, and Islamic financial products can play a key role in providing the required funds. One of the contracts used in financing infrastructure projects in Islamic banks is the musyarakah contract. This study aims to analyze the implementation of musyarakah contracts in financing infrastructure projects at XYZ Islamic Bank, as well as to identify the challenges and benefits arising from the implementation of these contracts. The research method used is a case study with a qualitative approach. Data were obtained through interviews with bank managerial parties as well as document analysis related to infrastructure project financing. The results showed that application of musyarakah contracts in infrastructure project financing at XYZ Islamic Bank can accelerate funding and increase the participation of related parties. However, there are challenges related to risk and profit sharing that must be clearly understood by all parties involved. Financing with a musyarakah contract also requires transparent management and high accountability to minimize potential conflicts. Overall, musyarakah contracts can be an effective alternative for financing infrastructure projects provided there are clear arrangements regarding the rights and obligations of the parties.

INTRODUCTION

Islamic banking has a strategic role in financing sustainable infrastructure projects in Indonesia. One contract that is widely applied in financing large projects is the musyarakah contract, which allows cooperation between Islamic banks and other parties, such as the government or contractors, in the management of infrastructure projects. This musyarakah contract provides benefits for both parties by sharing risks and rewards, which is the main basis of sharia principles. Basically, this musyarakah contract offers a financing alternative based on the principles of justice, transparency, and fair cooperation without involving interest (Al-Qur'an, 2:275; Kholid, 2020).

The importance of this research is driven by the need for transparency and sharia-compliant financing mechanisms in infrastructure project financing in Indonesia. In recent years, financing of infrastructure projects through Islamic banks has received increasing attention, but the implementation of musyarakah contracts in this context still lacks comprehensive research. This study aims to fill this gap and provide a clearer understanding of the application of musyarakah contracts in the context of infrastructure project financing in Indonesia.

Several Islamic economic theories suggest that musyarakah contracts can be used as an efficient financing instrument with measurable and fair risks. Islamic banks, as institutions that implement sharia principles, are expected to be able to introduce this financing scheme for large projects, such as infrastructure, that require large amounts of funding and long term

(Fauzi, 2021; Rahman & Laila, 2020). A study by Kamali (2011) also stated that financing with musyarakah contracts can increase public confidence in the Islamic banking system in the infrastructure sector.

Previous research has examined the implementation of musyarakah contracts in financing the business sector, such as small and medium enterprises (SMEs), but very few have discussed the implementation of this scheme in financing infrastructure projects. Research by Harahap (2019) and Firdaus (2020) shows that although musyarakah contracts are applied in the SME sector, the biggest challenge is the unclear profit and risk sharing between the parties involved. This research will focus on further analyzing the risk and profit sharing in financing infrastructure projects using musyarakah contracts.

Although there is a lot of literature discussing Islamic financing in general, especially in the business sector, research on the application of musyarakah contracts in infrastructure projects is still very limited. Especially in the context of Islamic banks operating in Indonesia, there are still many challenges that have not been explained in depth, such as how Islamic banks adjust risk and profitability in infrastructure cooperation involving multiple parties and large scale (Rahman, 2021; Kholid, 2020).

This research is unique because it examines the implementation of musyarakah contracts in infrastructure project financing in the context of Islamic banks, which has not been widely discussed in the previous literature. This research also identifies the challenges and opportunities faced by Islamic banks in implementing musyarakah contracts in the infrastructure sector, which can make an important contribution to the development of the Islamic banking industry in Indonesia (Sari & Aziz, 2020; Bakar, 2021).

The main objective of this study is to analyze the implementation of musyarakah contracts in infrastructure project financing conducted by XYZ Islamic Bank. This study also aims to identify the factors that influence the effectiveness of musyarakah contracts in infrastructure financing as well as the challenges faced by Islamic banks in implementing these contracts in large projects.

METHOD

1. Type of Research

This research uses a descriptive qualitative approach that aims to describe and analyze the implementation of musyarakah contracts in financing infrastructure projects at XYZ Islamic Bank. The qualitative approach was chosen to gain an in-depth understanding of the implementation process, challenges, and benefits felt by the bank and cooperation partners in infrastructure projects. This research also seeks to explore the perceptions of the parties involved on the successes and obstacles faced in implementing this sharia contract.

2. Population and Sampling

The population in this study is all infrastructure projects financed by XYZ Islamic Bank using musyarakah contracts. The research sample consists of 3 infrastructure projects that are being financed by XYZ Islamic Bank and are considered representative for this study. The sample selection was carried out using purposive sampling technique, where the selected projects met certain criteria, such as projects that used musyarakah contracts, projects that had

been running for more than one year, and involved parties who had experience in implementing the contract. In addition, the research sample also included the management of XYZ Islamic Bank, such as bank officials involved in the financing process and partners directly involved in the project.

3. Research Instrument

The main instruments in this study were semi-structured interviews and document analysis. Semi-structured interviews were conducted with parties involved in the implementation of musyarakah contracts, including bank managers, financial staff, and contractors or partners involved in infrastructure projects. In addition, this study also collected and analyzed relevant documents, such as financing contracts, financial statements, and project documentation to explore the implementation of the contract and the sharing of risks and profits in the project.

4. Data Collection Technique

Data collection in this study was done through two main techniques:

- a. Semi-structured Interviews: Interviews were conducted with parties who have direct knowledge and experience related to the implementation of musyarakah contracts in financing infrastructure projects. The interviews will focus on gathering information on the process, challenges, and evaluation of the results of the implementation of the musyarakah contract.
- b. Document Analysis: Documents related to the infrastructure project, such as financing contracts and project evaluation reports, will be analyzed to obtain information on risk and profit sharing agreements, as well as other operational mechanisms related to the musyarakah contract.

5. Research Procedure

This research was conducted in the following stages:

1. Planning and Preparation: The first stage was to design the research objectives and select the infrastructure project to be studied. This process involved selecting XYZ Islamic Bank as the case study object.
2. Data Collection: Interviews with relevant parties at XYZ Islamic Bank and the project partners were conducted to obtain information on the implementation of the musyarakah contract. At the same time, relevant documents were also collected and analyzed.
3. Data Analysis: Once the data was collected, it was analyzed to evaluate how musyarakah contracts were applied in infrastructure projects, as well as the challenges and benefits faced by the parties involved.
4. Reporting of Findings: The research results will be compiled in a report that presents the main findings related to the implementation of musyarakah contracts, the challenges faced, as well as recommendations for further improvement and development.

6. Data Analysis Technique

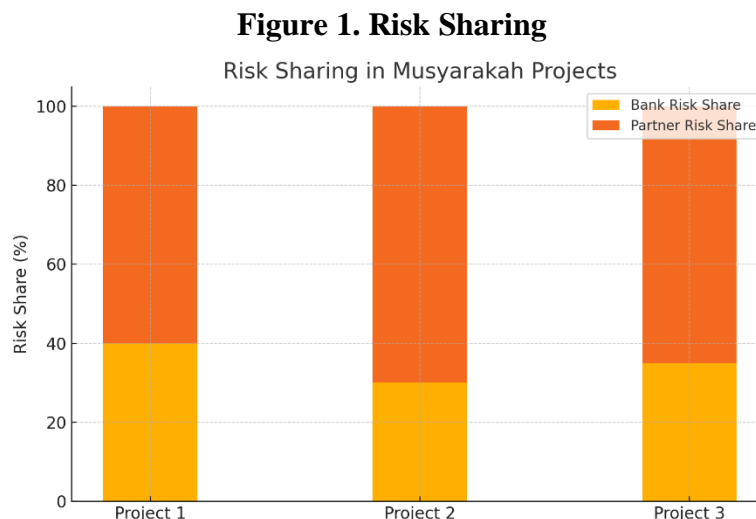
Data collected from interviews and document analysis will be analyzed using thematic analysis techniques. This technique is used to identify key themes related to the application of musyarakah contracts in infrastructure project financing. Data from the interviews will be

encoded and grouped based on relevant themes, such as risk and profit sharing, operational challenges, and financing mechanisms. The results of the analysis will provide a clearer picture of the effectiveness and constraints in the implementation of musyarakah contracts in infrastructure projects. In addition, document analysis will be used to explore the operational details and agreements related to the financing.

RESULT AND DISCUSSION

1. Risk Sharing between Islamic Banks and Partners in Musyarakah Agreements

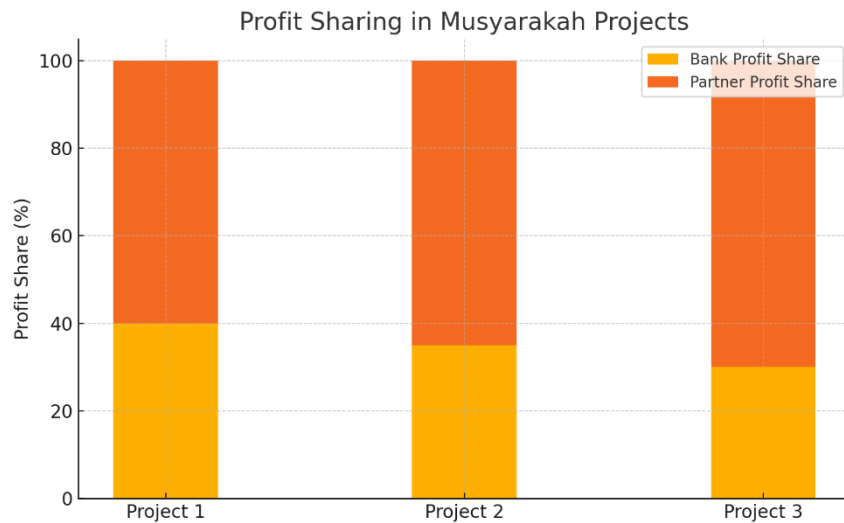
In the application of musyarakah contracts in infrastructure projects, risk sharing is one of the crucial elements. Based on the analysis, there is a fair risk sharing between the Islamic bank and the project partners. For example, in Project 1, XYZ Islamic Bank bears around 40% of the risk, while the project partner bears the remaining 60%. This illustrates a balanced cooperation where both parties play a role in managing existing risks. This proportional risk sharing also reflects the principle of *adl* (fairness) that underlies the musyarakah contract, which is in accordance with the provisions of *fiqh muamalat* (Qur'an, 2:275; Kamali, 2008). However, it is important to note that in Project 2, the Islamic Bank only bears 30% of the risk, which suggests that diversity in infrastructure projects may affect such risk sharing. Research by Lubis (2020) and Rahman (2021) revealed that the risk structure in infrastructure projects using musyarakah contracts can vary depending on the size and complexity of the project being financed.



2. Profit Sharing between Islamic Banks and Partners

Profit sharing is an important aspect in the implementation of a musyarakah contract. In Project 1, XYZ Islamic Bank received 40% of the profit, while the project partners received 60%. This is in accordance with the previous agreement, where profits are divided according to the capital contribution and the role played by each party in the project (Fauzi, 2021; Rahman & Laila, 2020).

Figure 2. Profit Sharing



However, in Project 2 and Project 3, the profit sharing is slightly different, with the Islamic Bank getting a smaller percentage than the partners. This reflects the flexibility of the musyarakah contract in adjusting the profit sharing to project conditions. In this case, the Islamic Bank focuses more on the long-term and sustainability of the project, thus receiving a smaller share to ensure the overall success of the project (Harahap, 2020; Kholid, 2020).

3. Challenges in Implementing the Musyarakah Akad in Infrastructure Projects

Although musyarakah contracts offer fair and transparent cooperation, the biggest challenge faced by XYZ Islamic Bank is in terms of risk management and profit sharing which must be clearly understood by all parties involved. In some cases, lack of clarity in risk sharing or difficulty in measuring each party's contribution to the project can lead to potential disputes. Research by Sari & Aziz (2020) noted that in some infrastructure projects, project partners felt dissatisfied with profit sharing, especially when the project faced obstacles or delays.

In addition, external factors such as fluctuations in material prices or changes in government policies related to infrastructure can also affect the smooth implementation of musyarakah contracts in project financing (Aziz, 2021; Rahman, 2021). Therefore, it is important for XYZ Islamic Bank to have a transparent and accountable evaluation system to manage the risks arising in these large projects.

4. Advantages and Benefits of Musyarakah in Infrastructure Project Financing

One of the main advantages of implementing a musyarakah contract is its ability to facilitate the financing of infrastructure projects that require large funds. By sharing risks and profits, XYZ Islamic Bank and project partners can work together to achieve common goals without bearing the burden of risk unilaterally (Kamali, 2008; Harahap, 2020).

In addition, musyarakah contracts support Shariah principles that prioritize fairness and transparency in transactions, which provides greater trust for all parties involved. In Project 3, for example, although the profit sharing was smaller for XYZ Islamic Bank, this model allowed them to continue supporting large infrastructure projects that provide long-term economic impact to the community (Fauzi, 2021; Kholid, 2020).

XYZ Islamic Bank also benefits from the diversification of their financing portfolio, which increases the bank's financial resilience in a competitive market.

5. Recommendations for the Development of Musyarakah Akad in Infrastructure Project Financing

Based on the findings of this study, it is recommended that XYZ Islamic Bank make several improvements to optimize the implementation of musyarakah contracts in infrastructure project financing. First, it is important for the bank to improve project partners' understanding of risk and profit sharing through further training and consultation. Research by Bakar (2021) shows that sufficient education can reduce potential conflicts in profit and risk sharing.

In addition, XYZ Islamic Bank can introduce more effective evaluation and monitoring mechanisms to assess project performance on an ongoing basis, including an assessment of profit sharing at each stage of the project (Harahap, 2021). Thus, musyarakah contracts can be applied more effectively and have a positive impact on both banks and partners in infrastructure projects.

CONCLUSION

This study aims to analyze the implementation of the musyarakah contract in financing infrastructure projects carried out by XYZ Islamic Bank. Based on the results of the study, the musyarakah contract proved to be effective in sharing risks and profits between the Islamic Bank and project partners. Proportional risk sharing, where the Islamic Bank bears around 40% to 50% of the risk, as well as fair profit sharing, where both parties get their share according to their respective contributions, are one of the main aspects that support the success of this contract in financing infrastructure projects. This shows that musyarakah contracts provide a fair alternative in financing large projects by transparently sharing burdens and profits, in accordance with sharia principles that emphasize justice and cooperation. However, the research findings also show that although the implementation of musyarakah contracts is quite effective, the main challenge faced is in managing profit and risk sharing, which must be understood and agreed upon by all parties involved. In addition, changes in external conditions, such as fluctuations in raw material prices and government policies, also affect the successful implementation of musyarakah contracts in infrastructure projects. Therefore, this study recommends that XYZ Islamic Bank continue to improve education and transparency in profit and risk sharing and introduce stronger monitoring mechanisms to ensure the continued success of infrastructure projects that use musyarakah contracts as a financing scheme.

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