

# Analysis of Sukuk Role in Government Investment

Section:  
Financial Management

Tyahya Whisnu Hendratni, Soemarsono DW & Hindradjid Harsono

Economics and Business Faculty, Universitas Pancasila  
Jakarta, Indonesia

## Abstract

Infrastructure development in Indonesia is in the development stage. The movement of economic growth rate in a country cannot be separated from the availability of infrastructure. Infrastructure in Indonesia is budgeted in the State Expenditure Budget (APBN), taking into account the amount of these funds obtained from loans made by the State. Where usually, the StateState guarantees the negotiable instruments owned by the StateState. Loans made by the StateState are intended to finance infrastructure development in Indonesia. In budgeting funds for financing infrastructure development, the government can only bear one-third of the total funding needed to build infrastructure. This study aims to provide an alternative concept of infrastructure financing with a sharia financial system using government infrastructure development financing with Sukuk. This research was conducted by analysis using the AMOS 23 application. The variables used were Sukuk investment returns), Sukuk Risk, Sukuk Investor Satisfaction and Government Investment in Infrastructure. The results obtained that these variables affect the Government investment in the Infrastructure Sector.

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## Corresponding author

Tyahya Whisnu Hendratni  
Universitas Pancasila, Jl. Raya Lenteng Agung  
Srengseng Sawah, Jakarta, Kota Jakarta Selatan  
Email: [tyahyawhisnu@univpancasila.ac.id](mailto:tyahyawhisnu@univpancasila.ac.id)

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## INTRODUCTION

Globalization has fundamentally changed people's lifestyles, from an autocratic society to a democracy. Vladimir, Kvint (2009); in this transitional period the demands of society become more complex, the mind becomes more open, so they demand a better social life as in other countries that are considered more advanced. This causes the market life in a country to develop. This transition period seems to have an impact on infrastructure development (Freeman, 2015), so that the supervision of public investment in this field is something that needs to be a concern. This role is very appropriate if carried out by the government as the party that has the authority to provide adequate infrastructure.

In Indonesia, the limitation of the National budget in financing infrastructure development as stipulated in National Medium-Term Development Plan in 2015-2019 causes a funding gap that must be met. To overcome this, the Government is required to use several alternative funding, one of which is using a development cooperation scheme that involves business entities/private parties (Suhendra, 2017).

Government investment in infrastructure is the most vital thing for the national economy. The government as the highest policy holder in a country, must be able to provide the infrastructure that is needed by the community, such as energy, communication and transportation. One of the most important infrastructures, namely road transportation because it plays an important role in national development and has a very large contribution in supporting community mobility and distribution of trade and industrial commodities in a country, both developed and developing countries. Although Indonesia is an archipelagic country, the dominant transportation used is road transportation.

Several studies on preferences for investment products have been carried out. Research conducted by Moch Chambali in 2010 with the title "Analysis of Factors Affecting Public Interest in Investing in Sukuk through Sharia Bank Agents (Study on Retail Sukuk Series SR-001 Marketed by Bank of Syariah Mandiri). This research which was conducted on SR-001 investors looked at the effect of investment risk variables and Islamic product attributes on the interest of SR-001 investors. The indicators used in assessing the effect of investment risk are default risk, interest rates, call risk, investment costs, deposits, liquidity, and inflation. The results of the study prove that the investment risk variables and attributes of Islamic products have a positive and significant influence on public interest in investing in SR-001.

Another research conducted by Adik Putri Sarah, namely Analysis of Factors Affecting Investor Interest in retail state sukuk, 2014. This study analyzes the factors that influence investor interest in Sukuk and the research is carried out descriptively. The results of his research indicate that there are factors that influence investor interest in sukuk.

In addition, the research was written in the proceedings entitled Analysis of the role of sukuk for infrastructure development in Indonesia, 2016. This study aims to provide an alternative concept of infrastructure financing with the Islamic financial system. This pattern uses government infrastructure development financing by Syaria bond fund / sukuk. This research uses qualitative methods, carried out with a discussion process and literature study. The results of the research are using government sukuk which do not need to pay with bond interest, but only pay for the results of the sukuk so that the State can benefit more from the low level of fund control.

Angrum Pratiwi et al, (2017) provides an overview of the role of sukuk in infrastructure financing in Indonesia. Indonesia's infrastructure budget allocation is gradually increasing. A number of projects listed in the state budget were selected specifically to be financed by sukuk. Since the issuance of project financing, sukuk have more than doubled so far this year. Sukuk turned out to be an important financial instrument in Indonesia's infrastructure development.

Malaysia is among the leading Sukuk investment destinations in the Muslim world and has one of the most active secondary markets for trading Sukuk instruments. It has seen an influx of foreign portfolio investors into its Islamic financial markets in search of better investment opportunities and returns on investments (ROE). This is partly because developed countries' conventional financial markets are experiencing a low-yield environment. These developments have placed Malaysia's Sukuk market above the international competitors. Many researchers have compared its superior performance over conventional fixed-income investments, especially when taking portfolio risk-minimization into consideration (Cakir and Raeli, 2007; Hassan, 2012; Ramasamy et al., 2011). Their findings show that including the Malaysian Sukuk market in a well-diversified portfolio lowers the overall risk in the portfolio.

In the case of other aspects of sukuk research, Ben Jedidia Khoutem (2014) studied the opportunities of Islamic finance in spurring economic development in Tunisia after the revolution of 2011. Precisely, this paper explores whether the Islamic banks-sukuk markets relationships are conducive of economic growth. The study finds that the "marketable Islamic intermediation" provides more funds to finance economic development and solve the problems of poverty and unemployment. Sherif and Erkol (2017) examined the stock market effects of announcements by firms to issue conventional bonds versus sukuk. In addition, the authors investigated whether the choice of instrument depends on the tax status and government backing of the issuing firm. Razak et al. (2018) examined the contracts, structures and pricing mechanism of sukuk. More specifically, their study investigated several sukuk instruments, reviewed the existing structures, demonstrated sukuk pricing mechanisms and discussed critical issues of each type of sukuk. Bhuiyan et al. (2019a) studied the market links (and price discovery).

However, when using the same conventional leverage regression models to estimate the amount of Sukuk in a firm's capital structure, the evidence is weak. Firm's size is the only financial variable that significantly explains such relationship, with larger firms having more Sukuk in their capital structures because they face lower information costs due to their high reputation and diversification. This evidence is consistent with views that Sukuk are different from conventional bonds (Godlewski, Turk-Ariss, & Weil, 2013) and hence factors underpinning this choice need to be further studied. One of the factors that I report to be empirically significant for the Sukuk issuance decision is the existence of other Islamic short-term and long-term investments or financing instruments. Finally, among the industries in the sample that had the largest value of Sukuk outstanding as of the end of year 2014 were Power and Utilities, Real Estate, and Oil and Gas.

Sukuk has a significant impact on different economic and banking transactions as it has a predictable position in the stock markets and international currency (Ahmed et al., 2014). Recently, developed and developing Muslim and non-Muslim countries have begun to deal with sukuk, one of the best options to create funding beyond traditionalism. Sukuk has become an important tool to increase financing efficiently and effectively during mobilization (Zulkhibri, 2015). If the challenges can be eliminated, the sukuk market development will expand Islamic finance industry as well as economic development (Hasan et al., 2019). In the Sukuk context, there is an evidence that information asymmetries could be higher for Sukuk rather than conventional bonds (Klein and Weill, 2016). This is because the structuration of Sukuk does not align the interests of the management and the shareholders under certain circumstances. Overall, Sukuk rather than bonds may be chosen by firms with greater information asymmetries to prevent effective market monitoring. Godlewski et al. (2013) show that Sukuk are the preferred choice of low-quality firms whereas investment grade corporations for conventional bonds because they do not want to share a high share of profits with Sukuk investors. Halim et al. (2017) find that firms that face higher agency costs of equity and debt are more likely to issue Sukuk than conventional bonds. Sukuk issuers that suffer

higher agency cost of underinvestment are more likely to pledge collateral and are more likely to use an SPV (Ebrahim et al., 2016).

The first objective of this study is to examine the relationship between sukuk investment returns and the satisfaction of sukuk investors. The results of this study support those of Sarah & Beik (2014) where investors prioritize satisfaction over other factors. For this reason, the second objective of this study is to examine the relationship of sukuk risk to sukuk investor satisfaction. Sukuk are safer because to finance prospective projects, if they experience a loss (out of control), investors will still receive assets. The paradigm breakthrough is no longer debt securities, but investment letters (Zubair, 2012). Furthermore, the third objective is to test the satisfaction of sukuk investors with the government's investment in infrastructure. The results showed that the relationship with sukuk was associated with feelings of satisfaction (based on religious beliefs). This can be interpreted that if investor satisfaction increases, investment interest will also increase. This supports Sarah's (2014) research, which is based on the results of the analysis; it is known that the perception of the public or potential investors on investor satisfaction in investing has a positive effect on investment interest. Besides being able to provide new empirical evidence, this research can contribute to closing the gap between the results of previous studies. From a practical point of view, this research can be useful information for investors in Indonesia to be able to invest through sukuk.

## LITERATURE REVIEW

### Government Investment

Government Investment is the placement of a number of funds and/or financial assets in the long term for investment in the form of shares, debt securities, and/or direct investment in order to obtain economic, social and/or other benefits. (Government Regulation 63/2019 concerning Government Investment). Government investment is carried out in the form of: shares; debt securities; and/or direct investment. What is meant by "shares" is the shares referred to are shares that are listed and/or traded on the stock exchange. In addition to the shares as referred to above, Government Investment can be made in shares that are not listed and/or not traded on the stock exchange in accordance with the provisions of laws and regulations.

### Purpose of Issuing Sukuk

In the Law on SBSN (State Sharia Securities) in article 4 it is explained that the purpose of issuing sukuk is to finance the State budget including financing the construction of infrastructure projects in the energy, telecommunications, transportation, agriculture, industry, manufacturing, and public housing sectors.

The government's objective in issuing State Sukuk is to finance the State budget, including financing project development. As stated in article 4 of the SBSN Law that the purpose of the SBSN (State Sharia Securities) being issued is to finance the State Revenue and Expenditure Budget or known as State budget including financing project development. Projects that can be financed with state sukuk are the energy, telecommunications, transportation, agriculture, manufacturing industries, and housing. In addition, this is to expand the source base of state or company budget financing, encourage the development of Islamic financial markets, create benchmarks in the Islamic financial market, diversify the investor base, develop alternative investment instruments, optimize the use of state-owned or corporate assets, and utilize public funds that have not been captured by the conventional banking and bond system. The benefits of the government issuing this sukuk are: (Manab & Sujianto, 2016: 47):

- a. Expanding the source base of State budget financing,
- b. Enriching fiscal financing instruments,
- c. Expanding and diversifying the SBN investor base,
- d. Encouraging the growth and development of the domestic Islamic financial market,
- e. Developing alternative investment instruments,
- f. Creating benchmarks in the Islamic financial market,
- g. Optimizing the use of State Property and encouraging orderly administration of State Property management.

**Table1**  
**Comparison of the Characteristics of Sukuk and Obligation**

Description	Sukuk	Obligation
Issuing	Government, Corporation, SPV	Government, Corporation
Obligor	Government, Corporation	Government, Corporation
Instrument Properties	Certificate of Ownership/Inclusion of an Asset	Debt instruments recognition
Yield	Rewards, Profit Sharing, Margin	Interest/coupon, Capital Gain
Period of time	Short-Medium	Short-Medium
Underlying Asset	Needed	Not needed
Price	Market Price	Market Price
Investor	Sharia, Conventional	Conventional
Use of Issuing results	Must comply with sharia	Free

Source :Directorate of Sharia Financing, Directorate of Debt Management, Introduction to Sukuk: Sharia-Based Investment Instruments.

### The Potential of the Wide State Sukuk Market

Sukuk investment, apart from being an investment instrument in accordance with Islamic sharia, is also a relatively safe investment because it has a relatively low level of risk. This is because sukuk are asset-based investments, that is, each sukuk issuer must have assets that can be used as underlying assets. Therefore, Sukuk are an ideal tool for liquidity management because in addition to facilitating the arrival of funds from investors, they are also a relatively safe investment instrument because they are asset-based investments. (Vishwanath dan Azmi, 2009).

### Infrastructure

A general term for infrastructure that refers to the technical or physical infrastructure that supports the structural network, usually in the form of the construction of railways, roads, clean water, canals, reservoirs, telecommunications toll roads, electricity and ports. Functionally, infrastructure in addition to facilities can also support the smooth running of community economic activities, distribution of the flow of production of goods and services, for example, roads can facilitate the process of distributing goods so that they can reach the community.

## Infrastructure Financing

As mandated in Law Number 19 of 2008 concerning State Sharia Marketable Securities or State Sukuk, State Sukuk can be issued to finance the general state budget deficit and finance infrastructure owned by the government. Through the issuance of State Sukuk for infrastructure financing, this is also a step for the Government to gather public participation in financing development.

## Infrastructure Financing Opportunity through Sukuk Issuance

Infrastructure financing through the issuance of Sukuk has actually been implemented since 2010, namely since the issuance of the Sukuk with the Project Based Sukuk (PBS) series. The first mechanism used is to use government projects listed in the State budget as the underlying assets of the Sukuk. The second mechanism promoted by the government is the initiation of Ministries/Institutions to request infrastructure financing through the issuance of Sukuk since it was proposed to the National Development Planning Agency. This mechanism can ultimately become a driving force for Ministries/Agencies to complete infrastructure work in a transparent and accountable manner. The government believes that the issuance of Sukuk will become one of the main sources of infrastructure financing in the future because the opportunities are very large, due to several things, namely: a. Policy Support Full support for infrastructure financing through the issuance of Sukuk is reflected in the enactment of Law Number 19 of 2008 concerning Government Securities or Sukuk.

In addition, the regulation authorizes the government to use State Property (BMN) as the underlying asset and finance the Allocation Year in the State budget, State budget Percentage of the State budget of Sukuk or State Sharia Securities (SBSN) issued based on sharia principles as evidence of the share of State Sukuk Assets (Law Number 19 of 2008 concerning State Sharia Securities).

## Research model

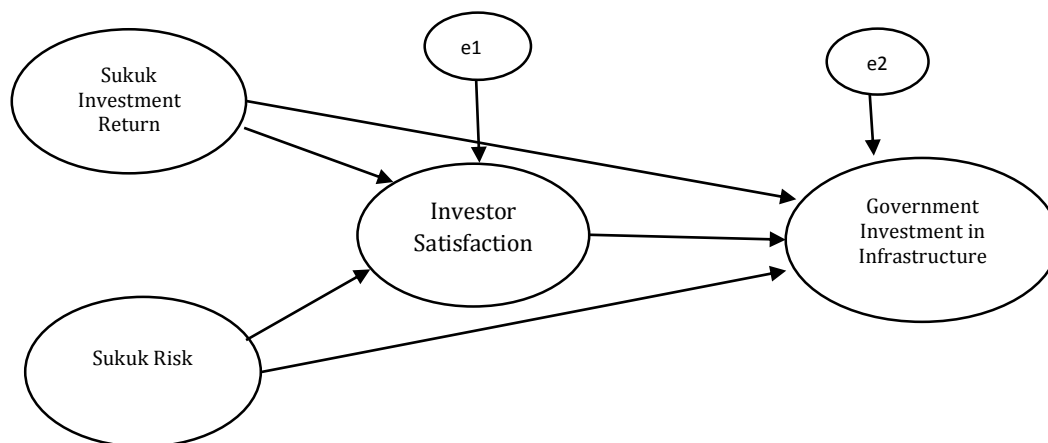


Figure 1.  
Research Model

## METHODOLOGY

The type of research used is descriptive quantitative which produces descriptive data in the form of written or spoken words from people and observable behavior. Quantitative research is also a process of finding knowledge that uses data in the form of numbers as a tool to analyze what you want to know (Rangkuti, 2014: p. 108-109).

### Measurement

Data collection techniques in this study used a questionnaire technique. Questionnaire technique is a method of collecting data by giving a set of written questions addressed to respondents (Gendro, 2011). Questionnaires distributed to respondents in the form of questions and statements about the object to be studied. Respondents were 151 people where the questionnaires were distributed using google form to stakeholders. For the analysis of the data used in this study, Structural Equation Modeling (SEM AMOS) was used to analyze the relationship between the independent variables and the dependent and intervening variables. Data processing was carried out using SPSS 23. Data analysis was carried out using the AMOS 23 application.

## RESULTS AND DISCUSSION

### Statistics Descriptive

According to research results (see Appendix 1), *sukuk* is in great demand by men. Not many women want or invest because women are more afraid of risk than men. According to Khairani & Putri, 2009 that women have emotional warmth are careful and sensitive than men. The majority of investors are over 45 years old. Investors are no longer young but have mature finances. Investors already have better knowledge and thinking, which is good for analyzing and making investment decisions. The majority of *sukuk* investors have a high educational background.

Christianti and Mahastanti (2011) research, a high educational background allows investors to analyze information about investment products in the capital market and investors also have good ability in making investment decisions. According to Kasmir and Jakfar investment can be interpreted as investment in an activity that has a relatively long period of time in various business fields or projects that require funds with the aim of making a profit (Kasmir and Jakfar 2015). Hendang Tanusdjaja (2018) researched that someone who has a monthly income below 1,000,000 rupiah has poor investment decisions, while someone who has an income above 10,000,000 rupiah will make a very large or strong investment decision.

Research from Unggul Priyadi and Taufiq Hidayat (2016) shows that income has a positive and significant effect on household savings. This is in accordance with the theory stated by Keynes that the greater the income received, the greater the level of savings made. Financial planning, according to Agarwal et.al. (2015) influenced by family characteristics such as education, family size, and income. In addition, Chu et al. (2016) also revealed that material possessions can provide happiness or prosperity from a financial point of view.

In this day and age, many people are thinking about investing. The guidelines that need to be considered by potential investors are "CUKUP" (enough) guidelines that can be the basis for investing. This Code can be translated into the words *Cakap* (Capability), *Uang* (Money), *Keberanian* (Courage), *Ukuran* (Size) and *Percaya* (Trust). According to Setiawan et al., (2016), investment culture is an important requirement for capital formation and economic growth in society in a country which consists of a collection of behaviors, perceptions and intentions of individuals and institutions to place their deposits in various financial assets.

Most respondents get information from Electronic Media. This is because technology has developed rapidly so that information can be obtained quickly and easily. Electronic media is also more practical to use. In accordance with the attitude of respondents to investment choices that 59% of respondents choose not to take risks and prefer safer investment products. This is because sukuk is an investment product with low risk and safer, so investors choose it as a suitable investment product.

### Hypothesis testing

In producing the observed covariance matrix the goodness of fit value ranges from 0-1. In table 2, it can be seen that the GFI value of 0.685 is getting closer to 1, the model is declared to be better.

Table 2.  
Model Fit Test Results

No	Goodness of Fit (GOF) index	Cut – Off Value	Value on model (Result)	Description
1	Chi Square ( $\chi^2$ )	The smaller, the better (<214,477)	71,014	Good Fit
2	CMIN/DF	>0	71,014	Good Fit
3	Probability Level	>0,05	0,000	Close Fit
4	GFI	GFI >0,9 (Good Fit) 0,8 GFI 0,9 (Marginal Fit)	0,841	Marginal Fit
5	AGFI	>0.90	-0,594	Close Fit
6	TLI	>0,95	- 0,436	Close Fit
7	CFI	CFI > 0,95 (Good Fit) 0,8 CFI 0,9 (Marginal Fit)	0,761	Marginal Fit
8	Root Mean Square Error of Approximation (RMSEA)	<0.08	0,685	Good Fit

Source: Results processed with AMOS 23 (2020)

Table 3.  
Hypothesis Calculation Results

Variable	C.R	P	Category	Description
Return on Investment < Sukuk Satisfaction	5.778	000	Significant	$H_a$ accepted $H_0$ rejected
Sukuk Risk < Sukuk Satisfaction	4.917	000	Significant	$H_a$ accepted $H_0$ rejected
Sukuk Satisfaction < Government Investment in Infrastructure	3.359	000	Significant	$H_a$ accepted $H_0$ rejected
Return Sukuk < Government Investment in Infrastructure	4.618	000	Significant	$H_a$ accepted $H_0$ rejected
Sukuk Risk < Government Investment in Infrastructure	3.549	,207	Significant	$H_a$ accepted $H_0$ rejected

Source: The results processed using AMOS 23 (2020)

Table 3 shows that all variables have a positive effect on Investment Return and Risk greatly affect investment satisfaction. If Investment Satisfaction is High, Government Investment in Infrastructure will also increase. Table 3 shows all variables have a positive effect on Investment Return and Risk greatly affect investment satisfaction. If Investment Satisfaction is High, Government Investment in Infrastructure will also increase.

This mechanism can ultimately become a driving force for Ministries/Agencies to complete infrastructure work in a transparent and accountable manner. The government believes that the issuance of Sukuk will become one of the main sources of infrastructure financing in the future because the opportunities are very large, due to several things, namely: a. Policy Support Full support for infrastructure financing through the issuance of Sukuk is reflected in the enactment of Law Number 19 of 2008 concerning Government Securities or Sukuk.

## CONCLUSION

Sukuk is a form of asset securitization in contrast to conventional bonds. In a Sukuk transaction, it must be based on tangible assets. The income obtained from this Sukuk also comes from the proper use of funds and is guaranteed by tangible assets. In Sukuk, the underlying asset is needed to guarantee that the Sukuk issuance is based on the same value as the available assets. Therefore, assets must have economic value, whether tangible or intangible assets, including projects that will be or, are being built.

So far, the issuance of Sukuk has been able to expand the fundamental sources of financing for the state budget, which are often in deficit through State Sharia Securities (SBSN) or State Retail Sukuk. Thanks to the existence of the State Retail Sukuk, this has opened up opportunities for investors who have excess funds to invest. Not only investing, but this investment product can also encourage the country's growth to be even better so that the main goal is not only personal gain but mutual benefit.

Following its purpose, State Sukuk is issued to finance the APBN, including project financing. From the results of the issuance of the State Sukuk, the construction of various infrastructure projects in remote parts of the country, such as railroads, roads, and bridges, revitalization of hajj dormitories, and higher education has been realized. So not only will they get competitive returns, investing in Retail Sukuk means that Indonesian citizens have directly participated in National Development activities. In addition, the benefits of investing in Retail State Sukuk will be safe because they are guaranteed directly by the state, will receive higher returns, are easily liquid, and certainly comply with sharia principles. As for the possible risks that will be faced by market risk and liquidity risk. Thus, this sharia investment instrument is very appropriate to be used as an alternative for investors who want to entrust their funds in the form of investments.

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Appendix I  
**Response Results of Respondents**

No.	Classification	Result ( % )
1.	Gender	Male = 67% Female = 33%
2.	Ages	20-25 years old = 15% 26-35 years old = 13% 36-40 years old = 9 % 41-45 years old = 9% >45 years old = 55%
3.	Education	High school graduate = 6% Diploma 3 = 2% Bachelor = 39 % Postgraduate = 40% Doctoral = 13 %
4.	Profession	Private employees = 43 % self-employed = 12 % Housewife = 4% Civil servant = 8 % Other Professions = 33%
5.	Income	< Rp 1,000,000 = 3% Rp 1,000, 000- Rp 3,000,000 = 8 % Rp 3,001,000 – Rp 5,000,000 = 9 % Rp 5,001,000 – Rp 7,000,000 = 17 % Rp 7,001,000 – Rp 10,000,000 = 10 % >Rp 10,000,000 = 53 %
6.	Form of Investment	Savings = 54 % Deposit = 13 % Notes = 7 % Bond = 11% Others = 15%
7.	Reasons to invest	Pension plan = 39% School fees = 25 % Income = 16 % Emergency Fund = 10 % For other needs = 10 %
8.	Place of Respondents Invest	Bank = 47 % At company = 21 % Bancassurance = 4 % Insurance = 11% Investment in others = 17 %
9.	Investment Information Source	Advertisement = 17 %

			Electronic Media = 32 %
			Brochure = 21 %
			Information and Family = 23 %
			Other Information = 7 %
10.	Respondent's attitude towards investment choice		Keep choosing to take risks as long as it gives high returns = 18 %
			Do not take risks and prefer safer investment products = 59 %
			Do not take risks for violating sharia provisions = 13 %
			Seeing the situation and asking for advice from a financial consultant = 7 %
			Another act = 3 %

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## Declarations

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The authors have no conflicts of interest to declare that are relevant to the content of this article.

### Data, Materials and/or Code Availability:

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

### Author Profile

Dr. Tyahya Whisnu Hendratni , S.E., M.M. is a lecturer at the Faculty of Economic and Business at the University of Pancasila, Jakarta . S1, S2 , S3 she is concentrating in the field of Financial Management. She is actively writing in several Journals. She is also a reviewer in several accredited journals.

Drs. Soemarsono DW, M.M., Ak. CA is a lecturer at the Faculty of Economic and Businesses at the University of Pancasila , Jakarta , in the field of Accounting

Hindradjid Harsono, S.E., M.Si. is a lecturer at the Faculty of Economic and Businesses at the University of Pancasila , Jakarta , in the field of Accounting.

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