

## Sukuk, Between Profit And Sharia-Compliant Agreement

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### Abstract

This study aims to analyze the dilemma of inter-sukuk to continue to carry out transactions in accordance with sharia agreements with the desire to benefit. Sukuk is a sharia bond and must be executed completely in accordance with sharia. But there are capital market participants who violate the existing rules. AAOIFI has issued standards that must be adhered to for capital market participants for sukuk transactions. This study is a literature study with 70 articles from publishers emeraldinsight and sciencedirect.com. The discussion was conducted by analyzing research quantitatively and qualitatively, conceptually, stabilizing and unconstitutionalizing and looking at the countries that publish the most journals or articles on sukuk. The results confirm that sukuk ijarah and mudharabah are sharia-compliant options where investors still benefit. Although there are still weaknesses, sukuk still provides benefits and benefits not only to issuers, entrepreneurs and investors but also to the government. Government sukuk can be a solution to problems to overcome development and economic crisis. Profits must be followed by transparency and real reports so that investor and community confidence continues to grow and sukuk investments grow.

**Keywords:** *Sukuk, Akad, Profit, Transparency, Develop.*

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### INTRODUCTION

Islamic financial institutions are growing rapidly in line with the development of sharia economy. Kholis (2018) explained that the current global phenomenon shows the development of Islamic finance in accordance with the development of islamic science and business activities. Sharia business activities are expected to provide a way of goodness for all people not only Muslims to achieve justice and prosperity. Sharia business is also expected to be able to make moral values, ethics, honesty and transparency. Although still lagging behind conventional financial institutions but the establishment of sharia financial institutions become an alternative for Muslims to reconcile according to Islamic law.

Sharia economic development followed by the development of investment funds run. Malaysia has funds that grew shariah-compliant from 17 types of Islamic investment fund industry in 2000 to 149 types in 2008, and on a global level there are 650 types of Islamic investment fund industry (Lewis, 2010). Funds are invested in Islamic financial institutions including in the capital market. The capital market is a means of transaction on the sale and purchase of securities. The capital market sells all securities issued by issuers including sharia securities, namely sukuk. Sukuk is a sharia-based ownership right that becomes an alternative for Muslim issuers to transact shariah. Sukuk is an option for Muslim issuers to still be able to transact in the capital market. But Muslim

entrepreneurs still have difficulty to conduct capital market transactions in accordance with sharia (Fathonih, 2019). Muslim entrepreneurs or issuers must ensure that the contracts and instruments sold are in accordance with sharia agreements. Sukuk became popular and was first introduced in 2000 by Malaysia then Bahrain followed it in 2001. Furthermore, Islamic countries and other Muslim-majority populations also follow the publication of sukuk.

The practice of signing sharia contracts in Sharia financial institutions is often not in accordance with sharia both contextually and textually (Asmadi 2010). This condition is often a dilemma for Muslim issuers to choose to transact on the capital market. Even in 2007 Sheikh Taqi Usmani from Malaysia once stated and strongly criticized sharia products and criticized 85 percent of Sukuk issuance is not in line with Shariah rules (Mohammed, 2013). The parties are very hard to express the shortcomings of the Sharia capital market while the capital market institutions still struggle to fully implement sharia principles. This is because the capital market for sukuk still joins the conventional capital market so many rules that must be met to keep transacting on the capital market must be in line with conventional rules. This led to AAOIFI in February 2008 having published and established special standard rules regarding sharia sukuk. Although AAOIFI has issued standards, there are still obstacles in the development of sukuk transactions.

Handy Yuniarto as director of PT Mandiri Sekuritas also said that the sharia bond market or sukuk in Indonesia is still dominated by government instruments and total sukuk issuance is only a maximum of 30 percent of conventional bonds (kompas.com, 2018). Issuers are worried about facing purchasing constraints or low sukuk demand. Some countries also experience sukuk default (Zakaria, 2012). This situation is a difficult challenge to get a solution, especially the general public including Muslims who do not know and understand sukuk. Issuers will get losses when issuing sukuk but there is no demand so the company's operations will decrease even bankrupt.

Public understanding of sukuk and the rules that must be made, especially the contracts used are an important unit so that they continue to run according to sharia. Ownership based on sharia is an exclusive relationship that gives the owner the right to enjoy and use property as long as there are no restrictions according to sharia (Nik Abdul, 2018). Issuers of sukuk still expect profits while sukuk buyers are still worried about their ownership of sukuk. This article tries to explain from a literature perspective that sukuk can be an alternative choice in investing with sharia-compliant contracts. This article will also explain the various challenges faced in sukuk transactions.

## **2. Literature Review**

### **2.1. Sukuk Concept**

Finance which can be traded by obtaining a profit share in the future. Sukuk is a bond similar to conventional bonds. Bonds and sukuk are bonds traded in the capital market. Bonds are conventional bonds. Bond yields are based on predetermined interest rates and must be paid both for profit and loss (Hakyak et al., 2020). The party issuing the bond is called the issuer and the party buying the bond is called the investor (Rahman, 2008).

The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) defines the Investment Sukuk on the Shariah Standard No.17 as: [..... certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or in ownership of the asset of a particular project or special investment activity, however, this is true after receipt of the value of the Sukuk, the closing of subscription and the employment funds received for the purpose for which the Sukuk are issued (AAOIFI, 2008). AAOIFI divides sukuk into 14 permissible contracts, but in general they can be divided into three namely ijarah (lease) contracts, sale and purchase contracts and cooperation contracts. The contracts that are often used for sukuk in the capital market are ijarah contracts and sale and purchase contracts in the form of mudharabah.

Based on the definition issued by AAOIFI, sukuk is a certificate with the concept of revenue sharing and must have an underlying transaction. In the Islamic financial system, sukuk refers to financial certificates, which can be considered sharia bonds (Dusuki and Mochtar, 2010). Sukuk is a sharia financial certificate that must be performed in accordance with the sharia agreement stipulated. The sukuk issuer will sell the certificate to a group of investors, and then use the

proceeds to buy the asset. Assets will be used to manage the business owned to obtain profits which will then be divided according to sharia rules and principles to sukuk holders. Issuers must also make contractual promises to buy back bonds in the future.

The main principle for issuing sukuk is that it should not be contrary to sharia agreements. The sukuk principle is:

1. Sukuk is prohibited from implementing the interest system
2. Sukuk transactions must not contain elements of indecision (gharar), perjudian (maysir), and fraud
3. Underlying Assets used to issue sukuk must not be contrary to sharia agreements

Sukuk is one of the funding alternatives to invest in the capital market for Muslims. Sukuk is more competitive compared to conventional bonds and other types of securities. The advantages of investing with sukuk are:

1. Sukuk yield share is expected to be higher than conventional bonds
2. Sharia bonds are safer because they are run by funding prospective, halal and underlying assets.
3. In the event of a loss (out of control) the investor continues to acquire assets
4. Not a bond, but an investment letter

As such, sukuk represents the entire and undivided share of ownership in tangible assets associated with a particular project or particular investment activity. Therefore, an investor in sukuk does not have a debt obligation held by the bond issuer, but rather has a share of the assets associated with the investment. This means that sukuk holders, unlike bondholders, receive a portion of the income generated by related assets. Two broader contracts are used throughout the country is the ijarah agreement and the mudharabah agreement.

## 2.2. Ijarah Sukuk

Ijarah Sukuk is a letter of agreement issued based on an Ijarah agreement in which one party acts alone or through its representative to sell or lease the right of benefit of an asset to another party based on the rental price and the agreed rental period. Ijarah sukuk is done without transfer of ownership of the asset. Ijarah sukuk may be issued by companies, governments, or other institutions. Sukuk

issuers are obliged to pay income to sukuk holders from financing proceeds incurred from managed assets and pay principal amount at maturity of sukuk. Ijarah sukuk becomes a more likely option to get higher yields especially for long-term investments (Jamilah and Abdul 2012). Sukuk ijarah has five criteria:

- a. The seller conducts asset sales to the company (special purpose vehicle) to obtain financing for projects related to those assets. This sale does not transfer legal ownership from a legal perspective.
- b. The Company (Special Purpose Vehicle) will issue sukuk certificates of the same value as the purchase price to be sold to investors. Then there is the legality of the agreement that sukuk holders are entitled to benefits and will receive a return in the future.
- c. The Company (SPV) will lease back the underlying assets to the seller for a certain period of time under the ijarah agreement.
- d. Income received by sellers / tenants from off-takers is used to pay rent to the company (SPV).
- e. Furthermore, the company (SPV) will share the lease received from investors (sukuk holders) as income in the form of periodic income distribution payments (Nik Abdul, 2017)

Ijarah sukuk are more often used by Islamic capital market players because they are considered more profitable. Ijarah sukuk will provide maximum benefits if managed in the long term such as 5 years, 10 years, 15 years and even more.

## 2.3. Mudharabah Sukuk

Mudharabah sukuk is a letter of ownership issued under the mudharabah agreement or agreement where one party provides capital (rab al-maal) and the other party provides energy and expertise (mudharib). The yield or profit resulting from the agreement or cooperation will be divided based on a pre-agreed comparison. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2004) has defined sukuk mudharabah as a certificate representing the ownership of units that share the same value in mudharabah equity and are registered on behalf of shareholders based on undivided equity and their return in accordance with the percentage of share ownership. The owner of the sukuk is rabbul maal.

Some criteria in mudharabah sukuk,

- a. Third parties are allowed to make promises to publishers and investors if the project suffers losses with a different contract from mudharabah sukuk .
- b. Issuers are not allowed to guarantee mudharabah capital and promise investors to pay a fixed amount of profit.
- c. Mudharib and investors are allowed to make an agreement to set aside a certain portion or amount of the profit earned as a reserve for protection or to cover losses incurred during the implementation of the project. (Hanim, 2010)

## **2.4. Study Focus**

The focus of this article is to analyze sukuk problems that are still a debate in investing shariah. Muslim investors have a strong desire to switch to sharia-compliant investments. Muslim communities that have excess funds expect invested funds to benefit. No investor wants a loss. Investor Muslim also hopes that the contract used can provide benefits and in accordance with sharia agreements. However, on the other hand, issuers and third parties have not demonstrated the ability to manage sukuk funds to generate excess profits by continuing to carry out sukuk contracts in accordance with sharia.

The study of this article was conducted qualitatively by analyzing published journals. The article will discuss the best commitment for sukuk investment. The selection of contracts is very important to develop sukuk transactions without neglecting the accepted returns and sharia principles used. Both issuers and investors always expect mutual profit and do not want losses or bankrupt business run. This article is expected to give muslim investors confidence to switch and keep investing with sukuk as an alternative transaction in the capital market.

## **3. RESEARCH METHODS**

This research is a descriptive analysis study with literature studies. This study uses secondary data during the period 2010 - 2020 that has been published as an international scientific journal related to sukuk. The journals are obtained or accessed online from published journals. The methodology used in this study is qualitative method approach with descriptive statistics of literature study of 70 journals and research on sukuk articles and other related articles. Manually obtained journals consist of 20 journals from emeraldinsight publishers and 50 journals from sciencedirect.com.

Furthermore, all articles are classified according to the content of the discussion, namely concept, stabilization and inconstitualization. The results of the klassifikation there are 14 articles on the concept, 28 on stabilization and 28 on the inconstitual. Furthermore there are 24 articles are qualitative research, 25 quantitative research articles and 21 articles are mixed research. Malaysia is the country that publishes the most articles with a total of 50 articles, while Indonesia only 10 articles and 10 other articles from Qatar, America, Turkey, Bahrain and the United Arab Emirates. Malaysia is a very intense country in developing sharia economic research including Sharia financial instruments and sharia capital market.

#### 4. RESULTS

The results of the analysis of the selected articles show that the most research on sukuk was conducted by the State of Malaysia. Qualitative research and understanding of the concepts are published mostly by emeraldinsight publishers. Meanwhile, publishers sciencedirect.com publish more quantitative research and discussions on stabilization and inconstituization.

Hanim's research et.al. 2010 revealed sukuk has a fundamental structure, provisions, and sharia compliance that differ significantly from conventional bonds. In particular, the law prohibits the receipt and payment of interest and stipulates that income must be derived from underlying real business risks rather than as a guarantee of interest refund. Sukuk securitization should be based on vital assets that must exist as evidence to support the process and be allowed in Islam. Sukuk structures based on the principle of partnership are considered to be risk sharing rather than risk shifting. So the overall risk will be smaller than the total risk individually. For investors or sukuk holders, the principle of partnership can result in the creation of wealth, which will be shared between the investor (the fund provider) and the issuer (the user of the fund), while both bear the risks and losses incurred.

Ahmad's research, 2012 confirms that sukuk investment provides competitive advantages and advantages. Furthermore, Naifar's research, 2016, aims to see if sustainable sukuk growth can provide benefits and options as an alternative source of financing and investment in exchange for conventional bonds. The study examined the dependence of the local sukuk market for malaysia's three major sukuk issuing countries, the UAE and Saudi Arabia with local, regional and global stocks. The results of this study found an asymmetric dependence between local and global and regional sukuk returns. The study also found that sukuk produces markets that are more sensitive to conventional regional stock markets than global sharia and conventional stocks. There is a negative link between sukuk yields and stock market volatility in saudi Arabia's case to encourage investors to switch from small securities to regional securities and take advantage of diversified profits. On the other hand, the study also explained that there is no dependence or weak relationship between local and regional sukuk yields, as well as weak global stock market confidence for the three-country sukuk market. However, the structure of the country's dependence between the return of local sukuk and the volatility of various stock market returns has a symmetrical dependence on the Saudi arabian market. In addition, the dependence between the volatility of local stock returns and local sukuk yields is low in the UAE and Malaysia, compared to the dependence between local sukuk yields and national stock market volatility. Thus, there are more benefits of diversification by diversifying local sukuk with global stocks compared to regional stocks. When local sukuk yields and stock market volatility indicate asymmetric dependence, the benefits of diversification can be limited and the market may face systemic risks in times of financial crisis. The final results showed that the dependence between sukuk and DJIM yields was positive and asymmetric in the case of the UAE and Malaysian markets, while negative and symmetrical in the case of Saudi Arabia. This condition implies that a diversification strategy with a global representative index of religious-based bonds investments (sukuk) effectively reaps profits.

Klein and Weill's research (2016) found that there is a detrimental influence of information asymmetry and selection on sukuk market choices. This study explains that sukuk does not provide an advantage where it supports Godlewski's research et.al. (2013) which also confirms that investment options with sukuk do not provide maximum profit. However, Jamilah and Rahman's research (2012) explained that sukuk investment with the principle of ijarah is a better investment alternative than the musyarakah mutanaqisah principle, regardless of the number of sukuk years, with a long period of time. However, the principle of musyarakah mutanaqisah gives better profit results in the short term.

Further affirmation of the principle of *ijarah* is found in Godlewski's research et.al. (2016) which found three conditions that the first *ijarah* sukuk supported a positive stock market reaction. Research has resulted in lower risk of sharia compliance with *Ijarah* agreements compared to other structures and selection mechanisms that harm and hinder the issuance of sukuk revenue sharing. Second, the study provides evidence of the beneficial influence of the reputation and proximity of market participants on the stock market reaction to sukuk issuance. However, we found no support to consider that all clerical characteristics are important, since either the number of clerics who supported the issue or their tenure was found to be significant. Third, the study also found very limited evidence that varied clerical character became important for the type of sukuk published. The results of the study also suggested the structure of *Ijarah* which is profitable in the expansion of the sukuk market because the reaction of investors to be better compared to other structures.

Smaoui & Nechi's research (2017) investigated the impact of sukuk market development on economic growth using samples consisting of all sukuk issuing countries during the period 1995–2015. This study used the GMM estimator system to address potential variable biases that are eliminated, endogeneity, and simultaneity problems. The results showed that sukuk market development plays an important role in driving long-term economic growth, even after being controlled for various measures of financial market development, institutional quality, as well as determinants of economic growth that are widely used in the empirical literature of financial growth. In addition, the findings of this study have a strong impact in order to include oil revenues in the model of regression and decomposition of sukuk into state sukuk and corporate sukuk. Research evidence shows that state sukuk and corporations provide positive benefits and influences on economic growth.

Ayturk's research et.al. (2017) presents one of several empirical studies in the corporate sukuk market. This study describes efforts to identify important factors that influence the spread of international corporate sukuk. The study analyzed cross-sectional observations of 63 international corporate sukuk publications, from 9 different countries, during the period 2004–2015. The results showed that the credit rating score, sukuk issuance size, as well as sukuk annual margin rate are statistically significant factors that explain cross-sectional variations in the company's sukuk spread. On the contrary, sukuk-specific factors such as the quality of sharia compliance, and types have no significant effect on the spread of the issue. Therefore, the results of the study concluded that the determining factor of sukuk issuance spread is the same as the determining factor of conventional sukuk bond issuance spread. The results also found that the sukuk rating, type of issuer, and global market stability were the most significant factors influencing the pricing of the sukuk issuance spread. The results of the study imply that investors do not consider the quality of participating sharia scholars with regard to the issue of sukuk. The level of concentration among Islamic scholars in the number of international corporate sukuk issuances is so high that some scholars contribute to almost all sukuk issuances due to the limited number of prominent Islamic scholars. If pure investors consider the top ranking of these scholars by ignoring other scholars on the quality of shari'ah compliance, there will be no variation among shari'ah scholars on the reputation index of sukuk issuance, which makes the coefficient of this variable insignificant. The second possibility is that investors are only considering whether there is a sharia board/committee. As for international investors, an important factor is quantitative screening and potential returns or yields of sukuk. Investors are not too concerned with the Shari'ah compliance process nor with the Shari'ah scholars involved in the process. In conclusion, the examination and analysis of the factors that affect the market price of primary sukuk should be of interest to corporations that issue sukuk in the international market.

Utami's research (2019) empirically investigated the determining factors of sukuk publishing types in Indonesia to publish *ijarah* sukuk or *mudharabah* sukuk. The research provides empirical evidence on the determinant of sukuk issuance types by including sukuk-specific factors, company-specific factors, and sharia compliance variables, and discusses the role of the Sharia Supervisory

Board, as a sharia representation of corporate compliance for sharia products, in the choice of the type of issuing sukuk. The results of 88 sukuk issuances in Indonesia from 2009 to 2017 were claimed that the company's profitability and level of sharia compliance had a significant impact on the probability of issuing sukuk mudharabah. Several other characteristic factors including sukuk yields, company life, and inflation rates were also found to have a significant influence.. Empirical results show that the issuance of sukuk mudharabah is more risky than the issuance of ijarah sukuk. New companies prefer mudharabah sukuk but give negative results.

Siswanto's research, 2012 shows a unique phenomenon in sharia fixed fund (sukuk) prices during the global financial crisis in Indonesia. This aims to show that sukuk mutual funds do not adopt the actual price of sukuk which can be contrary to Islamic teachings in terms of transparency and can cause investors to make the wrong decisions. The methodology of this study uses graph analysis of benchmarking, Pearson correlation as well as Correlogram Granger Causality and Response to Cholesky tests. The study found that sukuk price movements are influenced by conventional bonds and have a strong correlation, while sharia fixed mutual funds do not apply actual, more unstable prices. This causes the fund to remain in an increasing and stable trend. Sukuk gives a good performance that doesn't actually show the actual price. Fund managers should be transparent in marking real prices and be careful in managing liquid reserves of sukuk mutual funds. Scip's research et. al. 2016 and Saad 2016 also confirmed that the volatility relationship between sukuk and regional market indices was stronger during the financial crisis, so institutional investors should be careful in investing in sharia bonds. Research advises investors to be cautious in sukuk offerings in terms of liquidity to hold sukuk. Sukuk has emerged as an alternative asset investment in the long run. The risk of default among bond issuers and conventional, sukuk can be addressed by transparently displaying gross income levels for future sustainability. The role of institutional investors in supervision and voting rights in investment decision making is critical to sukuk issuance in reducing the risk of default.

Uddin et.al's research. 2020 found that companies that use sukuk in lieu of bonds to raise debt capital perform lower both in terms of market valuation and the company's financial results. The study analyzed that companies that use sukuk have a higher risk of bankruptcy compared to companies that use bonds. These findings are consistent across dimensions such as cross-country, cross-industry, size groups, and crisis periods. Therefore, sharia capital market should provide alternative channels of debt financing for companies with lower creditworthiness for companies that are experiencing difficulties in order to be able to compete with conventional debt markets. Sukuk as a fund-raising instrument has good potential in the wider financial markets globally so it must be thought of sharia-compliant rules and still provide benefits for all parties. The results of Uddin's research corroborate Hasan et. al's research. , 2019 states that investors prefer government interest bonds because they are considered safer and appear to have sufficient liquidity. However, if issuers and companies can prove that sukuk can provide profitable returns then investors will turn to sukuk. In addition, Sukuk can provide benefits for the social and economic development of a country. However, the growth opportunities of sukuk products and related markets are hampered by various types of risks associated with these products. Sukuk can face several types of risks that can negatively impact development prospects in both developing and developed countries. Although Sukuk is claimed to be safer and can generate higher incomes than conventional bonds, the transfer of ownership to the holders of basic assets has not been sufficiently proven to prevent the threat of default risk.

Pirgaip's research et. al. 2020 provides strong evidence that Sukuk can be used as a diversification in general and, especially as a safe haven, in times of economic turmoil. Arundina's research 2015 also confirmed that sukuk ranks better than conventional bonds. Research of Razak et. al. 2018 has also explained Sukuk has managed to present itself in all the challenges faced in conventional stock markets. All obstacles have an impact on the instrument and slow the growth of the sukuk.

However, sukuk instruments managed to maintain their development in the financial markets. Sukuk awareness has increased, not only among Muslims but also among non-Muslims. Non-Muslims can relate sukuk applications because the instruments are similar to conventional bonds with respect to cash flow and risk. The first reason that makes sukuk better than conventional bonds is the expected sukuk return from the main asset. Sukuk investors are given returns through a growing revenue share of assets while returns on conventional bond investors are paid from interest payments. Second, sukuk is said to be less volatile as the financial crisis in Dubai in 2010 shook sukuk investor confidence. Nevertheless, the crisis turned out to be evidence that Sharia financial products (such as sukuk) are more reliable than conventional products. Analysis during the crisis showed that sukuk was safer and more resilient than conventional bonds. In addition to having a process of filtering Sharia investments that make sukuk more resilient, sukuk also provides liquidity to investors because they can trade it in the secondary market. Another feature that makes sukuk more special than conventional bonds is the ability of investors to compensate for their investments in case bad circumstances occur. This can be done because the investment is protected by an asset-based contract sukuk. In addition, sukuk is also more transparent than conventional bonds. Usually investors have difficulty obtaining certain information due to the lack of accessibility of information and the complexity of the information itself. Sukuk provides information disclosure to investors. This is indicated in the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). AAOIFI's FAS 7 states disclosure requirements in sukuk so that users like investors have more information in their decision making. In today's world, sukuk has become one of the strongest instruments in Islamic finance, and has been accepted by in conventional markets. The instrument is not only beneficial for Muslims but also non-Muslims.

## 5. DISCUSSION

Sukuk has become an alternative investment option for Muslim entrepreneurs. Muslim entrepreneurs and investors who still want to apply Islamic sharia rules in developing their business will look for transactions that are in line with Islamic rules. Sukuk is the right choice rather than sticking to conventional bonds. Sukuk should be free of interest (usury), should avoid uncertainty and fraud. Sukuk must be operated on a clear asset project (underlying asset). Sukuk must have sharia-compliant structures and rules (Hanim, 2010), so that the contracts and transaction processes carried out must comply with Islamic sharia rules.

The development of sukuk has become the choice of investors since 2000 which was started by Malaysia and followed by Bahrain in 2001. Then in 2002 Muslim-majority countries followed suit. However, the development of sukuk did not go as desired because there are still violations in terms of the concept of contracts and transactions. Violations occur because there are no binding rules and the party overseeing the sukuk transaction process. Issuers, third-party entrepreneurs and investors who run sukuk still mix their transactions with conventional interest-based bonds. Violations of sharia principles are strongly protested by scholars who want that transactions in the capital market must still be carried out in accordance with Shariah. Differences and debates lasted several years resulting in a decrease in interest in publishing and selling sukuk. Finally, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued a rule on sukuk listed in sharia standard no. 17. This standard provides a rule of 14 contracts that can be used for sukuk transactions. The experts divide the sukuk agreement into three parts, namely the ijarah (lease) agreement, the sale and purchase agreement and the cooperation agreement. Issuers, entrepreneurs and investors prefer ijarah and buying and selling contracts in the form of muharabah to develop sukuk. Although there are also musyarakah and murabahah agreements in sukuk transactions but less popularly used.

Sukuk developments in the capital market fluctuate. This happens because on the one hand sukuk activity must be and is very tied to sharia rules. On the other hand issuers and entrepreneurs as well as investors want profits that are always fixed and growing. Some cases show a decrease in sukuk requests due to default. Investors experience trauma and disappointment if investments do not



deliver profits. Investors still expect the funds they deposit to provide maximum profit even if the loss agreement will be borne together. The process of traveling sukuk transactions also faces a moral hazard. Sukuk default is often not caused by the wrong structure. The default occurred because the issuer designed a credit agreement structure that violated the rules because it expected a large profit (Kamaruddin, 2014). This happens because sukuk issuers and entrepreneurs are conventional bond issuers and entrepreneurs. So there is a mixed process between sharia sukuk rules and conventional bonds.

Although there are shortcomings and weaknesses sukuk can still be an option to invest in sharia. Issuers, entrepreneurs and investors prefer *ijarah* and *mudharabah* agreements in sukuk transactions because it is considered safer and provides benefits. Sukuk with *ijarah* contract is considered to be able to provide benefits in the long term. Sukuk with *ijarah* agreement gives more benefits in the long term than using *mudharabah* agreement (Utami, 2019). Sukuk transactions must be managed by guaranteeing them on agreed assets or existing and ongoing projects. Sukuk will provide profit in the long term of at least five years because the assets used or projects carried out will certainly give results or profits if at least it has been run for five years. If the use of assets in the short term is likely that the company has not obtained the maximum results that can be shared with investors. Long-term sukuk investments are even considered able to reduce the risk of default (Saad, 2019). As for term sukuk, issuers and investors prefer *mudharabah* agreements because direct profits and faster divided according to the agreement. The important thing that must also be maintained is that issuers and entrepreneurs must be *trasparan* in managing funds and providing real reports to investors (Siswantoro, 2012). Real reports and transparency will give investors confidence in the funds used. So that investors will continue their investment and will even attract new sukuk investors.

Sukuk not only provides benefits for the cooperating parties but also provides great benefits for the development of economic development. Sukuk is a vital and viable source of Islamic financing for economic and social development (Zakaria 2012). Sukuk is issued along with the guarantee of assets. Sukuk issued by the government is part of the government's policy to raise public funds to participate in development. Government sukuk is usually published in the long run and projects are clearer. Investors who prefer sukuk government consider sukuk safer and able to provide profit unless there is a moral hazard. Even sukuk became the main choice for the government in overcoming the economic crisis.

Sukuk is an innovation in investing for Muslim investors and is a viable and sharia-compliant source of funding (Hasan, 2019). Despite many shortcomings and still losing competition with conventional bonds, Muslim investors must continue to increase their investment in sharia bond transactions (sukuk). Muslim issuers, entrepreneurs and investors must show good ethics in managing sukuk funds. The belief to keep sharia rules and processes for profit must always be in line and in harmony. Transparency, correct behavior and ethics to keep sharia rules in place will prove to the entire community the feasibility of sukuk in capital market transactions. This will increase public confidence in sukuk investments and other sharia-compliant instruments. Even good management of sukuk not only gives confidence to Muslim investors but also to non-Muslim investors.

## **7. CONCLUSIONS AND SUGGESTIONS**

This article concludes that sukuk is an alternative investment for Muslim investors as well as non-Muslims. Sukuk must be carried out in accordance with sharia agreements that are avoided from usury, avoid inaccuracies and avoid fraud. The right choice of contract becomes the basis for issuers, entrepreneurs and investors to comply with all the rules and standards that have been set without neglecting the expected profit. AAOIFI has explained that there are 14 contracts that can be used for sukuk transactions but the agreement that is considered to provide benefits for all parties is the *ijarah* and *mudharabah* agreements.

Sukuk is still able to provide benefits and benefits for all parties. Sukuk proved to be able to survive from 2000 to 2021 and remains an investor's choice. Sukuk has not been able to compete with conventional bonds because of investor concerns about default but sukuk is the right choice for long-term investment, especially with ijarah contracts. Even the government issued sukuk for economic development and overcoming the economic crisis. Finally, sukuk must continue to be encouraged to be introduced to the community so that trust in sharia instruments continues to grow and develop. The trust will encourage Muslim and non-Muslim investors to invest in sukuk. Sukuk is still able to provide benefits for all parties.

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