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Research Article

The Development of Public Interest in Sharia-Compliant Investments in Indonesia

Andry Dwiarnanto[1], Nugrah Dovristyadi[2]
Universitas Bung Karno, Indonesia [1,2]
Corresponding Author, Email: andrydwiarnanto@yahoo.com

Abstract

Investment is a solution that can be used to manage personal finances. One of the financial products that has gained considerable popularity is Sharia-compliant stocks. However, recent cases of fraudulent investments have also involved several Indonesian influencers. Certainly, the victims had underlying factors that led them to become entangled in fraudulent investment schemes, which subsequently influenced their interest in investing. Therefore, this study aims to examine the effect of investment knowledge, Sharia online trading systems, and motivation on investment interest in Sharia-compliant stocks in Indonesia. Investment is part of a system used to manage financial resources. One of the most popular financial products within this system is Sharia-compliant stocks. Nevertheless, as explained above, many investment schemes direct investors toward products that lack a clear legal basis and official legality. Victims of such schemes are influenced by various factors that lead to their interest in investing. Hence, this research seeks to analyze the influence of investment knowledge, Sharia online trading systems, and motivation on interest in investing in Sharia-compliant stocks through investment galleries. The level of interest among the Indonesian public in investment products has reached a relatively high level, indicating growing awareness of investment instruments, particularly stock-based investments. In general, stocks are traded on the Indonesia Stock Exchange, where every listed company has clear legal certainty and is supervised by authorized regulatory institutions.

Keywords: Society, Sharia-Compliant Investment, Investment Platforms.

INTRODUCTION

The term investment originates from the Latin word investire, meaning "to clothe" or "to employ," while in English it is referred to as investment (Hs & Sutrisno, 2008). The essence of investment is capital placement in the production process. Since Islam is a religion that promotes ease, Sharia boundaries do not make it difficult for individuals to manage their finances. Therefore, efforts to circulate capital through investment in order to generate returns are highly encouraged. Consequently, teachings concerning profit-sharing investment mechanisms must be developed in relation to issues of capital and expertise (Muhamad, 2005).

Investment is needed by everyone to maintain and expand wealth as part of future social security. Investment consists of two forms: real investment and financial investment. Real investment involves tangible assets such as land, property, machinery, and others. Meanwhile, financial investment takes the form of securities as proof of ownership in a company but does not directly participate in the company's operations, such as stocks, bonds, and others. Investment represents a commitment to allocate funds to an investment institution with the expectation of obtaining profits in the future. Currently, there are nine corporate sectors listed on the Indonesia Stock Exchange (IDX), which are further divided into several subsectors: (1) agriculture, (2) mining, (3) basic and chemical industries, (4) miscellaneous industries, (5) consumer goods industries, (6) property, real estate, and building construction, (7) infrastructure, utilities, and transportation, (8) finance, and (9) trade, services, and investment. This wide range of sectors provides investors with numerous investment options (Fakhruddin & Darmadji, 2008). The financial sector is one of the most attractive sectors for investors, as it serves as a key driver of economic activity.

Financial markets play a crucial role in a country's economy because they bring together parties with surplus funds and those in need of funds. Without financial markets, lenders (creditors) would face difficulties in finding borrowers (debtors) willing to accept loans. Financial markets can be divided into two types: the money market and the capital market. The money market facilitates the meeting of short-term fund supply and demand, while the capital market trades securities such as stocks, bonds, derivatives, and mutual funds (Mardani, 2014).

Based on the Capital Market Law (Law No. 8 of 1995), the capital market is defined as activities related to public offerings and securities trading, public companies associated with the securities they issue, as well as institutions and professions related to securities. This law does not explicitly distinguish between the Islamic capital market and the conventional capital market. The capital market plays an important role as a long-term investment instrument in the economy. However, from a conventional economic perspective, the capital market is also viewed as a short-term and speculative investment vehicle, where investors acknowledge that while high profits may be obtained, the potential for losses is also significant.

There are two main benefits obtained by investors from purchasing or holding stocks: dividends and capital gains. Dividends are profit distributions provided by companies, derived from the profits generated, and are distributed after approval by shareholders at the General Meeting of Shareholders (GMS). To receive dividends, investors must hold the shares for a relatively long period until they are officially recognized as shareholders entitled to dividends. Dividends may be distributed in the form of cash dividends, where shareholders receive a certain amount of cash per share, or stock dividends, where shareholders receive additional shares, increasing the number of shares owned. Capital gains, on the other hand, represent the difference between the purchase price and the selling price, and are generated through stock trading activities in the secondary market.

An investor's profit in stock trading does not necessarily come from capital gains achieved by selling shares at a higher price than the purchase price. In some cases, investors—often through brokers—may engage in stock price manipulation to control certain company shares by purchasing them at prices significantly below their normal value through transaction engineering or by spreading negative rumors that cause stock prices to fall. When stock prices decline, panic may arise among other investors, especially less experienced ones, prompting them to sell their shares in the market to avoid greater losses.

Sharia mutual funds were first introduced by PT Danareksa Investment

Management in 1997. Subsequently, in 2000, the Indonesia Stock Exchange, in cooperation with PT Danareksa Investment Management, launched the Jakarta Islamic Index (JII) to guide investors who wish to invest their funds in accordance with Sharia principles. With the introduction of this index, investors were provided with Sharia-compliant stocks as investment instruments (Fatah, 2011). To ensure that the stocks included in the Jakarta Islamic Index comply with Sharia principles, clear institutions and regulations were required. Therefore, in 2003, a Memorandum of Understanding (MoU) was signed between Bapepam and the National Sharia Council of the Indonesian Ulema Council (DSN–MUI) as institutions involved in regulating the Islamic capital market to support the development of a Sharia-based capital market in Indonesia (Sutedi, 2011).

Based on the Sharia Securities List (Daftar Efek Syariah/DES), there are currently 309 stocks that comply with Sharia principles (www.idx.co.id). The large number of Sharia-compliant stocks listed in the DES provides investors with a wide range of choices for investing their capital. Although the growth of the Islamic capital market has been encouraging, its market exposure remains relatively limited. A lack of public understanding of the Islamic capital market creates uncertainty among investors regarding investment in this sector. This is largely due to perceptions of speculative practices in capital market activities. Therefore, knowledge of the Islamic capital market is essential, including its concepts, principles, and trading mechanisms. Accordingly, based on investor activities in the capital market and existing phenomena, this study further examines the concepts and principles of the Islamic capital market versus the conventional capital market, the trading mechanisms in both markets, and the distinction between investment and speculation from an Islamic perspective.

METHOD

According to Peter Mahmud Marzuki, normative legal research is a process of finding legal rules, legal principles, and legal doctrines in order to address the legal issues being examined (Asikin & Zainal, 2004).

This study employs normative legal research, which is conducted by examining library materials or secondary data. This type of research is also referred to as doctrinal research, in which law is often conceptualized as what is written in statutory regulations (law in books) or as norms and rules that serve as standards for appropriate human behavior.

RESULTS AND DISCUSSION

Institutions and Regulations Related to the Islamic Capital Market

The structure of the capital market does not distinguish between the conventional capital market and the Islamic capital market. This can be observed in the Indonesia Stock Exchange, where shares that emphasize Sharia principles in accordance with Islamic teachings are listed. To supervise Sharia-compliant issuers and securities in the Islamic capital market, the Indonesian Ulema Council (Majelis Ulama Indonesia/MUI) established the National Sharia Council of the Indonesian Ulema Council (Dewan Syariah Nasional–Majelis Ulama Indonesia/DSN–MUI), which has the authority and responsibility to issue fatwas on types of financial activities, products, and financial services (Manan & Sh, 2017). In the context of developing a Sharia-based capital market in Indonesia, DSN–MUI has issued several fatwas related to the Islamic capital market, including:

a. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 5/DSN-

MUI/IV/2000 on Stock Trading;

b. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 7/DSN-MUI/IV/2000 on Mudharabah (Qiradh) Financing;
c. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 8/DSN-MUI/IV/2000 on Musyarakah Financing;
d. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 9/DSN-MUI/IV/2000 on Ijarah Financing;
e. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 10/DSN-MUI/IV/2000 on Wakalah;
f. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 11/DSN-MUI/IV/2000 on Kafalah;
g. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 20/DSN-MUI/IV/2001 on Guidelines for the Implementation of Investment in Sharia Mutual Funds;
h. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 32/DSN-MUI/IX/2002 on Sharia Bonds;
i. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 33/DSN-MUI/IX/2002 on Mudharabah Sharia Bonds;
j. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 40/DSN-MUI/X/2003 on the Capital Market and General Guidelines for the Application of Sharia Principles in the Capital Market Sector;
k. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 41/DSN-MUI/III/2004 on Ijarah Sharia Bonds;
l. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 50/DSN-MUI/III/2006 on the Mudharabah Musytarakah Contract;
m. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 59/DSN-MUI/V/2007 on Convertible Mudharabah Sharia Bonds;
n. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 65/DSN-MUI/III/2008 on Sharia Pre-emptive Rights (HMETD);
o. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 66/DSN-MUI/III/2008 on Sharia Warrants;
p. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 69/DSN-MUI/VI/2008 on State Sharia Securities;
q. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 70/DSN-MUI/VI/2008 on the Issuance Methods of State Sharia Securities;
r. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 71/DSN-MUI/VI/2008 on Sale and Lease Back;
s. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 72/DSN-MUI/VI/2008 on State Sharia Securities Ijarah Sale and Lease Back;
t. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 76/DSN-MUI/VI/2010 on SBSN Ijarah Asset to Be Leased;
u. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 80/DSN-MUI/III/2011 on the Application of Sharia Principles in Equity Securities Trading Mechanisms in the Regular Market of the Stock Exchange (www.ojk.go.id).

To support the performance of the Islamic capital market, supervision by a designated institution is required to ensure the implementation of guidelines issued by DSN–MUI and Bapepam-LK. Therefore, the National Sharia Council (DSN) established the Sharia Supervisory Board (Dewan Pengawas Syariah/DPS) to oversee capital market business activities so that they consistently comply with Sharia principles. Based on DSN–MUI Decree No. 03 of 2000, the DPS has specific duties and functions. Its primary duty is to supervise the business activities of Sharia financial institutions to ensure compliance with Sharia principles as stipulated in DSN fatwas. Its main function is to act as an advisor and provide recommendations to directors, management of Sharia business units, and heads of Sharia branch offices on matters related to Sharia aspects. In addition, the DPS also serves as a mediator between Sharia financial institutions and the DSN in communicating proposals and recommendations for the development of products and services that require review and fatwas from the DSN (Adrian Sutedi, 2011: 245).

Concepts and Principles of the Conventional Capital Market versus the Islamic Capital Market

The Indonesian capital market is regulated by Law No. 8 of 1995, which does not distinguish between conventional and Islamic capital markets. Consequently, the Islamic capital market is not a separate system but an integral part of the national capital market. In general, Islamic capital market activities are similar to those of the conventional market; however, all products and transaction mechanisms must comply with Sharia principles.

These principles are derived from the Qur'an and the Hadith, and further developed through fiqh, particularly fiqh muamalah, which governs commercial transactions. A key principle of fiqh muamalah states that all transactions are permissible unless explicitly prohibited. This principle forms the foundation of the Islamic capital market in Indonesia.

Sharia principles in the capital market are based on fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN–MUI), particularly DSN–MUI Fatwa No. 40. A security is considered Sharia-compliant if it has received a Sharia compliance statement from DSN–MUI. Issuers and public companies must ensure that their business activities do not involve prohibited elements such as gambling, interest-based financial activities, excessive uncertainty (gharar), gambling (maisir), false transactions, prohibited goods or services, or bribery (risywah).

Capital Market Products

The main investment products offered to investors in the capital market include the following (Awaluddin, 2024):

1. Mutual Funds

   Mutual funds are investment instruments in which investors entrust their funds to an investment manager to be invested in a diversified portfolio of securities in the capital and money markets. This allows investors to reduce risk through diversification.
2. Stocks

   Stocks represent ownership in a company. Stockholders may earn returns in the form of dividends and capital gains. While stocks offer potentially unlimited returns depending on company performance, they also carry relatively high risk, including the possibility of capital loss.
3. Preferred Stocks

   Preferred stocks are hybrid instruments combining characteristics of both bonds and common stocks. They typically provide fixed dividends and priority in dividend distribution, offering more stable income compared to common stocks.
4. Bonds

Bonds are debt securities in which investors lend funds to issuers in exchange for fixed interest payments over a specified period. Bonds provide relatively stable income but are exposed to interest rate risk and the issuer's credit risk (Maharani, 2014).

THEORETICAL FRAMEWORK

Investor

An investor is defined as any individual or entity that buys or sells shares or other securities in the capital market (Sawidji, 2005). Investors attempt to predict future stock price movements based on appropriate trading momentum and historical price movements, as explained by Jordan and Miller (2008). According to BAPEPAM (2008), investors are parties that engage in investment activities.

In the financial sector, investors are generally classified into foreign and domestic investors, as well as individual (retail) and institutional investors (Ali et al., 2008). Individual investors consist of persons who invest their own funds, while institutional investors include insurance companies, banks, savings and loan institutions, pension funds, mutual funds, and investment companies. In general, investors are individuals or institutions that allocate capital with the objective of earning returns based on their chosen investment instruments.

Based on their risk preferences, investors in the capital market can be categorized into three types (Sholihin, 2013):

1. Risk seekers, who are aggressive and speculative and prefer high-risk investments.
2. Risk-neutral investors, who are flexible and prudent, expecting proportional returns for increased risk.
3. Risk-averse investors, who prefer low-risk investments and carefully plan their investment decisions.

Capital Market

The capital market serves as a platform connecting parties with excess funds (surplus fund) and those in need of long-term funding (deficit fund). It provides long-term financing sources invested in productive assets, fostering job creation and economic growth. According to Dahlan Siamat, a capital market is an organized marketplace where securities are traded, known as the Stock Exchange.

Legally, under Law No. 8 of 1995 on Capital Market, it includes all activities related to public offerings, securities trading, public companies, and institutions connected to securities. "Securities" refer to financial instruments such as stocks, bonds, debt acknowledgments, collective investment units, and derivatives. Thus, the capital market functions as a meeting point for issuers (companies) and investors to conduct transactions for capital acquisition (Beneish, 2001).

The Islamic Capital Market (Pasar Modal Syariah) operates based on Sharia principles, meaning that products and transaction mechanisms must comply with Islamic law. While similar to conventional markets in structure, it excludes elements like interest (riba) and uncertainty (gharar) (Ardison et al., 2013).

Challenges of Indonesia's Capital Market

As part of global economic integration, the performance of Indonesia's capital market depends heavily on national and international economic conditions, influenced by macroeconomic indicators such as interest rates, inflation, and exchange rates. Key challenges include:

1. Low domestic investor participation – Only about 363,000 local investors exist, a small ratio compared to the total population, making the market vulnerable to foreign capital outflows.
2. Limited listed companies (issuers) – Around 462 firms are listed on the Indonesia Stock Exchange (IDX), but more high-quality issuers are needed.
3. Limited investment products – The market is dominated by stocks and government bonds, with few derivative or alternative products.
4. Regulatory inconsistencies – Lack of coordination and frequent regulatory changes hinder market efficiency.
5. “Gorengan” stocks (manipulated shares) – Speculative and artificially inflated stocks distort market integrity and harm inexperienced investors.

Overall, Indonesia’s capital market continues to evolve but requires deeper investor participation, stronger regulations, and diversified financial products for sustainable growth.

CONCLUSION

Throughout its development, Indonesia’s capital market has experienced several major shocks. However, as Indonesia’s macroeconomic conditions have improved, these crises have been successfully overcome. Today, the Indonesian capital market holds great potential to become strong and resilient, supported by a growing middle class with increasing investment capability.

The main challenge lies in the limited knowledge of the general public about capital market investments, resulting in a relatively low participation rate compared to neighboring countries such as Malaysia and Singapore. In essence, interest reflects an individual’s acceptance and connection to something external — the stronger the connection, the greater the interest.

Currently, the Islamic capital market has become one of the most attractive investment options for Muslim communities, offering a safe and legitimate avenue for investing in accordance with Islamic principles. This has also attracted non-Muslim investors, who are beginning to show interest in Sharia-based investments. Moreover, foreign investors in the Indonesia Stock Exchange (IDX) have also started paying attention to the growth and potential of the Islamic capital market.

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