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# Factors Influencing Investors' Decision to Invest in Pakistan's *Sukuk* Market

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## Abstract

There are several factors which influence investors' decision to invest in *Sukuk* market in Pakistan. This study aims to investigate the impact of the most important factors which influence the investors to invest in this market. This study is quantitative in nature. Data was collected from 204 respondents comprising *Sukuk* investors in Pakistan through a questionnaire. The collected data was analyzed statistically with the help of different tests including correlation and regression. The study found that *Sukuk* features (SKFR) is the prime factor which influences and encourages the investors to invest. Information about the *Sukuk* market is generally not available; so, availability of information (AOIN) is insufficient. Religious factor (RLFT) strongly affects investors' decision because most of the investors prefer to invest in *Sharia*'h-compliant bonds. Expected returns (EXRT) of *Sukuk* is also significant because most of the investors are interested to get motivated by good returns. However, reputation of issuers (RPOI) does not strongly affect the investors' decision to invest in *Sukuk* market in Pakistan because all issuers presumably have a good reputation. This is a unique study since it discusses the factors which influence the investors' decision to invest in *Sukuk* market in Pakistan. The findings of this study indicate that the investors consider the impact of all factors before making their investment decision.

**Keywords:** factors, investment decision, investors, Pakistan, *Sharia*'h-compliant, *Sukuk* market

## Introduction

*Sukuk* is an Islamic financial instrument. It is the replacement of conventional, interest-based bonds. It offers ownership to the investors in the form of an underlying real asset. *Sukuk* are defined by AAOIFI as

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"securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets." The Fiqh Academy of OIC (Organization of Islamic Countries) legitimized the use of *Sukuk* in February 1988. Since then, *Sukuk* has developed as an alternative to traditional bonds, which many Muslims do not consider permissible because they pay interest and are used to finance companies that engage in non-*Sharia*'h activities (gambling, production of alcohol or pork).

*Sukuk* effects are structured to be *Sharia*'h-compliant by resulting in profit, not interest, usually by involving a tangible asset in the investment. *Sukuk* securities may own a building constructed by an investment company, so that *Sukuk* owners may collect the rent as profit (as permitted by the Islamic law). This is because they represent the ownership of real assets and guarantees the repayment of the initial investment ([www.Sukuk.com](http://www.Sukuk.com)). *Sukuk* resembles equity instruments but as a bond, to stop regular payments on maturity. Different types of *Sukuk* are based on different types of Islamic contracts (*Murabahah*, *Ijara*, *Istisna*, *Musharakah*, *Istithmar*, and others) that finance the *Sukuk* (Borhan & Ahmad, 2018).

*Sukuk* market is substantially expanding throughout the world. By the end of December 2021, the amount of domestic outstanding *Sukuk* was USD 549.14 billion, which showed 30.50% increase in the total amount compared to the end of 2020. Similarly, the total amount of international outstanding *Sukuk* was USD 182.95 billion by the end of December 2021, with an increase of 33.45% as compared to 2020 (International Islamic Financial Market *Sukuk* Report 2022). Table 1 shows the types of international *Sukuk* issuers.

**Table 1**

*Sukuk* Issuers by December 2021

<i>Sukuk</i> Issuers	Total Amount (USD Million)	% of Total Outstanding
Sovereign	83,257	46.00
Corporate	27,843	15.00
Financial Institutions	31,530	17.00
Quasi-Sovereign	40,324	22.00
Total	182,954	100.00

**Note.** Source: International Islamic Financial Market *Sukuk* Report 2022

**Table 2***Country-wise Breakdown of Outstanding Sukuk by December 2021*

Country	Total Amount (USD Million)	% of Total Outstanding
Egypt	324	0.04
Bangladesh	3,128	0.43
Brunei Darussalam	427	0.06
Hong Kong	1,000	0.14
Gambia	29	0.004
Indonesia	107,765	14.72
Jordan	212	0.03
Kuwait	5,238	0.72
Malaysia	306,650	41.89
Morocco	105	0.01
Maldives	316	0.04
Bahrain	11,301	1.54
United Kingdom	736	0.10
United Arab Emirates	48,459	6.62
Türkiye	24,513	3.35
Senegal	245	0.03
Togo	245	0.03
Sudan	34	0.005
Saudi Arabia	181,318	24.77
Qatar	16,372	2.24
Pakistan	13,499	1.84
Mali	285	0.04
Oman	8,300	1.13
Nigeria	1,606	0.22

**Note.** Source: International Islamic Financial Market Sukuk Report 2022

Table 2 shows the country-wise breakdown of international and domestic outstanding *Sukuk* by the end of December 2021. Malaysia is the leading *Sukuk* issuer with an outstanding amount of USD 306.650 million, contributing 41.89% share of the international market. The share of Pakistan in this market is USD 13,499 million, that is, 1.84% of the total market share, which is very low. To boost-up the *Sharia* 'h-compliant capital market in Pakistan, the government has initiated the following measures (Securities and Exchange Commission of Pakistan).

- Tax neutrality for *Sukuk* vis-à-vis conventional instruments was achieved through an amendment to the Tax Ordinance on August 31, 2016.
- A 2% tax rebate for the *Sharia*'h-compliant listed manufacturing companies was introduced through the Finance Act, 2016. The *Sharia*'h-compliance criteria for this tax rebate was notified by FBR.
- A holistic *Sharia*'h governance framework (SGF) is currently being drafted under the enabling provision in the proposed Companies Bill.
- A sub-committee on Islamic Capital Markets (ICM) chaired by the Chairman SECP was formed under the implementation committee for the development of these markets.
- Pakistan issued its first international sovereign *Sukuk* in 2005 and domestic *Sukuk* in 2006. Since then, the government has issued 172 domestic and 4 international *Sukuk*. In 2021, Pakistan issued 21 domestic *Sukuk*, a 35% increase from the previous year. Details are shown in Tables 3, 4, and 5.

**Table 3***Domestic Sukuk Issued in Pakistan by December 2021*

Issuer	No. of Issues	Amount (PKR Billion)
Government of Pakistan	41	2,234
Quasi-Sovereign	32	629
Corporate	99	299
Total	172	3,162

*Note.* Source: International Islamic Financial Market Sukuk Report 2022**Table 4***Status of Sukuk Issuance in Pakistan by December 2021*

Listing Status	No. of Issues	Amount (PKR Billion)
Privately Placed	153	2,851
Listed	19	311
Total	172	3,162

*Note.* Source: International Islamic Financial Market Sukuk Report 2022

**Table 5**

*Status of International Sukuk Issuance by the Govt. of Pakistan by December 2021*

Status	Issue Date	Maturity Date	Amount (USD Million)
Pakistan First International <i>Sukuk</i>	1/1/2005	1/1/2010	600
Pakistan Second International <i>Sukuk</i>	1/11/2014	1/11/2019	1,000
Pakistan Third International <i>Sukuk</i>	16/10/2016	13/10/2021	1,000
Pakistan Fourth International <i>Sukuk</i>	1/11/2017	1/11/2022	1,000

*Note.* Source: International Islamic Financial Market Sukuk Report 2022

**Table 6**

*Status of Year-wise Domestic Sukuk Issues*

Year	Amount (PKR Billion)	Year	Amount (PKR Billion)
2006	9	2014	65
2007	48	2015	140
2008	33	2016	323
2009	56	2017	109
2010	90	2018	27
2011	170	2019	232
2012	172	2020	806
2013	61	2021	821
		Total	3,162

*Note.* Source: International Islamic Financial Market Sukuk Report 2022

The domestic *Sukuk* market in Pakistan has been developing continuously since the first *Sukuk* was issued in 2006 worth only PKR 9 billion. Table 6 shows that the growth trend in the domestic *Sukuk* market remained mixed from 2006 to 2021. However, growth in financial years 2011, 2012, 2015, 2016, 2019, 2020, and 2021 was significant and progressive. In 2021, Pakistan issued a record 31 domestic *Sukuk* worth PKR 821 billion, which shows outstanding growth in the domestic *Sukuk* market.

This study aims to investigate the impact of the factors which influence investors to invest in the *Sukuk* market in Pakistan. This would help *Sukuk* investors to make their investment decisions well before investing in this market. By this, *Sukuk* market may gain investors' confidence and it would also ensure the strength of this market in the future.

## Literature Review

### Investment in Sukuk Market and Religious Factor

There are different types of *Sukuk* used in the *Sharia*'h-compliant capital markets. Green *Sukuk* is one such type which provides portfolio diversification to the investors who want to take less risk while investing in a *Sharia*'h-compliant instrument (Naeem et al., [2023](#)). Ahmed, Islam, Alabdullah and Amran ([2019](#)) revealed that there are several determinants which strongly impact the legitimacy of *Sukuk*. Religion is one such determinant. Similarly, the role of *Sharia*'h Advisory Board (SAB) also impacts the legitimacy of *Sukuk*. Khan ([2023](#)) suggested that the role of ICM is significant in financial inclusion and *Sukuk* are the major part of this market. Khan et al. ([2020](#)) discovered that there are several predictors which influence investors' decision to invest in the *Sukuk* market. External influence, internal influence, compatibility, and intrinsic motivation are among these predictors. Moreover, the religious aspect plays a vital role in deciding investors' behavioral intentions. Ashraf ([2023](#)) established the relationship of internal and external factors with the impact of empathy and *Niyyah* (intentions) on investment in *Sukuk* market. The study found a strong positive and significant relationship among all factors. While studying the impact of legal disclosures of *Sukuk* market, Ahmed, Islam and Amran ([2019](#)) found that the role of SAB is significant in establishing the legitimacy of *Sukuk* market as well as ICM.

*H1. There is a positive and significant relationship between investment in Sukuk market and the religious factor (RLFT).*

### Investment in Sukuk Market and Expected Returns

Alahouel and Loukil ([2022](#)) indicated that *Sukuk* market is more effective in the short-run as compared to the long-run. Therefore, investors are very keen to know about the significance of these trends, so that they may get good returns. Hasan et al. ([2019](#)) suggested that *Sukuk* is the best *Sharia*'h-compliant alternative of conventional bonds. Moreover, structures of *Sukuk* can be developed further to gain the confidence of investors, as they are interested in getting good returns. Abdulkarim and Tabash ([2021](#)) identified huge opportunities for African capital market investors to invest in the Malaysian sovereign *Sukuk* market. This may provide them the option of portfolio diversification and they can expect good returns on their investments as well. Nashwan, et al., ([2022](#)) found that the investors are

very careful while investing in *Sukuk* markets. They consider several factors that include perceived control, tax incentives, *Sukuk* features, and expected returns. All these factors strongly impact investors' decision to invest in *Sukuk* markets. Borhan and Ahmad (2018) found that the *Ijarah* and *Musharakah Sukuk* issued by highly profitable firms can get the highest credit rating as compared to *Murabahah Sukuk*. Similarly, these *Sukuk* can also provide better returns to investors.

*H2. There is a positive and significant relationship between investment in Sukuk market and expected returns (EXRT).*

### **Investment in Sukuk Market, Availability of Information, and Sukuk Features**

Tan and Shafi (2021) discussed the features of capital markets in order to determine the role of conventional bonds and *Sukuk* in them. They found that there is a significant impact of capital markets on economic growth. Samitas et al. (2021) identified that *Sukuk* market and conventional bonds market are highly integrated. These markets also act as shock transmitters for other capital markets. Aman et al. (2022) postulated that there are many factors which are positively associated with *Sukuk* market. These include economic development, banking system, current account balance, and money supply. However, exports and economic size are negatively associated with *Sukuk* market. Asl and Rashidi (2021) determined the spillover between *Sukuk* index and MENA stock index. No shock, volatility, and asymmetric shock spillover was found in between these two as *Sukuk* index behaved independently. According to Yıldırım et al. (2020) there is a long-term co-integrated relationship between economic growth and *Sukuk* market development. However, *Sukuk* variables have no effect on economic growth in the short-run. Suriani et al. (2021) found a bidirectional causal relationship between *Sukuk* market and economic growth. *Sukuk* market establishes a causal relationship with monetary policy variables. Smaoui et al. (2021) discovered that *Sukuk* market strongly and positively contributes in the expansion of a country's infrastructure. Efficient stock markets and well-established banking systems do not play this role.

*H3. There is a positive and significant relationship between investment in Sukuk market, availability of information (AOIN), and Sukuk features (SKFR).*



## Investment in Sukuk Market and Reputation of Issuers

Ledhem (2020) indicated that financing in *Sukuk* market may positively and significantly boost economic growth in Southeast Asia. This is because the *Sukuk* are issued by reliable issuers and investors have full confidence in them. Rahman et al. (2020) pointed out an important aspect of the impact of *Sukuk* market on social responsibility in the society. They concluded that investment in the education sector is the greatest motivational aspect for *Sukuk* issuers and investors. Majumdar and Puthiya (2021) determined that non-banking *Sukuk* issuances have expanded in UAE. Several sectors, including oil and gas, real estate, logistics, and utilities have also contributed in the expansion of *Sukuk* market. Guermazi (2020) strived to establish the relationship between *Sukuk* market and capital market theories but found no evidence for the pecking order theory. The results also confirmed that *Sukuk* issuing firms balance the marginal costs of *Sukuk* and their benefits of social responsibility and religiosity to achieve a targeted debt.

*H4. There is a positive and significant relationship between investment in Sukuk market and the reputation of issuers (RPOI).*

### Research Methodology

#### Questionnaire

The questionnaire used in this study was developed on the basis of the proposed instrument by Ashraf (2023) and Bin-Nashwan et al. (2022). The first part of the study questionnaire aims to collect information about demographic and socioeconomic variables (gender, education, employment). In the second part, questions related with the factors that influence Pakistani investors to invest in *Sukuk* are asked, while their responses are measured using a 5-point Likert scale. These factors include investment in *Sukuk*, religious factor (RLFT), availability of information (AOIN), expected returns (EXRT), reputation of issuers (ROPI), and *Sukuk* features (SKFR). The third part of the questionnaire strives to capture the perceptions of Pakistani investors toward investment in *Sukuk*. These include reasons for investment, investor satisfaction, maturity of *Sukuk*, risk types, and *Sukuk* market problems.

A total of 43 questions are included in the questionnaire, including 3 questions aimed to collect demographic and socioeconomic information, 33 questions related to the factors which influence the

decision of investors to invest in *Sukuk* market, and 7 questions designed to capture the perceptions of Pakistani investors which influence their decision to invest in *Sukuk* market in Pakistan.

### Sampling and Data Collection

The population of this study comprised the investors in *Sukuk* market in Pakistan. Convenience sampling method was used to collect data from these investors. For this purpose, some investors were personally visited, while others were contacted through email to complete the questionnaire. A total of 300 questionnaires were distributed to the respondents, out of which 260 were received. After careful consideration and excluding incomplete questionnaires, a total of 204 questionnaires were selected for analysis.

## Data Analysis and Results

### Demographics

The first section of the questionnaire aims to collect the demographic information of the respondents. It includes gender, education level, and employment status. Table 7 shows the results of the collected information.

**Table 7**

#### *Demographics*

Characteristics	Number	Percentage
Gender		
Male	155	76
Female	49	24
Education Level		
Intermediate	4	2
Graduation	148	73
Masters	22	11
Above Masters	3	1
Professional Qualifications	27	13
Employment Status		
Financial Institutions	134	66
Public Sector	24	12
Private Sector	46	22

Table 7 shows that out of the total 204 respondents, 76% are men and the remaining 24% are women, which shows that the majority of the *Sukuk*

market investors are male. Similarly, 73% of investors are graduates, which shows that in *Sukuk* market the majority is of educated investors who are able to take their investment decisions wisely. Furthermore, 13% hold professional qualifications including CA, ACCA, and CIMA. The vast majority of the respondents, that is, 66% are employees of financial institutions including banks, which depicts that these investors are financially literate and can take their decisions to invest in *Sukuk* market in Pakistan in an informed manner.

### Reliability Analysis

The basic purpose of reliability analysis is to confirm that the test scores of the items of the questionnaire are higher and can be tested in the future (Saunders & Lewis, [2012](#)). For reliability analysis, Cronbach's alpha is used as the most common measure to analyze the reliability of the questionnaire items. A high value of Cronbach's alpha shows consistency among the items used to measure a concept (Blaikie, [2003](#)). Table 8 shows the results of the reliability test. The standardized value of Cronbach's alpha for the reliability of the items of the questionnaire is 0.70 (Hair et al., [2010](#)).

**Table 8**

#### *Reliability Analysis*

Category	No. of Items	Cronbach's Alpha
Religious factor (RLFT)	4	0.851
Investment in <i>Sukuk</i> (INVEST)	4	0.850
Expected return (EXRT)	7	0.874
Availability of information (AOIN)	8	0.841
<i>Sukuk</i> features (SKFR)	6	0.844
Reputation of issuer (RPOI)	4	0.856

### Descriptive Statistics

Table 9 shows the descriptive statistics of the six factors which influence investors to invest in *Sukuk* market in Pakistan. These include the religious factor, investment in *Sukuk*, expected return, availability of information, *Sukuk* features, and reputation of issuers. The mean value of all factors is above 2.5, which shows that the investors are influenced by all these factors to invest in *Sukuk* market in Pakistan. The reputation of issuers has the highest mean value, which indicates that the issuer must be reliable. Since

*Sukuk* are *Sharia*'h-compliant investment bonds, the respondents are not very interested in expected returns, which is indicated by the lowest mean.

**Table 9***Descriptive Statistics*

	<i>N</i>	Min.	Max.	Mean	<i>SD</i>	Coefficient of Variation
RLFT	204	1.00	5.00	3.796	1.157	0.308
INVEST	204	1.00	5.00	3.719	1.004	0.264
EXRT	204	1.00	5.00	3.511	1.012	0.292
AOIN	204	1.00	5.00	3.536	1.017	0.288
SKFR	204	1.00	5.00	3.908	1.005	0.257
RPOI	204	1.00	5.00	3.954	0.973	0.248

**Research Questions Analysis**

The third section of the questionnaire consists of 7 questions designed to capture the perceptions of investors which influence their decision to invest in *Sukuk* market in Pakistan.

*Question 1 is about the incentives of investment in Sukuk market in Pakistan.*

Table 10 shows that 80.4% of respondents are willing to increase their investment in *Sukuk* in order to minimize their financial risk. It shows that they have full confidence regarding the profitability and security of *Sukuk* in Pakistan. Similarly, the results depict that 66.7% investors are not interested in high returns given by conventional bonds due to the *Sharia*'h restrictions. They are satisfied with the low returns on *Sukuk*. However, almost half of the respondents (54.9%) are still willing to invest in stock market, rather than investing in *Sukuk*. The reason is the availability of Islamic stocks in the stock market, which the investors prefer.

**Table 10***Incentives of Investment in Sukuk Market*

	Yes	No
I wish to increase my investment in Islamic Sukuk to minimize risk	164 (80.4%)	40 (19.6%)
I am not much interested in high returns	136 (66.7%)	68 (33.3%)
I prefer to invest in stocks through stock market rather investing in <i>Sukuk</i>	112 (54.9%)	92 (45.1%)

*Question 2 is about the satisfaction of investors about Sukuk in Pakistan.*

Table 11 depicts that the majority of the respondents (81.4%) is very or fairly satisfied with the information and guidelines regarding the issuance of *Sukuk*. They found them sufficient and carrying adequate information for the investors to invest. Similarly, the majority of the investors (82.4%) is very or fairly satisfied with the evaluation criteria of investment bonds including *Sukuk* categorized the criteria as good. Furthermore, 76.5% of respondents remain very or fairly satisfied with the transparency and certainty level of the *Sukuk* market, while 88.2% remain satisfied with the role of rating agencies. Out of 204 respondents, 82.4% are of the view that banks can impact adversely on the growth of bonds market including *Sukuk* in Pakistan. Whereas, 80.9% respondents agree that the size of *Sukuk* market is very small and should be increased.

**Table 11**  
*Investors' Satisfaction with Sukuk in Pakistan*

	Very satisfied	Fairly satisfied	Not satisfied
Information and guidelines about the issuance of <i>Sukuk</i>	42 (20.6%)	124 (60.8%)	38 (18.6%)
The evaluation criteria of corporate bonds including <i>Sukuk</i>	27 (13.2%)	141 (69.2%)	36 (17.6%)
Transparency and certainty level	35 (17.1%)	121 (59.4%)	48 (23.5%)
Role of rating agencies	41 (20.1%)	139 (68.1%)	24 (11.8%)
Banks can impact on the growth of bonds market	63 (30.9%)	105 (51.5%)	36 (17.6%)
The trading size of <i>Sukuk</i> is very small	68 (33.3%)	97 (47.6%)	39 (19.1%)

*Question 3 is about the recommended maturity period of Sukuk.*

Table 12 shows that 36.8% of respondents recommend a 1-2 years maturity period, so that they can reinvest in other financial transactions. Furthermore, 22.5% of respondents recommend a 2-5 years maturity period, whereas 29.9% recommend a 5-10 years maturity period in order to earn more profits. Only 10.8% of investors recommend that the maturity period

of *Sukuk* should be more than 10 years because they believe that their investments are more secure and they are earning a good profit.

**Table 12**

*Recommended Maturity Period of Sukuk*

	After 1-2 years	2-5 years	5-10 years	above 10 years
Frequency	75	46	61	22
Percentage	36.8	22.5	29.9	10.8

*Question 4 is about the types of risks related with Sukuk.*

Table 13 shows that 30.9% of investors believe that they earned less profit than their own estimate made before investing in *Sukuk*. Similarly, 28.4% of investors worry about the late payment of profit, while 22.1% speculate that they did not earn any profit against their *Sukuk* investment. Surprisingly, 18.6% of investors are concerned that they would lose their principal amount in the *Sukuk* market due to various reasons.

**Table 13**

*Types of Risks Related with Sukuk*

	Frequency	Percentage
Risk of lower profit than estimated	63	30.9
Risk of delays in profit payments	58	28.4
Risk of no profits	45	22.1
Risk of principal loss	38	18.6

*Question 5 is about the liquidity problem of Sukuk market in Pakistan.*

Table 14 shows that about 53% of respondents consider that the lack of *Sukuk* liquidity is due to the reason that most of the investors hold their *Sukuk* till maturity. Similarly, as per the opinion of about 58% of respondents, the reason of *Sukuk* lacking liquidity is the unavailability of timely information about *Sukuk* price and quantity. However, 54% of respondents declared the poorly developed credit rating system as the main reason of this problem. Almost 57% of respondents speculated that the lack of *Sukuk* liquidity is due to the non-availability of market markers of this product in Pakistan.

**Table 14**  
*Liquidity Problem of Sukuk Market in Pakistan*

	The most Important	Important	Fairly Important	Least Important
Most investors hold <i>Sukuk</i> till maturity	49 (24.0%)	59 (28.9%)	32(15.7%)	64 (31.4%)
Lack of real time information about the price and quantities	61 (29.9%)	58 (28.4%)	52 (25.5%)	33 (16.2%)
Credit rating system in not developed	36 (17.6%)	74 (36.3%)	54 (26.5%)	40 (19.6%)
No market makers for <i>Sukuk</i>	80 (39.2%)	36 (17.6%)	27 (13.3%)	61 (29.9%)

*Question 6 is about the risks which affect the willingness of investors to purchase Sukuk.*

Table 15 depicts that 48.5% of respondents believe that the risk of inflation affects their willingness to invest in *Sukuk* market in Pakistan. As per about 43% of respondents, reinvestment risk is the major reason which stops investors from investing in *Sukuk* market. Similarly, a vast majority (consisting of almost 69% of respondents) indicated that credit risk is the most important factor which influences investors not to invest in *Sukuk* market. Liquidity risk is considered by 48.5% of respondents as responsible for not investing in *Sukuk*.

**Table 15**  
*Risks Associated with the Purchase of Sukuk*

	The most Important	Important	Fairly Important	Least Important
Inflation Risk	52 (25.5%)	47 (23.0%)	57(27.9%)	48 (23.5%)
Reinvestment Risk	49 (24.0%)	38 (18.6%)	65 (31.9%)	52 (25.5%)
Credit Risk	63 (30.9%)	77 (37.7%)	30 (14.7%)	34 (16.7%)
Liquidity Risk	52 (25.5%)	47 (23.0%)	42 (20.6%)	63 (30.9%)

## Hypothesis Testing

The following regression models were used to test the hypothesis of this study.

$$\text{INSK} = f(\text{RLFT}, \text{AOIN}, \text{EXRT}, \text{RPOI}, \text{SKFR})$$

where	INSK	Investment in <i>Sukuk</i>
	RLFT	Religious Factor
	AOIN	Availability of Information
	EXRT	Expected Returns
	RPOI	Reputation of Issuers
	SKFR	<i>Sukuk</i> Features

Before testing the research model, multicollinearity issues were checked. This is imperative especially when the research model includes more than one variable. As per the 'rule of thumb' by Anderson et al. (1990), if any correlation coefficient exceeds 0.7, it is indicative of a potential problem. To overcome this issue, a multicollinearity test was conducted to assess the degree of correlation among all the variables. Furthermore, Pearson's correlation test was used to analyze the correlation among all independent variables (RLFT, AOIN, EXRT, RPOI, and SKFR). Table 16 shows no multicollinearity issues among these variables because the correlation coefficient in all cases is less than 0.7.

**Table 16**  
*Correlation Coefficient*

	RLFT	AOIN	EXRT	RPOI	SKFR
RLFT	1				
AOIN	0.292**	1			
EXRT	0.573**	0.505**	1		
RPOI	0.603**	0.523**	0.687**	1	
SKFR	0.470**	0.436**	0.684**	0.628**	1

*Note.* \*\*Correlation is significant at the 0.01 level (two-tailed)

Table 17 explains 49.4% variation in all independent variables in *Sukuk* market in Pakistan. The value of Adjusted R<sup>2</sup> indicates that it is significant at 1% level of significance. Further, the estimated coefficients are positive and significant at 1% level of significance in case of religious factor



(RLFT), expected returns (EXRT), and *Sukuk* features (SKFR). On the other hand, there is a positive but insignificant result for availability of information (AOIN). Similarly, reputation of issuers (RPOI) has a negative but significant effect at 5% significance level.

**Table 17**  
*Regression Results*

(Constant)		3.459	0.000
RLFT	0.303	4.331	0.000
AOIN	0.068	1.334	0.241
EXRT	0.261	2.774	0.008
RPOI	- 0.133	- 2.311	0.036
SKFR	0.326	4.961	0.000
$R^2$	0.673 <sup>a</sup>		
Adjusted $R^2$	0.494		

The regression results also indicate that *Sukuk* features (SKFR) is the important factor which influences and encourages the investors to invest in *Sukuk* market. This finding validates the findings of Samitas et al. (2021). It shows that the investors are keen to know about the features and characteristics of the *Sukuk* issued in Pakistan. Further, availability of information (AOIN) is insufficient about *Sukuk* market. It shows that investors are well aware that much information about the market is not available, which affects their investment decisions. This finding partially confirms  $H_3$  of this study and also confirms the findings of Aman et al. (2022). Religious factor (RLFT) strongly affects investors' decision to invest in *Sukuk* market in Pakistan. This finding validates the results by Ashraf (2023) and also confirms  $H_1$  of this study. As profit is the main objective of every investor, they are keen to watch the expected returns (EXRT) of *Sukuk* in Pakistan. Therefore, this factor also strongly affects their investment decision. The same result was derived by Bin-Nashwan et al. (2022) and it confirms the  $H_2$  of this study. On the other hand, reputation of issuers (RPOI) does not strongly affect investors' decision to invest in *Sukuk* market in Pakistan because investors do not give importance to this factor. This is because they believe that all issuers have good reputation. So,  $H_4$  of this study is not confirmed by this finding, although this finding endorses the outcome of the study by Guermazi (2020).

## Conclusion

The study concludes that out of the five selected factors, *Sukuk* features (SKFR) strongly impacts the investment decision of investors, since they are keen to know about the features and characteristics of *Sukuk*. On the other hand, availability of information (AOIN) has no strong impact, since very limited information about *Sukuk* is available in Pakistan. The majority of the investors is already well aware about *Sukuk* market. Religious factor (RLFT) has a strong and significant impact on investment decision as the majority of *Sukuk* investors are willing to invest only in the *Sharai'h*-compliant market. Similarly, expected returns (EXRT) also impact the investment decision as everyone wants to earn maximum returns. On the other hand, reputation of issuers (RPOI) has no significant impact on the investment decision since all investors are well aware about the good reputation of the issuers of *Sukuk* in Pakistan.

These findings prove that the investors of *Sukuk* market in Pakistan are very informed and careful about their investment decision. However, the *Sukuk* market still remains very small in Pakistan and it can be enhanced if the issuers issue new *Sukuk* regularly. Furthermore, the size of *Sukuk* market should also be enhanced so that more investors may join this market and the *Sharai'h*-compliant capital market may flourish in Pakistan. Moreover, future research can be conducted on the same topic by adding more factors influencing the *Sukuk* market in Pakistan. As the data of this study is limited to 2022, it can further be investigated by taking *Sukuk* data of 2023 or 2024, which will give current market scenario.

## Conflict of Interest

The authors of the manuscript have no financial or non-financial conflict of interest in the subject matter or materials discussed in this manuscript.

## Data Availability Statement

The data associated with this study will be provided by the corresponding author upon request.

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