

ŞUKŪK IN BANGLADESH

Prospects, Challenges and Regulatory Framework

Luthfe ARA BEGUM
Bangladesh Bank

Md. Nabir HOSSAIN, and
Bangladesh Bank
nabir.hossain@bb.org.bd

Md. Masudur RAHMAN*
Bangladesh Bank

Şukūk is a new method of financing for both the government and business sector in Bangladesh. By utilizing a descriptive approach, our investigation seeks to ascertain the prospects and outlines the challenges of *şukūk* market in Bangladesh. The primary goal of this article is to investigate domestic legal structure of Bangladesh's *şukūk* market. The conditions for issuing *şukūk* have already been established by the presence of a large Muslim population, a stable macroeconomic environment, sufficient foreign exchange reserves, and remittances. The findings suggest that there is significant potential for *şukūk* in the country, but it requires a concerted effort from the government, regulators, and market players to overcome the challenges and promote the growth of the market. Finally, this paper provides recommendations for policymakers and market participants to foster the development of the *şukūk* market in Bangladesh.

KEYWORDS: sukuk (*şukūk*); Structure, Prospects; Sovereign Sukuk; Challenges; Green Sukuk

INTRODUCTION

Bangladesh is an emerging economy and achieving GDP growth significantly. In 2021 GDP growth was 6.94% which is 3.49 percent higher than 2020. She hopes to increase the GDP by more than 8% and achieve the status of a developed country by 2041. In this timeframe, Bangladesh has to invest enormous money in the infrastructural sector. Islamic banks have been experiencing an extreme surplus liquidity situation. The asset of the Islamic Banks

is upward trending as well as the share of excess liquidity is also spiraling. The excess liquidity and asset are rising on an average 12 percent and 18 percent respectively during FY10 to FY21. Excess Liquidity in the Islamic banking system stood at BDT 346.40 billion in 2021 which was 15.98 percent of the total excess liquidity of the banking industry as a whole (Annual Report, 2021-22, BB) . *Ṣukūk* has emerged as a very significant instrument in the Islamic money markets during the last decades, not only in the Muslim world but also globally. Due to its unique characteristics and the success of its Islamic banking sector, Bangladesh has to find viable and affordable solutions for funding infrastructure projects. Bangladesh, the world's third-largest Muslim country, has issued *ṣukūk* on December 28, 2020. Islamic finance is gaining popularity, particularly in Bangladesh's Islamic banking industry. Furthermore, the capital market is constrained by a scarcity of Islamic capital market instruments such as *ṣukūk* and Islamic derivatives. Insufficient financial channeling and scarcity of derivatives tools in the capital market are impeding capital market growth (Nabi & Aminul, 2016) . Till 2004, there has never been a single *ṣukūk* issued in the Bangladesh market for the purpose of raising capital. Bangladesh Bank (BB) created a *muḍārabah* bond known as the “Bangladesh Government Islamic Investment Bond (BGIIB)” to satisfy the Statutory Liquidity Ratio (SLR) requirement in 2004. The economy of Bangladesh has to be strengthened financially so that businesses and the government can invest in improving the industrial, agricultural, and infrastructural sectors of the nation. Therefore, *ṣukūk*, a Shari‘ah-compliant investment certificate, might be a feasible financial option for infrastructure development in Bangladesh due to its distinctive characteristic and the growth of Islamic finance in Bangladesh. On December 28, 2020, Bangladesh released its first sovereign investment *ṣukūk* to generate BDT 80 billion for the construction of an infrastructure project known as a “safe water supply project across the nation”. Second, BB issued *ṣukūk* against certain properties that would be acquired in the future as part of the “need-based infrastructure development of government primary school project” (1st phase-50billion). Since its inception, *ṣukūk* has been effective in providing money to governments and enterprises all over the world, mostly in Malaysia and the [Persian] Gulf Cooperation Council ([P]GCC) nations, with total influential worldwide *ṣukūk* outstanding estimated to reach USD 775.7 billion in 2021(IIFM, 2022) . Several Muslim minority nations, like the United States, the United Kingdom, Hong Kong, Japan, Luxembourg, and Singapore, have also issued *ṣukūk* to support their infrastructure development. Similarly, the *ṣukūk* product may be a significant instrument for the Bangladesh economy in raising financial capital and resources to help accelerate economic growth and development. With regulatory support from BB and strong public demand, the Islamic banking sector may make use of the more liquid assets in *ṣukūk* in line with global trends. The aim of this study is to examine the potential and challenges of *ṣukūk* bonds as an alternative to conventional bonds.

DATA AND METHODOLOGY

The study employs descriptive methodology and incorporates qualitative and quantitative evaluations. To examine the current Bangladesh and global scenario of the *ṣukūk* market, several tables and charts are utilized to study the quantitative elements. Data has been gath-

ered from the Islamic Financial Service Board, International Islamic Finance Market, and Bangladesh Bank. The source of input of qualitative data is collected from different journal articles, working papers, website articles, and reports. This paper’s remaining structure is as follows: Section 2 displays the concept of *ṣukūk*. Section 3 is a review of the literature on *ṣukūk*. Section 4 provides a global *ṣukūk* market scenario, while Section 5 provides an overview of *ṣukūk* in Bangladesh. *Ṣukūk* prospects and challenges are discussed in Section 6. Finally, in Section 7, the conclusion and policy recommendations are presented.

2. THE CONCEPT OF *SUKŪK*

2.1 Definition

According to El Mosaid (2014), the word “*sukūk*” comes from “*ṣakk*,” which denotes a legal document, deed, or check. *Ṣukūk* can also refer to bonds, “shari’ah-compliant” financial certificates, or other securities. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defined *ṣukūk* as “Equal-denomination securities representing the ownership of individual preferences as a set of acceptable existing or potential assets”. In contrast, a bond is a pure debt instrument that is issued to finance any operations and whose price only depends on the creditworthiness of its issuer (Godlewski, 2010). Similarly, the Islamic Financial Service Board (IFSB), another regulatory body for Islamic financial institutions, defined *ṣukūk* as ‘certificates illustrating the investor’s proportionate interest in a whole share of a specified asset in which the owner embraces all rights and responsibilities such assets.’

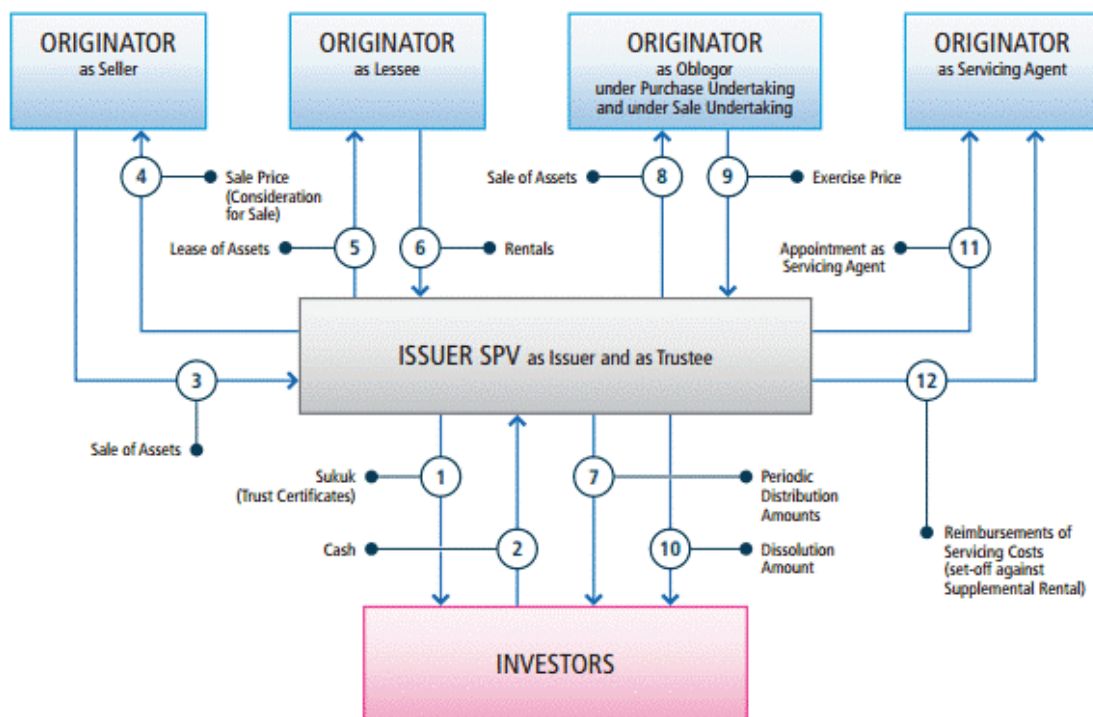


FIGURE 1. Steps in the Issuance of *Ijārah Ṣukūk*.

2.2 The Concept of *Al-Ijārah Sukūk* Structure in Bangladesh

The *ijārah sukūk*, which is said to be used the most frequently in project financing, serves as the foundation for the Bangladesh *sukūk* structure that is suggested here. *Şukūk* issuance is backed on asset. It must avert from interest and speculation. The process of *şukūk* issuance depends on three players such as the originator, Special Purpose Vehicles (SPV), and Investors. The issuance of *şukūk* of *ijārah* steps are as follows:

As a guarantee for the originator, SPV issues *sukūk* holders (investors). The investors subscribe *sukūk* with the payment to the SPV. With a payback plan that entails the originator wanting to sell and the SPV buying the asset from the originator, the originator deals with SPV (as a trustee). The originator is given the funds received from investors by the SPV. The SPV subsequently rents the underlying asset back to the original party in line with the rent agreement. During the periods indicated in the rental agreement, the Originator pays rental payments. The SPV, acting as the issuer, pays each periodic rental to the *şukūk* holders. In accordance with the buyback undertaking agreement, the originator will repurchase the underlying resource from SPV in the case of insolvency/default or at maturity. The originator contributes the proceeds from the SPV's buyback of the underlying asset. Holders of *şukūk* receive payment from SPV.

3. LITERATURE REVIEW

The study of Ullah et al. (2022) shows that *şukūk* is a viable Shari'ah-compliant alternative source of finance for government and enterprises. *Şukūk* funding is suitable for large projects from the social and ethical norms as it does not adhere to interest debt. This paper also shows that various countries have a direct and positive impact on the population and the economies.

The paper by Wilson (2008) gives a thorough summary of the innovation in Islamic *sukūk* securities' structure. The article emphasizes the value of innovation in the Islamic finance sector and how it has resulted in the creation of new financial products that adhere to the norms of Islamic law. The paper also clarifies the difficulties and problems surrounding *şukūk* securities, which call for future attention and standardization.

The study of Abdul Kareem, I.A., & Mahmud, M.S.B. (2019) examines the many countries that use *şukūk* as a tool of alternative funding source of infrastructural development. These countries get a lot of strategic advantages using *şukūk* as infrastructural development's tool that are not fulfilled by the conventional bond.

The paper by Malikov (2017) gives useful insights on the possible influence of sovereign *şukūk* on economic growth in emerging countries, notably in the infrastructure sector. It emphasizes the relevance of *şukūk* financing as a vehicle for boosting economic growth and infrastructural development. The paper also emphasizes the significance of effective *şukūk* structuring, transparency, and legal and regulatory frameworks in assuring *şukūk* funding success.

The article "Social sukuk: a new mechanism to fund social services" by Mohamed et al. (2017) discusses the concept of social *şukūk* as a new mechanism to fund social services. It

explains that social *ṣukūk* can help address social issues and fund social services by tapping into the growing interest in Islamic finance. The paper outlines the basic principles of social *ṣukūk*, the potential benefits of this type of sukuk, and the challenges in implementing it. The authors argue that social sukuk can play a crucial role in bridging the funding gap for social services in developing countries. It also suggests that social sukuk can attract a new class of investors, including philanthropists, social impact investors, and institutional investors. The paper also highlights the potential benefits of social *ṣukūk*, including the ability to fund social projects with less dependence on government funds, greater transparency and accountability, and the potential to attract long-term funding.

Said and Grassa (2013) analyze the factors that affect the growth of the *ṣukūk* market with an emphasis on how macroeconomic variables affect the creation of certain *ṣukūk* structures. The expansion of the *ṣukūk* market is positively correlated with GDP growth, inflation, and the size of the banking sector, according to the regression analysis carried out in the study utilizing data from 16 countries between 2002 and 2010. They also discover that variables like economic development and the legal framework of the issuing nation have an impact on the type of *ṣukūk* structure issued (for example, lease-based or ownership-based).

Rahman and Rahim's (2003) essay "Accounting regulatory issues on investments in Islamic bonds" explores the obstacles that regulators encounter when accounting for investments in Islamic bonds or *ṣukūk*. The authors contend that present accounting rules, which are based on Western accounting principles, are insufficient to address the specific characteristics of *ṣukūk*. The paper examines the fundamental distinctions between *ṣukūk* and conventional bonds and emphasizes the necessity for appropriate accounting rules that respect Islamic risk-sharing and profit-sharing concepts. The writers also examine the function of Shari'ah boards in ensuring Islamic principles are followed, as well as the need of openness in the issuing and trading of *ṣukūk*.

Fathurahman and Fitriati (2013) conducted a study that compared the returns on *ṣukūk* and conventional bonds. Between 2008 and 2011, the authors collected data on *ṣukūk* and conventional bonds issued in Indonesia and used the mean difference test to examine the returns on the two types of bonds. The analysis discovered that the return on *ṣukūk* was much greater than the return on conventional bonds, implying that *ṣukūk* investors earned larger returns than conventional bond investors. *ṣukūk* were also found to be less hazardous than conventional bonds, as indicated by their reduced standard deviation. Overall, the study concluded that *ṣukūk* might be a viable alternative investment for investors wanting better returns while taking on less risk.

4. GLOBAL SCENARIO OF THE *ṢUKŪK* MARKET

Global *ṣukūk* market is spiraling from the last few decades. Therefore, *ṣukūk* allure interest Muslim and non-Muslim countries. We can observe from Figure 1 that the total global *ṣukūk* outstanding attained USD 775.7 billion as compared to USD 290.6 billion in 2015 which shows the demand for *ṣukūk*. The growth of *ṣukūk* outstanding 166.93 percent in 2021 than 2015.

The [Persian] Gulf Cooperation Council, Southeast Asia, Middleast Asia, Africa and some other countries are contributing to the growth through the issuance of *ṣukūk*. The overall issuance of *ṣukūk* reached 188.1 billion in 2021 from 76.8 billion in 2015 which reached its growth in 144.92%. Motivated by Malaysia, large Muslim countries such as Indonesia, Pakistan, and Turkey become regular *ṣukūk* issuers. Likewise, non-Muslim countries such as Hong Kong, UK, Luxembourg, and South Africa are seeking to diversify investment portfolio. According to Malikov (2017), this fact demonstrated that *ṣukūk* issuance has a positive impact on economic growth.

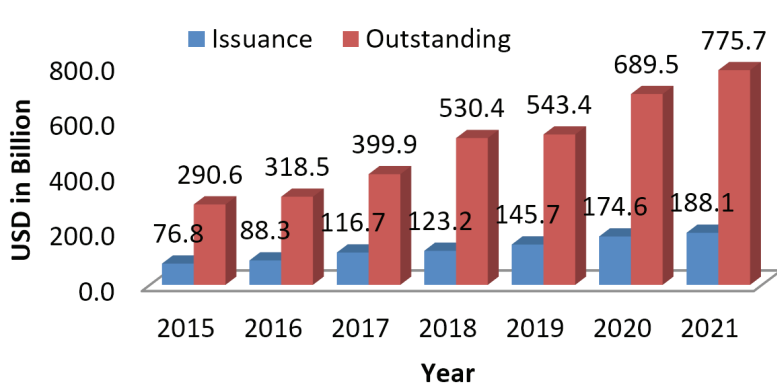


FIGURE 2: Global *ṣukūk* Issuance and Outstanding (USD in billion). Source: Islamic Financial Services Industry Stability Report (2016-2022)

Year	Issuance	Outstanding
2015	76.8	290.6
2016	88.3	318.5
2017	116.7	399.9
2018	123.2	530.4
2019	145.7	543.4
2020	174.6	689.5
2021	188.1	775.7

TABLE 1. Global *ṣukūk* Issuance and Outstanding (USD in billion)

5. COMPARATIVE POSITION ASSETS AND EXCESS LIQUIDITY OF ISLAMIC BANKS

Asset and liquidity are undoubtedly a crucial element of the financial statement of banks. Figure 2 depicted that the share of the excess liquidity of the Islamic banks is rising as the share of the total asset up warding and vice-versa. In FY 2010 the share of the excess liquidity of the Islamic banks was 12.28 percent, which was 15.98 percent in FY 2021. On an average the share of the excess liquidity of the Islamic banks are 12 percent during FY10 to FY21. At the same time, the share of the assets of the Islamic banks is rising. In FY 2010, the share of the assets of the Islamic banks was 15.11 percent, which was 22.07 percent in FY 2021. On average, the share of the assets of Islamic banks was 18 percent during FY10 to FY21.

6. OVERVIEW OF ISLAMIC SECURITIES IN BANGLADESH

Islamic securities of Bangladesh constitute of Sovereign Investment *ṣukūk*, Green *ṣukūk* and Bangladesh Government Islamic Investment Bond (BGIIB).

6.1.1 Sovereign Investment Sukuk

The Bangladesh Government Sovereign *Şukūk*, a Shari‘ah-compliant financing bond, was launched on December 28, 2020. The first are rising bond for the “Safe Water Supply to the Whole Country” project was issued in FY 2021 in two tranches (December 29, 2020 and June 6, 2021) for BDT 80 billion over a five-year period. The underlying contract of such *şukūk* is based on *ijārah* in nature. The government would contribute BDT 8.51 billion of the project’s anticipated BDT 88.51 billion total costs. The *şukūk*’s originator and special purpose vehicle (SPV), respectively, are the Ministry of Finance and Bangladesh Bank. By holding an auction on December 28, 2020, the government was able to raise BDT 40.00 billion for the projects in the first phase.

Bangladesh Government Investment Sukuk (BGIS)				Billion in BDT
Auction Date	28-Dec-2020	9-Jun-2021	29-Dec-2021	19-Apr-2022
No of bid received	39	67	34	19
Face value of Bid received	151.53	327.26	233.04	123.06
No of bid accepted	39	67	34	19
Face value of Bid accepted	40	40	50	50
Weighted average profit rate (%)	4.69	4.69	4.65	4.65
Outstanding on issue date	40	80	130	180

Table 3: Bangladesh Government Investment *Şukūk* (BGIS).

Source: Annual Report, Bangladesh Bank, FY 2021–22.

At the auction, investors placed bids totaling BDT 151.53 billion. The issue has been over-subscribed by roughly four times. The second auction, which was likewise eight times over-subscribed, was held on June 9, 2021, to generate the remaining funds totaling BDT 40.00 billion. The second *şukūk* bond, worth Tk. 50 billion, was issued on December 30, 2021, and the third, worth Tk. 50 billion, was issued on April 20, 2022, both against important rural infrastructure development projects on priority bases. Both bonds have a five-year tenor. The total return on the *şukūk* holders’ investment would be 4.69 percent. Investors receive their profits once every six months. There is no maximum investment amount in this security; however, there is a minimum investment requirement of BDT 10,000. Investors may include banks, business organizations, and private people. In five years, the *şukūk* will be complete. The massive oversubscription suggests that Bangladesh’s *şukūk* market has a bright future.

6.1.2 Green *Şukūk*: *Şukūk al-Istişnā‘*

On August 31, 2021, Bangladesh released the first Beximco Green-*şukūk* al-Istişnā‘ securities that were convertible and redeemable and backed by assets. Bangladesh Securities and Exchange Commission (BSEC) approved the issuing of Tk 30 billion of Beximco Green *şukūk* Bonds by Bangladesh Export Import Company (Beximco). A total of 30 billion BDT was issued—15 billion through private placements, 7.5 billion through departing Beximco Limited stockholders, and 7.5 billion through an initial public offering (IPO). The *şukūk*’s base

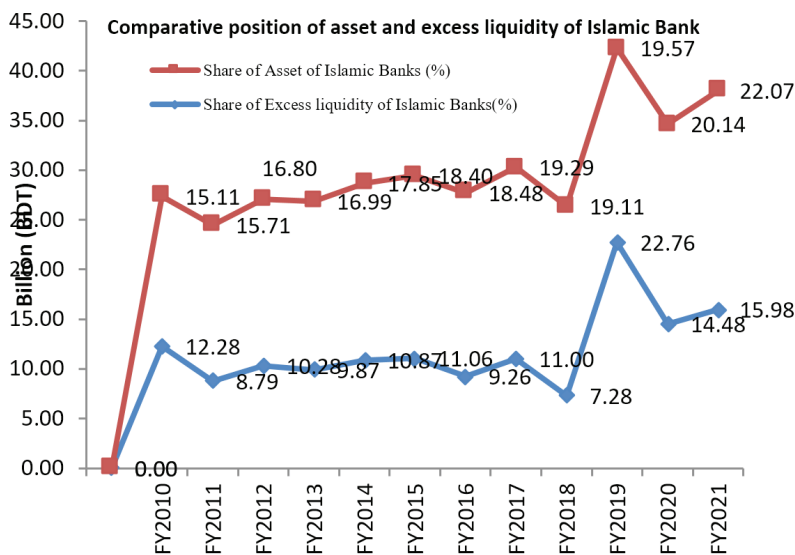


Figure 3: Trends Ratio of Assets and Excess Liquidity of Islamic Banks in the Banking System. Source: Annual Report of Bangladesh Bank

Year	Share of Islamic Banks (%)	
	Excess liquidity	Asset
FY2010	12.28	15.11
FY2011	8.79	15.71
FY2012	10.28	16.80
FY2013	9.87	16.99
FY2014	10.87	17.85
FY2015	11.06	18.40
FY2016	9.26	18.48
FY2017	11.00	19.29
FY2018	7.28	19.11
FY2019	22.76	19.57
FY2020	14.48	20.14
FY2021	15.98	22.07

TABLE 2. Share of Islami Banks.

rate was set at 9% plus the profit margin rate; thus, investors will receive a 9% guaranteed yearly return. Over the course of the five-year term, investors may progressively convert their *shukūk* into Beximco Share, but they may only convert a maximum of 20% of the total in one year. The *shukūk* proceeds will be used by Beximco to build eco-friendly infrastructure. Beximco Group is financing two solar PV power plants: the 200 MW Teesta Solar Limited in Gaibandha, and 30 MW Korotoa Solar Limited in Panchagarh district. It will expand its textile unit and implement two solar power projects under its power division.

6.2 Bangladesh Government Islamic Investment Bond (BGIIB)

Islamic banks for a long time were unable to invest excess liquidity in already-existing money market products because of their interest-bearing character. So, in order to absorb excess liquidity from the Islamic banking system, the Bangladesh Government Islamic Investment Bond (BGIIB) was established in 2004. However, the BGIIB has a constraint in that the government is unable to borrow money from its fund. Due to this, only Islamic banks are permitted to borrow from this fund in times of liquidity crunch, which is raised by selling BGIIB shares in accordance with the *muḍārabah* principle. This fund is made available by Islamic banks at a provisional rate of profit based on their *muḍārabah* short-term deposit accounts.

Figure 4 depicts the sale, financing, and net balance trends for the government’s Islamic investments in Bangladesh from FY2010 to FY2021. The graph shows significant fluctuations in the sales values over time. In particular, there were significant increases during FY13 to FY15, and then decreases during FY 16 to FY17. After FY17 it was successively rising till

FY21. On the other hand, looking at the data of financing shows an increase during FY14 to FY18 and a notable decrease during FY19 to FY21. The Net Balance represents the difference between the Sale and Financing, and it is positive in most years. The net balance of BGIIB significantly increase after FY18.

7. PROSPECTS AND CHALLENGES OF *SUKŪK* IN BANGLADESH

7.1 Prospects of *Sukūk*

Infrastructural Development

The Bangladesh government has undertaken several large-scale infrastructure projects that need significant financial resources. However, the government is now working on a few projects. It is challenging for the government to finance the massive project on its own. *Şukūk* that complies with Shari‘ah will be preferred since they may contribute significantly to funding national infrastructure projects in Bangladesh. The Bangladesh government has made the decision to issue *şukūk* in order to finance a number of development initiatives, including the construction of rural infrastructure, water treatment facilities, and schools. On the other side, the Bangladesh government may take action to raise money to build roads, railroads, ports, sanitization systems, and ICT. *Şukūk* will be a new, secure investment vehicle in this situation on the local financial market. A nation’s economic growth and development are accelerated by efficient infrastructure. *Şukūk* might be a practical tool for funding Bangladesh infrastructure projects.

Stock Market Stability

The stock market of Bangladesh is plagued with various problems such as high volatility, liquidity crunch and low elasticity. In this context, BSEC issued Beximco Green *Şukūk al-Is-tiṣnā‘* as an asset-backed Shari‘ah-compliant instrument for Teesta Solar Ltd and Korotoa Solar Ltd solar projects. To boost the capital market, the Investment Corporation of Bangladesh (ICB) has decided to issue a bond called “ICB 1st Mudaraba Sukuk” to raise Tk1,000 crore. Implementation of monetary policy instruments like *şukūk* may pave the way for a new secondary market channel, allowing our capital market to be strengthened, long-term money to be mobilized for infrastructure funding, and foreign participation.

Excess Liquidity of Islamic Banking Sector in *Şukūk*

The surplus liquidity held by Islamic banks was 15.98 percent of the total banking sector liquidity position in 2021. So, Islamic banks can use their excess liquidity in the money market and capital market product. They are unable to invest in government treasury bills and bonds, which pay interest, as a result of the restriction on *ribā* (interest). Therefore, to facilitate efficient liquidity management, Islamic banks recently invested in the *şukūk* market, which will eventually improve advance the Islamic capital market.

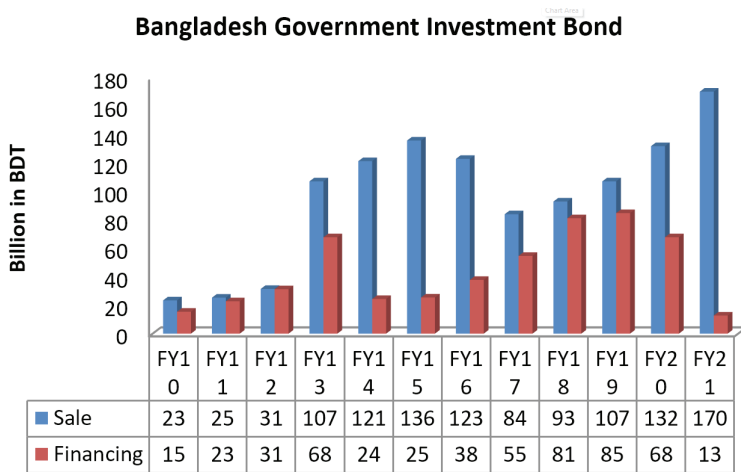


FIGURE 4. The Trend Analysis of Sale, Financing, and Net Balance of BGIIB over the Periods of FY10-FY21.

Source: Annual Report, Bangladesh Bank.

Year	Sale	Financing	Net Balance
FY10	23	15	8
FY11	25	23	2
FY12	31	31	0
FY13	107	68	39
FY14	121	24	97
FY15	136	25	110
FY16	123	38	86
FY17	84	55	29
FY18	93	81	12
FY19	107	85	22
FY20	132	68	64
FY21	170	13	157

TABLE 4. Bangladesh Government Islamic Investment Bond.

Public Welfare Project

Government, Private Universities, and NGOs can issue social *ṣukūk* for the implementation of public welfare project. Just a few of the significant issues that are needed for financing solutions are poverty, illiteracy, drug addictions, teen pregnancies, crime and thievery, flood mitigation, and international humanitarian and relief efforts. Therefore, issuance of social *ṣukūk* can be a viable project for the Government and NGOs to mitigate the social problems.

Environmental Protection

Green *ṣukūk* can make a significant contribution towards investing in renewable energy projects like solar, wind, hydro, etc. Recently, Beximco issued Green *ṣukūk* TK. 3,000 crore for textile unit and implementation of two solar power projects. Green *ṣukūk* would be a viable eco-friendly investment for the next generation and development.

Foreign Loan and Budget Deficit Management

By using *ṣukūk*, the government would be less dependent on conventional banks for debt funding. Additionally, traditional banks won't be under as much pressure to aid the government. Islamic banks would have the chance to invest their extra cash to help Bangladesh Bank carry out its monetary strategy. The government was only able to borrow money from Islamic banks to make up for the budget gap due to the lack of Shari'ah-compliant items. The availability of government borrowing choices from Islamic banks has expanded dramatically as a result of *ṣukūk*, which eventually less reliance on conventional banks. Along with lowering interest payments on the loan through traditional banking channels, this will also promote private investment.

7.2 Challenges of *Ṣukūk*

Incompetent Bond Issue

The *ṣukūk* market lacks consistent, high-quality sovereign *ṣukūk*. A significant obstacle to the expansion of all capital markets is the lack of adequate and high-quality sovereign *ṣukūk* issuance. *Ṣukūk* is losing its potential to produce a market-beating yield curve as a result of this role-playing failure. As a result, it is difficult for other issuers and investors to provide a trustworthy evaluation of the Islamic bond market.

Small and Short-term Fund Raising

Unlike securitization, *ṣukūk* is typically connected to a single actual asset rather than a collection of assets. This method poses difficulties for businesses seeking financing on a smaller scale, but it could work for sovereign or multinational borrowers with large assets to securitize. Additionally, *ṣukūk* issued in connection with contracts known as *murābahah* or *salam* are not permitted to be traded on secondary markets. No Islamic commercial bank has been able to issue *ṣukūk* yet, mostly because they only own short-term *salam* or *murābahah*-based assets or lack large-scale assets, despite the fact that the majority of Islamic banks own certain assets that can be securitized.

High Cost of *Ṣukūk* Process

There are some fees involved with the intermediation of the *ṣukūk* process, most notably when conventional banks join with Islamic banks by taking a larger portion of the costs. The cost of the *ṣukūk* process appears to be made up of the cost of the financing itself, the time needed for administration and organizing, and the cost of the requisite paperwork. The expense of providing administrative and human resources for the issuance of *ṣukūk* is another big financial burden. The expense of *ṣukūk* process mechanism and monitoring is also significant. In the lack of specific legislative laws supervising the sophisticated structuring method of *ṣukūk*, the elevated expense of issuing *ṣukūk* bonds on the market makes it impossible for Islamic banks to enter the *ṣukūk* market as an effective issuer.

High Monitoring Cost

High monitoring cost can be one of the challenges in the *ṣukūk* market. Monitoring the compliance of *ṣukūk* with Islamic finance principles and ensuring the proper use of funds can be costly and time-consuming. This can increase the overall cost of issuing and holding *ṣukūk*, making it less attractive for issuers and investors compared to conventional bonds. Additionally, the lack of standardization in the *ṣukūk* market can also contribute to higher monitoring costs, as each *ṣukūk* issuer may have its own unique structure and terms that require careful review and analysis.

Problem of Structural Complexities

Unlike conventional bonds, *ṣukūk* have a more complex structure, as they are based on Islamic finance principles, such as profit and loss sharing and are subject to specific rules and regulations. This complexity can make it difficult for issuers and investors to fully understand and analyze the terms and risks of *ṣukūk*, leading to a lack of confidence in the instrument. Each *ṣukūk* issue may have its own unique terms and conditions. This can increase the time and effort required to analyze and compare different *ṣukūk*, making it difficult for issuers and investors to make informed decisions.

Lack of Qualified Human Resources

There is a need for specialized individuals with strong understanding of Islamic finance principles, structure, and operation of *ṣukūk*. However, there is a limited pool of qualified individuals and skills to support the growth and development of the *ṣukūk* market. This shortage of qualified human resources can limit the ability of issuers and investors to fully understand and participate in the *ṣukūk* market, as well as reduce the overall efficiency and competitiveness of the market. Some efforts have been made to develop and promote education and training programs in Islamic finance and *ṣukūk*, in order to increase the pool of qualified human resources.

Programs for Raising Awareness

There are also information gaps among policymakers, business owners, and ordinary investors about the cost-benefit of *ṣukūk* as well as the principles and practice of Islamic finance in Bangladesh. Such programs can include training sessions for investors and issuers as well as the public to promote the *ṣukūk* market to a wider audience. Therefore, these programs build confidence and support for the market, encouraging more issuers and investors to participate.

8. CONCLUSION AND POLICY RECOMMENDATION

Bangladesh *ṣukūk* has a high potential for the adaptation for its investors and faces some challenges in the *ṣukūk* market. The prospects of *ṣukūk* market in Bangladesh are infra-structural development, stock market stability, excess liquidity management, public welfare, environmental protection and deficit management of the government. The *ṣukūk* market also faces some challenges such as high cost of *ṣukūk* process, high monitoring cost, complex structure, lack of qualified human resources, incompetent of conventional bond market and lack of raising awareness. Bangladesh government should take the necessary steps to implement competitive rules and regulation for viable *ṣukūk*:

- To increase the transparency and efficiency of the *ṣukūk* market, it is recommended that a standardized *ṣukūk* rating system be developed, with clear criteria and methodology for evaluating the creditworthiness of *ṣukūk* issuers and their respective

investors. According to Malaysian regulations, every *ṣukūk* must get a credit rating from a rating agency, as better ratings attract more investors. Therefore, Bangladesh guideline should mandate credit rating while issuing *ṣukūk*.

- The development of human resources in Islamic banking is one of the biggest obstacles facing the *ṣukūk* industry. In order to predict the future of *ṣukūk* market, we need education and training programs to be developed to provide individuals with a strong understanding of Islamic finance principles and the structure and operation of *ṣukūk*. Financial institutions and universities should work together to promote the development of education and training programs in Islamic finance and *ṣukūk*, including degree programs, certification courses, and other training opportunities.
- Bangladesh is authorized to create guidelines for licensed Shari‘ah advisers who must be able to conduct religious audits while taking Islamic law tenets and principles into consideration. These individuals need to be qualified and experienced in the *ṣukūk* sector of Islamic banking and finance.
- The guideline of *ṣukūk* in Bangladesh only introduce Shari‘ah advisory committee but it does not introduce Shari‘ah supervisory committee. The advisory committee gives advice to the issuance of *ṣukūk* and not supervise the activities of *ṣukūk* issuers, originators, or the SPVs. So, it is essential to form Shari‘ah supervisory committee to ensure activities of *ṣukūk* issuance.
- The government of Bangladesh may accommodate *ṣukūk* as a risk sharing instruments in the monetary policy because of the introduction of Islamic Capital Market. Bangladesh may also create regulation for trading *ṣukūk* in the capital market.
- The guidelines for *ṣukūk* in Bangladesh do not provide any mechanisms for resolving disputes. For Islamic banking and finance to function more successfully, alternative conflict resolution methods like arbitration and mediation must be introduced.
- In order to successfully implement Shari‘ah principles, Bangladesh Bank may set up a law review committee to look into the practices of other countries and their banking and finance legislation.

BIBLIOGRAPHY

- AAOIFI. *Accounting, Auditing and Governance Standards for Islamic Financial Institutions*, 4th edition. Bahrain: Accounting and Auditing Organization for Islamic Financial Institutions, 2003.
- AbdulKareem, I. A., & Mahmud, M. S. B. Infrastructure project financing through sukuk as an alternative to conventional bond financing. *Journal of management and operation research* 1, no. 19 (2019): 1-11.
- Said, A., & Grassa, R. “The determinants of sukuk market development: does macroeconomic factors influence the construction of certain structure of sukuk?” *Journal of Applied Finance & Banking* 3, no. 5 (2013): 251-267.
- Ullah, M., Miah, M. N., Arefin, M. S., & Alamin, M. “Prospects of Sukuk Bonds in Bangladesh.” *International Journal of Asian Social Science* 12, no. 8 (2022): 264-272.
- Mohamed, S., Othman, J., Lehner, O., & Muda, R. “Social sukuk: a new mechanism to fund social services.” *Journal of Emerging Economies and Islamic Research* 5, no. 1 (2017): 69-81.
- Wilson, R. “Innovation in the structuring of Islamic sukuk securities.” *Humanomics* 24, no. 3 (2008): 170-181.

- Rahman, A. R. A., & Rahim, A. "Accounting regulatory issues on investments in Islamic bonds." *International Journal of Islamic Financial Services* 4, no. 4 (2003): 1-11.
- Fathurahman, H., & Fitriati, R. "Comparative analysis of return on sukuk and conventional bonds." *American Journal of Economics* 3, no. 3 (2013): 159-163.
- Malikov, A. "How do sovereign sukuk impact on the economic growth of developing countries? An analysis of the infrastructure sector." In *Critical issues and challenges in Islamic economics and finance development*, pp. 1-37. Cham: Palgrave Macmillan, 2017.
- IIFM. *Sukuk Report: A Comprehensive Study of the Global Sukuks Market*, 4th Edition. 2022.
- Mosaid, F., & Boutti, R. "Sukuk and Bond Performance in Malaysia." *International Journal of Economics and Finance* 6, no. 2 (2014): 226-234.
- Nabi, G., & Islam, A. "Examining Potentials of Sukuk in Financing Infrastructure Projects in Bangladesh." *Journal of Islamic Economics Banking and Finance* 12, no. 2 (May 2016): 144-168.

APPENDICES

Appendix 1. Comparative Position Assets and Excess Liquidity of Islamic Bank

Comparative position of Islamic Banks							Billion in BDT	
Year	Islamic Banks			All Banks			Share of Excess liquidity Islamic Banks (%)	Share of Asset of Islamic Banks (%)
	Assets	Liability	Excess Liquidity	Assets	Liability	Excess Liquidity		
2010	733.6	678.9	26.0	4854.9	4436.2	211.8	12.28	15.11
2011	923.2	857.1	31.5	5874.9	5347.8	358.5	8.79	15.71
2012	1181.5	1102.2	51.9	7030.7	6454.7	505.0	10.28	16.80
2013	1359.0	1256.2	94.3	8000.2	7321.9	955.8	9.87	16.99
2014	1632.0	1517.0	124.2	9143.0	8401.7	1142.2	10.87	17.85
2015	1897.9	1769.1	136.5	10314.7	9470.0	1234.1	11.06	18.40
2016	2148.0	2013.6	116.6	11621.7	10766.6	1259.5	9.26	18.48
2017	2519.4	2380.9	102.7	13059.3	12148.9	933.8	11.00	19.29
2018	2784.4	2639.6	55.6	14572.9	13641.9	763.7	7.28	19.11
2019	3188.8	3029.4	240.5	16291.5	15268.6	1056.8	22.76	19.57
2020	3707.6	3539.6	296.4	18406.0	17312.3	2046.3	14.48	20.14
2021	4508.0	4303.3	346.4	20429.3	19279.1	2167.8	15.98	22.07

Source: Annual Report, Bangladesh Bank, FY 2010–2022.

Appendix 2. Name of the Islamic Banks, Branches, and Windows

Bank Name/ Branches	Number of Islamic Banks, Branches and Windows		
	Full-fledged Islamic Banks	Islamic Banking Branches in Conventional Banks	Islamic Banking Windows in Conventional Banks
1	Islami Bank Bangladesh Limited	The City Bank Limited	Sonali Bank Limited
2	ICB Islamic Bank Limited	AB Bank Limited	Janata Bank Limited
3	Social Islami Bank Limited	Dhaka Bank Limited	Agrani Bank Limited
4	Al-Arafah Islami Bank Limited	Premier Bank Limited	Pubali Bank Limited
5	EXIM Bank Limited	Prime Bank Limited	Trust Bank Limited
6	Shahjalal Islami Bank Limited	Southeast Bank Limited	Bank Asia Limited
7	First Security Islami Bank Limited	Jamuna Bank Limited	Standard Chartered Bank
8	Union Bank Limited	Bank Alfalah Limited) Mercantile Bank Limited
9	Standard Bank Limited	NRB Bank Limited	Midland Bank Limited
10	Global Islami Bank Limited	One Bank Limited	NRBC Bank Limited
11		United Commercial Bank	One Bank Limited
12			Meghna Bank Limited
13			Mutual Trust Bank Limited
14			Premier Bank Limited

SOURCE: Quarterly Report on Islamic Banking in Bangladesh, Research Department, Bangladesh Bank, Oct–Dec 2022.

NOTES

* Authors are Director (Research), Assistant Director (Research), and Deputy Director (Research) of Bangladesh Bank. Views expressed in this paper are their own and do not necessarily reflect those of Bangladesh Bank.