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Review Article

The Inevitability and Relevancy of Sukuk in Developing Country: A Case of Bangladesh

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Abstract

The application of various Sukuk enhances infrastructural, financial, and economic development. Therefore, the usage and growth of Sukuk (A Shariah Compliant Islamic Bond) as a capital market instrument has shown impressive progress over the past few decades across Muslim as well as non-Muslim countries. Moreover, Sukuk based on profit sharing contract is much more beneficial than the interest-based bond, which dampens inequality, suppression, and speculation in the economy. However, the adoption of Sukuk depends much more on the country's investor philosophy, infrastructural, and economic situation. Possibly, the capital market of Bangladesh with lack of Shariah-compliant instruments as well as majority investors from Islamic background is in severe need of Sukuk to overcome and satisfy the investment comfortability. Unfortunately, the system is not ready to accept such inception in terms of legal, regulatory, and human capital perspective. Therefore, this paper critically evaluates those challenges, prospects of Sukuk in Bangladesh and propose a Sukuk structure to be applied in Bangladesh considering its jurisdictions, investors, and economic circumstances.

Keywords: Sukuk, Development, Challenges, Capital market, Bangladesh.

INTRODUCTION

The efficient capital market is essential, and it helps the economic growth in the long run. The efficient capital market behaves like a link for sourcing fund for the economic development of a country through the buying and selling of shares and bonds. Thus, the fundamental role of the financial system is to generate an efficient allocation of financial resources (Iqbal & Mirakhor., 2011) through money market and capital market. However, the financial system becomes more useful if the capital market exists with various products. Whereas, Sukuk (Conventional bond) plays a crucial role in the capital market especially in financing the development of infrastructure, while other contributions of financing from banks and financial institutions and other sources cannot be undermined. Sukuk is one of the new financial instruments. They are structured based on Shariah principles. Sukuk has recently proved its significance to economic development by enhancing capital market efficiency (Hussain *et al.*, 2018). The existence of Sukuk in the capital market enhances more market liquidity, which in turn helps the development of the economy. Moreover, Sukuk assists in making a sustainable and responsible development as per its contractual mechanism, overall, Sukuk instruments provide an enormous opportunity of innovations and vast potentials for the growth of Islamic finance (Al-Amini, 2008). However, the application of Sukuk increases the funding and investment opportunities to the government, corporation, individual, and institutional investors. Hence, the Sukuk instrument has become a convenient capital market instrument to support the stability and efficiency of the financial market, and it plays a positive relationship with the development of the economy. (Samargandi & Ghosh, 2014).

Global Sukuk market has grown rapidly over the last few decades, and its growth is expected to rise more than ever. Thus, Sukuk continues to attract huge interest from new issuers with a wide pool of investors across the globe, not only in the Muslim country but also in the non-Muslim country. The total outstanding global Sukuk issuances currently in the market estimated at USD 434.8 billion as compared to USD 367 billion in 2016 (IIFM, 2018).[1] According to Moody's expectation, global Sukuk issuance is expected to reach US$90 billion to US$100 billion in 2018. Sukuk issuance by Saudi Arabia, the Gulf Cooperation Council, Africa, and some Asian countries, particularly Malaysia, contributed to the growth in size in 2017. These figures indicate that the growing interest in Sukuk. Growing in Sukuk issuances were initially motivated by Malaysia, followed by the global issuances of GCC countries. In recent cases, Large Muslim population countries, such as Indonesia, Pakistan, Turkey, become regular issuers. Besides, non-Muslim majority countries seeking to diversify their investment portfolios such as Hong Kong, UK, Luxembourg, and South Africa, which demonstrates the significance of the Sukuk market. Sukuk has been recognized as a viable financing method for capital market development in developing countries. As noted by Malikov (2017) and Echchabi & others, (2016), Sukuk issuance has a positive impact on economic development. As a result, it has been effective in providing funding to governments and enterprises all over the world in order to boost economic growth.

However, in the case of Bangladesh, the availability of Sukuk is missing, although it is the third-largest Muslim country in the world with a population of 158 million (Bangladesh Statistic Report (BSR), 2017). The popularity of Islamic finance is growing fast, particularly Islamic banking sector in Bangladesh. Unfortunately, the capital market is suffering from the lack of Islamic capital market instruments such as Sukuk and Islamic derivatives. Sukuk is a convenient instrument to channel the fund and manage the liquidity of the overall capital market since capital markets are not effective in directing savings to funding investment and growth (Shah, 2016) whereas bond market (government and corporate) plays a small role in the economy compared to the neighboring countries amounting only 5.5% of country’s GDP and therefore experiences the poor economic growth (Mujeri & Md 2009). This is perhaps, Muslim preferably avoid investing in bond since religiosity issue. Moreover, insufficient financial channeling and absence of appropriate instruments in the capital market, which is hampering the development of the capital market (Nabi & Aminul, 2016). In terms of Sukuk practice, there was not a single Sukuk issued in the market of Bangladesh for the mobilization of financial resources until 2004, and the market entirely depends on thedeposited funds.

However, Bangladesh Bank issued mudarbah bond named as “Bangladesh Government Islamic Investment Bond (BGIIB)” to facilitate the Islamic Banks and financial institutions to meet the requirement of Statutory Liquidity Ratio (SLR) in 2004 for the first time. Bangladesh’s economy requires increasing the financial resources and funds that help the corporate and government to improve the investments sector such as industrial and agriculture as well as the infrastructure of the country. Hence, Because of its unique feature and the expansion of Islamic finance in Bangladesh, sukuk, a Shariah-compliant investment certificate, could be a viable financial solution for financial sector development in Bangladesh. Sukuk has been successful in supplying funding to governments and corporations around the world, mostly in Malaysia and the Gulf Cooperation Council (GCC) countries, since its creation, with total influential international Sukuk issuances calculated at USD 434.8 billion in 2017. (IIFM, 2018). Several Muslim minority countries such as USA, UK, Hong Kong, Japan, Luxembourg, Singapore, etc. also use Sukuk instruments to raise the fund in the economy. In the same way, Sukuk product can be an important tool for Bangladesh’s economy to raise the financial funds and resources that assist in accelerating economicgrowth and development.

Sukuk as in important financing instrument is increasingly catching up with the conventional bonds in terms of volume of transactions and number of Sukuk issuances because Sukuk is a risk-sharing instrument with Shariah compliance as well as asset- backed mechanism. Sukuk is becoming a fascinating investment tool for corporate and large companies such as Islamic insurance (takaful) and Islamic banking and other Islamic financial institutions that do not allow interest-based investment according to the Shariah law. In addition to that, there is an increasing number of Muslims who want their asset into the investments complying with shariah law. Unfortunately, the lack of appropriate short- and long-term financing and investment tools is a key impediment to the establishment of the Islamic capital market in Bangladesh. Furthermore, there is a lack of clarity in the legal and institutional environment. Finally, there is a scarcity of skilled human capital in the market. As a result, Islamic financing instruments such as Sukuk may be the most effective way for Bangladesh to improve the efficiency and efficacy of its capital market while also addressing the liquidity constraint.

This paper presents a case for Sukuk as an investment tool to tap development funds for growth. The study makes a significant contribution to a largely unexplored field of research on the impact of Sukuk on Bangladesh's population development.

Furthermore, the findings add to our knowledge of the mechanisms by which Sukuk markets support economic growth. The research also examines the relationship between the development of the Sukuk market and economic growth; the remainder of the article is arranged as follows: Section 2 presents the development of Sukuk in the world. Section 3 provides the landscape of Sukuk structure in the selected countries. Section 4 provides the basic differences between the Sukuk and conventional bond. Section 5 analyzes the Malaysian Sukuk experience. Section 6 attempts to identify the prospects and challenges of Sukuk in Bangladesh.

2. THE CONCEPT OF SUKUK

The word sukuk derived from the word *'sakk'* which means certificate; sukuk then means order of payments (El Mosaid, 2014). It was used as a type of cheque in the pre-Islamic era to reflect financial obligations arising from commerce or other economic activity. Later on, these certificates became an Islamic capital market tool and one of the greatest financial products that meet the interests of both investors and companies (Rufai 2013).

Though some international regulatory organizations, like as AAOIFI, have sought to clarify sukuk in terms of its specific definition. Sukuk is officially defined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) *"certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, assets of particular projects or special investment activity"* (AAOIFI, 2008). However, bond is defined as a pure debt security issued to finance any activities and whose price solely depends on the creditworthiness of its issuer (Godlewski, 2010).

Similarly, Islamic Financial Service Board (IFSB), another regulatory body for Islamic financial institutions defined sukuk as a *"Sukuk (plural of sakk), frequently referred to as 'Islamic bonds', are certificates with each sakk representing a proportional undivided ownership right in tangible assets, or a pool of predominantly tangible assets, or a business venture. These assets may be in a specific project or investment activity in accordance with Shariah rules and principles"* (IFSB, 2009).

The Securities Commission Malaysia (SCM) defines a sukuk as a set of accounts or certificate that indicates the value of an asset and evidences undivided pro rata ownership of that asset. Islamic securities are based on Shariah principles and concepts that have been approved by the SC's shariah advisory committee (Rahim & Ahmed, 2015).

As per the above definitions, however, the concept of sukuk is based on *Shariah* complaint equivalent of ownership in underlying asset or investment project. It is a common word among the Muslim society used for certificates or bonds in business and other commercial activities and referred to as instruments of the Islamic capital market. Interestingly, sukuk are very similar to conventional bonds; though, it has a specific feature that is different from conventional bonds in some cases. Sukuk, for example, refers to ownership interests in assets that generate profits or revenue, such as financial property, commercial or industrial companies, or investment vehicles that may comprise many projects. This is the one feature that sets Sukuk apart from other types of bonds (Usmani, 2007). This is the most commonly applied structure in the market(ISRA, 2012).

2.1 THE LEGALITY OF SUKUK

When a securitized financial product combines real asset ownership and financial investments receivable, contemporary scholars allow the bai' al-dayn (Najeeb, 2014). Sukuk is the name for these Islamic financial instruments, and there are numerous forms of sukuk traded on the Islamic capital market (Ayub, 2013). Therefore, the majority of the researchers such as (Haneef & Smolo, 2014), (Wilson, 2004), (Dusuki, 2009) propose the evidence from the Holy Quran in surah al-baqarah which is Ayat al-dayn or verse on debt for the sukuk instrument (verse 282, Surah al-Baqarah). Allah SWT says in this verse: *"O you who believe! When you deal with each other, in transactions involving future obligations in a* fixed period of time, reduce them to writing".

Hence, based on the above evidence, transaction between the contracting parties must be through written documents. Therefore, the permissibility of the use of certificate or sukuk instrument in the transaction is clear and wise based on Shariah.

3. THE INEVITABILITY OF SUKUK:

The benefit of sukuk are immense for the country therefore, sukuk has been a new capital market instrument across the countries. Hence, a number of studies illustrate the importance of sukuk. The study finds that the performance and profit from sukuk are stable over the years and across the globe which helps economic and social development. In the regard of economic development sukuk could be a potential instrument, thus the study by Oktaviani, *et al*., (2018) find that there is a gap in funding this biodiversity in the Indonesian economy. The results show that 32 financial solutions have high impacts and are to be implemented in Indonesia out of 156 financial solutions.

Moreover, sukuk is one of the most potential solutions to fill the funding gap in the Indonesian economy. Smaouia and Salem (2017) and Ahmad *et al*., (2012), for example, find that sukuk has a favorable impact on long-term economic development. This study concludes that sukuk market may have contributed/promoted to the financial inclusion by mitigating the negative effects of religious exclusion. Furthermore, Thomas Reuters Zawya (2015) and Kusuma & Silva, (2014) confirms that sukuk is one of the Islamic financial tools which is acceptable globally and plays a significant role in the Muslim and non-Muslim countries.

Moreover, at firm level, a study conducted by GSI[2] in 2015 shows that sukuk provides funds to institutions to generate revenue. Besides it serves the overall financial system with additional funds and recording unrecorded economic activities. Moreover, sukuk has taken place in Turkish capital market due to some legal enactment such as expansion of tax advantages and other incentives, development and extension of legislation, increase of attention of the business world to alternative capital market instruments and increase of expertise regarding sukuk in the professional ground. Ariff and Safari, (2015) & Cakir and Raei, (2007) suggest that diversification of investment portfolio with sukuk minimizes the portfolio's value at risk compared to the portfolio of only bonds. In terms of liquidity, sukuk is placed in a significant role to manage liquidity in Islamic bank. Since Bangladesh a country with good number of Islamic banks whereas Islamic banks confront liquidity risk due to luck of Islamic Shariah compliant liquidity instruments (khan and Ahmed 2001; Al-Sadah 2000; Yousuf 2001; Hasan & Dridi 2010; Mohammad 2013). Recent empirical studies shows that sukuk is a conducive to reduce Excess liquidity problems in Islamic banks (Ali *et al*., 2019; Akhtar *et al*. 2011).

However, a few empirical studies have contradictory findings with some criticism, such as Echchabi *et al*., (2016), who find that Islamic financing/sukuk issuance cannot promote economic development and growth in Saudi Arabia because either sukuk is still not sufficiently competitive globally or the economy continues to rely on the traditional finance market for development. In contrast, other than GCC countries, sukuk issuance is more relevant to the economic growth. Sukuk issuance has a considerable influence on the GDP and GCF of the pool of sukuk issuing nations, such as Malaysia, Indonesia, and Turkey, according to the research. The evidence also shows that there is a significant negative stock market reaction to sukuk issues, but no reaction to bond issues (Godlewski *et al*. 2013). Mimouni, *et al*. (2019) also find that sukuk market development is negatively impact on the overall bank profitability. However, the sukuk development reduces IBs' profitability (these adverse effects are relatively lower after 2088 crises) but has no impact CBs' performance.

In terms of challenges associated with sukuk, a number of sukuk default are increasing because of the credit risk. The study by Zakaria *et al*., (2012) suggests that sukuk needs to undergo a credit rating assessment similar to other bonds for its future payment prospects. Klein and Laurent (2016) provide their findings on sukuk preference by demonstrating that issuing sukuk does not need larger fixed assets since sukuk are theoretically organized with underlying assets sold by the issuer and reduce knowledge asymmetry. According to Similarly, Duqi & Al-Tamimi (2019), the features of sukuk are the most important element that drives investors to favor sukuk over bonds, followed by the religious component, projected return, and information availability.

Therefore, the previous studies show some mixed evidence of sukuk's benefit with majority supporting sukuk associates more benefit. The fact is whether sukuk brings benefit depends on the smooth working of sukuk in the market.

Hence, the smooth transaction of sukuk is barred by the different issues such shariah issues, structural adjustability, legal as well as hosting countries infrastructure development.

4. DISCREPANCY BETWEEN SUKUK AND BOND

Sukuk and conventional bond are categorized as a financial instrument of capital market, and are issued mostly for the same set of determination (Fathurahman & Fitriati, 2013). These instruments are creating the source of fund in the economy for the public and private sectors through purchasing and selling the bonds and shares. However, there are certain characteristics that make a sukuk different from a regular conventional bond, precisely the avoidance of some basic elements such as interest, speculation, gambling, ambiguity in transactions and non- halal activities and the quest for ethical and objective of Shariah (Mirakhor & Zaidi, 2007). The Islamic instrument is a common property in securities or benefits and which is compatible with the Islamic economic norm that prohibits interest in ensuring stable returns regardless of profit or loss, so this instrument provides income to its holders against a specific trade or lease of assets or other types of instruments available.

The most prominent characteristics of conventional bonds may be summarized as follows (Sheikh Usmani, 2009).

1. The bond holders' ownership in the industrial or commercial firms for which the bonds were issued is not represented by the bonds. Rather, they serve as evidence of the issuer's, or the company's, interest-bearingliability to the bondholders.
2. Bondholders are paid interest on a regular basis. Interest is calculated as a proportion of the capital, rather than as a percentage of real profits. The interest rate is sometimes set, although it is frequently permitted to float in bonds with longer tenors.
3. Bonds guarantee the return of principle when they are redeemed at maturity, independent of whether or not the business was profitable.

The issuer of these bonds is only obligated to refund the principal and agreed-upon interest. Whatever earnings the firm may have made are fully and alone owned by the issuer. As a result, bondholders have no recourse to a profit share far beyond interest. The major distinction between sukuk and conventional bonds is that traditional bond investors have a claim on the future money flow to the entity that issued the bond. The agreement between the investor and the issuer is a debtor-creditor agreement (Zin *et al.,* 2011).

5. MALAYSIAN SUKUK EXPERIENCE

Malaysia has been a forerunner in the development of the Islamic financial market. Muslim population desires to have *Shariah* compliance products as an alternative to interest-based capital markets' instruments which enhanced the development of an Islamic capital market. Unsurprisingly, Malaysia continues to lead in the sukuk market with totaling $612 billion from January 2001 to December 2017 (IIFM, 2018).

As per June 2018, total Malaysian sukuk issuance amounts to RM 718.4 billion, representing 57.3% of total bond outstanding in the country, according to IIFM Sukuk Report 2018. The sukuk market in Malaysia is among the fastest growing in the world. With an average annual growth rate of 13% over the last decades as at end June 2017, as per the 2018 sukuk report by Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC).

In an attempt to address Bank Islam's worries about holding treasury bills due to the ban of interest under Islamic shariah, the Central Bank of Malaysia attempted to create sharia- compliant bonds in 1983 (Chermi & Yacin 2015). Since 1990, Shell MDS, a Malaysian domestic corporation, has issued the world's first sukuk for RM 125 million (Laldin 2008). Moreover, Malaysia achieved a further significant milestone when the government issued the first global sovereign sukuk with an amount of $ 600 million in 2002 (Ahmad & Radzi 2011). Since then, Malaysia has established itself as a global standard for sukuk issuance, as well as a feasible and appealing issuance center for international issuers. Indonesia, Saudi Arabia, Pakistan, and the United Arab Emirates, for example, have joined the drill. Hence, the Malaysian experience can be used as a model for the development and growth of infrastructure in Bangladesh. Malaysia has been able to diversify its economy for the development and growth in several sectors such as tourism, infrastructure and service sectors.

The government of Malaysia has taken several steps to achieve in the development of sukuk market. For instance, Ziti Akhtar Aziz[3] states that for the development of the Malaysian sukuk market, Malaysia provides a total solution for sukuk activities by that is supported by four elements (i) wide range of Islamic instruments (ii) strong legal and regulatory infrastructure (iii) sound Shariah governance framework and (iv) the talent supply. In addition to that, taxation rules for sukuk have been aligned with those of conventional bonds and same tax incentives have been stablished to facilitate the development of Islamic markets (Klein & Weill, 2016). Moreover, in the past years, the Malaysian Securities Commission adopted two Capital Market Plans that aided in the promotion of Islamic financing (SC Malaysia, 2011). Several official entities, such as the Islamic Financial Services Board (IFSB) and the Malaysian Islamic Financial Hub, have also been established to improve the viability of the Malaysian Islamic market (MIFC). Finally, the Shariah Advisory Council (SAC) was established with the mission of determining Islamic law for the sake of Islamic financial transactions, including sukuk instruments.

In general, the Securities Commission (SC), Bursa Malaysia, and the Labuan Offshore Financial Services Authority are in charge of sukuk governance in Malaysia (LOFSA). Sukuk transactions in Malaysia are governed by a number of statutes, rules, and decisions. The Capital Market Services Act of 2007 is a key piece of legislation (CMSA). The 2004 Guidelines on the Offering of Asset-Backed Securities ('ABS Guidelines 2004') contain a number of important requirements regarding the parties' characteristics, as well as the types of assets and transactions (Halim & Markom, 2018).

The coronavirus epidemic in 2020 caused key sukuk-issuing sovereigns' fiscal deficits to expand dramatically, resulting in a rapid increase in issuance in the second quarter of the year as market circumstances improved. Long-term worldwide sovereign sukuk issuance increased by 49% from $73 billion in 2019 to $109 billion in 2020.

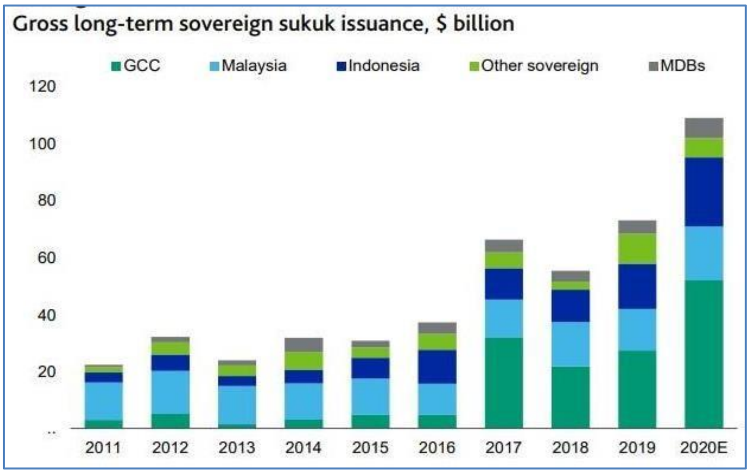

Fig-1: Increased gross financial requirementsdriving by sukuk insurance [Note MDB= multilateral development banks, Source: Middle-east business magazine [2021]

The above facts clearly indicate that Malaysian's sukuk market plays a significantrole for the development of sukuk market, and it can be assisting as a model for other countries that are desire to raise the funds through sukuk instrument. Nevertheless, it is essential to investigate the existing law and economy in both countries Malaysia and Bangladesh. Some of the major hurdles need to be addressed before introducing in Bangladesh capital market, for instance, regulatory and legal framework, human capital development and Shariah compliance issues. Therefore, we offer at the end of the study few suggestions to improve the issues pertaining to sukuk issuance.

6. SUKUK IN BANGLADESH

Bangladesh is one of the densely-populated country situated in southern Asia, on the delta of the two largest rivers on the Indian subcontinent, it is surrounded by India on three sides except on the south. It has a population of approximately 158.9 million (Bangladesh Statistic Report, 2017). However, its economy has been growing very well with a real GDP growth rate averaging between 6 and 7 percent in the last decade (Nabia, 2016). In addition, Bangladesh has achieved robust growth in export, remittance and domestic agricultural sector. In October 2004, the Bangladesh government introduced Government Islamic Investment Bond (GIIB) based on *mudharabah* for the purpose of its monetary policy. This instrument has been made on three-month basis and usually short-term tenor (Uddin, 2016). However, there are great prospects of rising funds for bridging the basic infrastructure gaps through sukuk in Bangladesh. Such as roads, communication, electricity, ICT, energy, water, railway and port and shipping. In orderto develop its ailing infrastructure needs huge funds to investment of $136 billion in roads infrastructure, $25 billion in economic zones and $26 billion for water sector development (The Daily Star Report 2019). However, the current status of economy does not meet the budget of infrastructure gaps in Bangladesh. In this context, sukuk may be a workable option for developing the infrastructureprojects beside the conventional sources.

Furthermore, Bangladesh's economy has been doing well for the past two decades, with certain positive economic data such as macroeconomic stability, continuous GDP growth, large current account sustainability, and a steady pricing level. The Government's fiscal deficits remains well over a decade contained in lower single digits, with external debt service liabilities as percentage of GDP declining steadily. It has achieved robust growth in export and remittances. It has also foreign exchange reserves of $ 25.03 billion as on June 2015 holding the second position after the India in the South Asia region (Nabia, 2016).

Moreover, Bangladesh has experienced phenomenal growth and success of Islamic banking, because strong demand for the system and as it is a Muslim majority country. Currently, there are 56 commercial banks of which 8 private banks have operating as full-fledged Islamic banks. Moreover, 19 branches of 8 conventional banks and 25 windows of 7 conventional banks are offering Islamic banking service. Since inception in 1993, Islamic banks have been gaining increasing market share in terms of deposits, investments, growth of assets, a number of account holders of the total banking system in Bangladesh. Total deposits and investments of the Islamic banks account for more than 24 percent at the end of September, 2018 (Bangladesh Bank Report, 2018). Therefore, it is clearly indicating that a platform of Islamic finance has already been prepared to introduce sukuk for developing the infrastructure and economy of Bangladesh.

Furthermore, Islamic banking industry of the country has surplus funds due to unable to invest in *Shariah*-compliant products which are not available in the market. The Share of total surplus funds of Islamic banking accounted BDT 5202.79 crores at the end of 2018 (Bangladesh Bank Report, 2018). However, introducing sukuk could be an alternative instrument for Islamic industries to invest some surplus funds of Islamic banks. Finally, Bangladesh has achieved a comparatively positive credit rating by the world well-known agency due to mainly a strong economic growth and improvement in external profile. (i) Standard & Poor (S&P) affirmed its BB- for long-term and B for short-term sovereign credit rating on Bangladesh (S&P Global Rating Report. May 2018). (ii) Moody's, on the other hand, declared at Ba3 for long-term credit rating and maintained the stable outlook. Consequently, Bangladesh government can introduce sukuk in order to diversify its sources of funding by using the wealth of Muslim and those who desire to invest their funds in *Shariah* compliant instruments. Therefore, we strongly believe that Bangladesh can replicate the sukuk instrument of Malaysia because of it has demand, robust legal and regulatory framework, potential and disposition to make flourishing and substantial market for sukuk. The first asset-backed securities issued by any private sector firm in Bangladesh are Beximco Green-Sukuk Al Istisna'a. Half of the Tk 3,000 crore Sukuk would be sold through ordinary shares to appropriate investors, such as institutions and affluent individuals. The remaining one-fourth of the Sukuk units will be allocated for existing Beximco Limited shareholders and investors. The Sukuk would appeal to investors, particularly institutional investors, who are in desperate need of fixed-income instruments on the bourses in order to maintain a healthy, diversified investment portfolio, as shown in Figure 2.

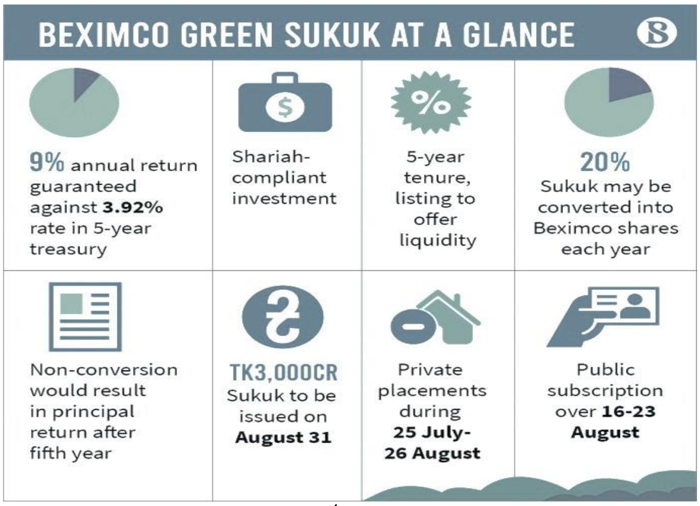

Fig-2: Beximco green Sukuk [Source: 1st private sukuk from Beximco group, 2021]

The proposed sukuk structure of Bangladesh is based on sukuk Ijarah which is considered the most popularity applied in the project financing (Hussin *et al*. 2014). Ijarah is a contract in which a seller sells a buyer recognized and stated advantages or services in exchange for money. Kamali, (2007), whereby the transfer of asset's usufruct to other parties in exchange for rent or namely lease. Ijarah sukuk is formed from a benefit kind of contract in which the owner rents the underlying asset(s) to the user (tenant). Furthermore, the renter is granted usufruct for certain times specified in the contract. The rental payment will be made on a regular basis with a defined amount. The transaction structure of sukuk Ijarah is illustrated in the Figure 3.

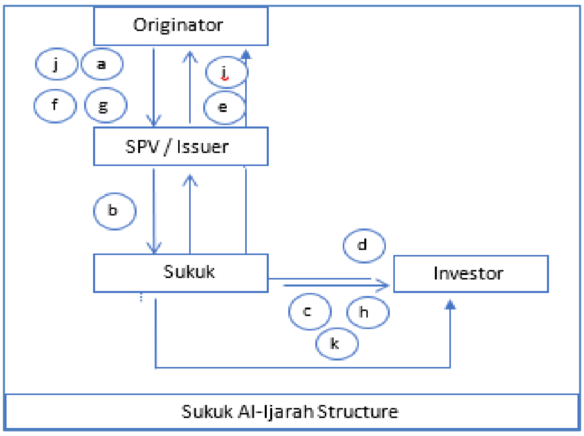

Fig-3: Proposed Sukuk al Ijarah Structure

The proposed structure shown in the above diagram, which is based on Ijarah contract consist of steps.

a. The originator enters in sale and purchase agreement with the trustee (SPV), where the originator agrees to sell the specified asset to the SPV according the needs of the originator.
b. The SPV issues the sukuk to qualify investors in order to pay for the acquisition, which represents undivided ownership in such asset. It also shows that such issues have an obligation towards issuer for distribution of periodicrentals to investors.
c. Qualified Investors subscribe sukuk and pay proceeds amounts to the SPV.
d. The SPV disperses the proceeds amount received from the qualified investors to the Originator.
e. Once sale and purchase agreement are fulfilled, SPV and Originator enter into a lease agreement. Under this agreement trustee (lessor) lease specified asset backto Originator for an agreed term.
f. Originator (lessee) pays periodic rental payment to the trustee (lessor). The periodic rental paid by Originator might be fixed or variable depends on mutual consent between Originator and trustee in advance.
g. Once the periodic rental is received from Originator, the trustee pays those rentals to qualified investors.
h. Under purchase or sale, undertaking Originator also acts as an obligor. Originator signed unilateral agreement with trustee. According to this agreement if the rental term ends or if Originator defaults, Originator is obliged to buy back specified asset at an exercise price (equal to principal amount plus any accrued rental payment).
i. Once specified asset is purchased back by Originator, SPV pays dissolution amount to the investors.

Bangladesh's sukuk market is revealed to certain basic challenges that need to be addressed before replicating the Malaysian experience. For starters, they have yet to devise an interest-free system for placing their funds on a short-term basis. Financing personal loans and government deficits are both a challenge for them (Sarker 2007). Second, the lack of a clear legal and regulatory framework is one of the main reasons why establishing sukuk in Bangladesh has taken longer than in other nations. The adoption and implementation of a legislative framework to enable sukuk origination, trust laws, and regulations pertaining to the construction of SPVs, which are frequently employed in sukuk structures, are all urgently needed. Third, the market's lack of experienced human capital is a big constraint. Sukuk structure and issuing necessitates a significant amount of legal, financial, and Shariah expertise, all of which are in short supply in the market.

CONCLUSION

The usage of various Sukuk enhances infrastructural, financial, and economic development. As a result, the use and growth of Sukuk as a capital market tool has been outstanding in Muslim and non-Muslim countries over the last few decades. The adoption of Sukuk depends much more on the country's investor philosophy, infrastructural, and economic situation. Potentially and relevantly, the capital market of Bangladesh with lack of Shariah- compliant instruments as well as majority investors from Islamic background is in severe need of Sukuk to overcome and satisfy the investment comfortability. Therefore, this paper critically evaluates those challenges, prospects of Sukuk in Bangladesh and propose a Sukuk structure to be applied in Bangladesh considering its jurisdictions, investors, and economic circumstances.

By conducting a thorough literature in this area, we found that Bangladesh is highly potential to adapt Sukuk for its investors, however, few steps are needed to overcome these challenges such as; the government authority should introduce and implement rules and regulation specific to ensure the Sukuk compliant with Shariah norms, Bangladesh Securities Exchange Commission may issue specific guides on Sukuk such as role of issuer, SPV, trustee and guarantor, rating agencies and other supporting institutions, transparency among the stakeholders. Moreover, Sukuk market can be regulated and monitored by the central bank of Bangladesh as like as Malaysian Sukuk maintenance system, where the authority controls both Sukuk and conventional bond through separate laws and separate Shariah advisory council, and thus can become a leading country for Sukuk, Furthermore. The legal uncertainty and dispute issues in Sukuk can be solved by establishing a Shariah board that would help the legal structure of Sukuk and Shariah interpretation.

Bangladesh Bank issued its first sukuk bond in 2020, with a fixed rental yield of 4.69 percent annually for a five-year tenor. Investors, the borrower, and a third party who will connect these investors and the borrower are the three parties involved in this Sukuk bond. In a Sukuk bond, both the investors and the borrower will communicate through a third party, but in a conventional bond, the investors will communicate directly with theborrower (BB report, 2021).

Moreover, Islamic financial institutions confront various challenges to introducing new Shariah-compliant products i.e., Sukuk that enhances the liquidity in the market, better risk management, and diversification benefits. Since Sukuk is a new concept in Bangladesh, so there is a need to educate investors, relevant people, policymakers, and authorities on the Islamic principles of Sukuk structure. So far, no institutions have been set up in Bangladesh to provide education in this area. There is also no special division in Bangladesh to handle the matters pertaining to Sukuk. Therefore, international affiliation and cooperation between Bangladesh authorities and relevant authorities in Malaysia and other countries that offer education on the principles and structures of Sukuk should be established. A department that specializes in the issues of Sukuk should also be set up by the authority of the Bangladesh government to ensure continuous growth of Sukuk as a vibrant financial product in Bangladesh.

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