

Islamic Banking in Bangladesh: an Alluring Prospect Ahead

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Abstract: The object of the article is to give an overview on Islamic Banking of Bangladesh with issues and challenges ahead. Besides other Muslim countries the Islamic Banking of Bangladesh is growing fast. Islamic Banking has started its journey in Bangladesh in 1983 through opening only one Islamic Bank i.e. Islami Bank Bangladesh Ltd. Now, the banking sector of Bangladesh has got 8 full fledged Islamic Bank and 16 other partially operated Islamic Bank. Out of 56 commercial Banks 24 banks are involved with Islamic banking which is 43%. That means, almost half of the banks are being operated with a belief in Shariah. The growth shows that the entire banking sector may come under the umbrella of Shariah Banking in near future. And that will be a branding of Islamic Banking in the globe which Bangladesh deserves. As the sector has been alluring in our country the challenges of the sector required to be identified so that the sector can run smoothly with a view to fostering remarkable growth of the economy.

1.Introduction

The fast and stable growth of Islamic banks in the world financial system during the last few decades indicate the inherent strength of Islamic banking as a challenging alternative to the interest based capitalistic financial system. The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually.

The establishment of the Islamic Development Bank (IDB) in 1975 in Jeddah, KSA gave an accelerating momentum to the Islamic Banking movement worldwide. Since the establishment of IDB, a number of Islamic Banking and financial institutions have been established all over the world irrespective of Muslim and non-Muslim countries. Over the past few decades, the Islamic financial industry has rapidly expanded worldwide. Currently, about 300 Islamic banks and financial institutions (IFIs) have been functioning in line with Islamic Shariah with total combined assets exceeding US \$2 trillion in more than 75 countries. This rapid growth has gained considerable attention in international financial circles where various market participants have recognized their promising potentials.

In view of the potentials of the emerging Islamic markets and funds, a number of global financial institutions, including but not limited to, the world giants such as Kleinwort Benson, Chemical Bank, ABN Amro (Netherlands), Citibank(USA), ANZ (Australia) Grindlays, J.P.Morgan, Goldman Sachs(USA), Bankers Trust, Chase Manhattan, Hong Kong and Shanghai Banking Corporation (UK), Deutsche Bank (Germany), Societe Generale (France), BNP Paribas, and Union Bank of Switzerland(UBS) have established Islamic banking Shariah compatible services in several countries. Moreover, many conventional commercial banks, in many Muslim countries, have been offering Islamic banking services. These include among others, Bank Misr in Egypt, National Commercial bank, Saudi American Bank and Saudi-British Bank in Saudi Arabia.

2.Islam

Islam is a complete code of life. There is every solution related to political, economic, social, familial, personal, commercial, internal & external relation, social & religious rights of human life in Qu-ran & Sunna. But world had to remain with in the economic framework based on interest for last 1400 years, though Islam has forbidden interest. As there was no any Islamic bank, there was no alternative but to bank with interest based bank. Peoples had to wait for full fledged Islamic bank until 1963 during which first Islamic bank namely Mit Ghamr Savings Bank was established in Egypt. Later on in 1969 another Islamic bank namely Tabung Hajj was established in Malaysia by the government of Malaysia. Islami Bank Bangladesh Ltd is the first Islamic bank in Bangladesh established in 1983.

3. Islamic Bank

Accordingly OIC Islami Bank is a financial institution whose statutes, rules and procedures expressly states its commitment to the principles of Islamic Shariah and to the banning of the receipt and payment of *riba* (usury) on any of its operations.

According to International Association of Islamic Banks, "The Islamic bank basically implements a new banking concept, in that it adheres strictly to the ruling of the Islamic Shariah in the fields of finance and other dealings. Moreover, the bank which functioning in this way, must reflect Islamic principles in real life. The bank should work

towards the establishment of an Islamic society; hence, one of its primary goals is the deepening of the religious spirit among the people.

With in next 8-10 years, the Islamic banking industry is estimated to capture half of the Savings of the world's 1.6 billion Muslims. There are estimated more than 300 Islamic Financial Institutions having about 10000 branches in many countries including Malaysia, Pakistan, UAE, Egypt, Dubai, Brunei, Indonesia, Lebanon, Bahrain, Kuwait, Iran, Jordan, Saudi Arabia, Bangladesh etc. Non-Muslim country includes Singapore, Philippine, Thailand, Sri Lanka, USA, UK, France etc.

Islamic Bank runs on some basic concept derived from Qur'an and Sunna some of which are noted below:

a) One of the most important characteristics of Islamic Financing is that it is an asset-backed financing while the conventional / capitalized concept of financing is that the banks and financial institutions deal in money and monetary papers. On the other hand Islam does not recognize money as a subject-matter of trade, except in some special cases. Money has no intrinsic utility; it is only a medium of exchange.

b) The profit earned through dealing in money (of the same currency) or the papers representing them is interest, hence prohibited.

c) When the financier contributes money on the basis of *Musharaka* and *Mudarabah*, *Salam*, *Istisna*, *Murabaha* it is either converted into the assets having intrinsic utility, or creates real assets. Profits are generated through the sale (or rental) of these real assets.

d) Islamic law does not object to payment for the use of an asset, and the earning of profits or returns from assets is indeed encouraged as long as both lender and borrower share the investment risk together.

e) The 'depositors' are not lenders or creditors; but rather they are investors.

f) Profit must not be guaranteed based on assumption and can only accrue if the investment itself yields income.

The above concepts for running the Islamic Bank are based on the **Qur-anic directives some of which are quoted below:**

01). *Those who eat "Riba" (usury) will not stand (on the day of Resurrection) except like the standing of a person beaten by 'Shaitan' (Satan) leading him to insanity. That is because they say; "Trading is only like 'Riba' (usury)", whereas Allah has permitted trading and forbidden 'Riba' (usury). So whosoever receives an admonition from his Lord and stops eating 'Riba' (usury) shall not be punished for the past, his case is for Allah (to judge); but whoever returns (to Riba), such are the dwellers of the fire -they will abide therein. (Surat Al Baqarah, Verse 275)*

02). *Allah will destroy Riba (usury) and will give increase for Sadaqat (deeds of Charity, alms, etc.) and Allah likes not the disbelievers, Sinners. (Surat Al Baqarah, Verse 276)*

03). *Truly those who believe, and do deeds of righteousness, and perform As-Salat and give Zakat, they will have their reward with their Lord. On them shall be no fear, nor shall they grieve. (Surat Al Baqarah, Verse 277)*

04). *O you who believe! Be afraid of Allah and give up what remains (due to you) from 'Riba' (usury) (from now onward), if you are (really) believers. (Surat Al Baqarah, Verse 278)*

05). *And if you do not do it (to avoid interest); then take a notice of war from Allah and His Messenger. (Surat Al Baqarah, Verse 279)*

06). *And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know. (Surat Al Baqarah, Verse 280).*

4. Deeds forbidden (Hara'm) in Islam

As per Al-Qur'an some deeds are forbidden (Hara'm) which are as follows:

a). Bribery: *"And eat up not one another's property unjustly (in any illegal way e.g. Stealing, robbing, deceiving etc), nor give bribery to the rulers (judges before presenting your cases) that you may knowingly eat up a part of the property of others Sinfully". (Surat Al Baqarah, Verse 188)*

b). Illegal earning: “It is not for any prophet to take illegally a part of booty, and whosoever deceives his companions as regards the booty, he shall bring forth on the Day of Resurrection that which he took (illegally) ”. **(Surat Al Imran, Verse 161)**

c). Property of Orphans: “Verily, those who unjustly eat up the property of orphans, they eat up only a fire into their bellies, and they will be burnt in the blazing”. **(Surat An-Nisa, Verse 10)**

d). Giving less than due weight: “And when they have to give measure or weight to men, give less than due”. **(Surat Al-Mutaffifin, Verse 3)**

e). Allah prohibits all sorts of deeds those create social and ethical anarchy: “Verily, those who live that illegal sexual intercourse should be propagated among those who believe, they will have a painful torment in this world and in the Hereafter”. **(Surat An-Nur, Verse 19)**

f). Alcoholic drinking and gambling: “O you who believe! Intoxicants (all kinds of alcoholic drinks), gambling, AlAnsab and AlAzlam (arrows for seeking luck or decision) are an abomination of Satan handiwork. So avoid (strictly all) that (abomination) in order that you may be successful”. **(Surat Al-Maidah, Verse 90)**

5. Evolution Of The Concept Of Islamic Banking

Though the directives of banking and trading were laid down in Quran and Sunnah, the idea of Islamic banking took as many as thirty years for its conceptual consolidation and only by the early seventies did it take the shape of the present comprehensive model. The system is based on the Islamic legal concepts of *shirkah* (partnership) and *mudaraba* (profit sharing). Many Muslim economists contributed to the development of thinking on Islamic banking, the notables among them are Nejatullah Siddiqi, Baquir al Sadar, Abdullah al Araby, Sami Hassan Hamoud and Ahmed al Naggar. Siddiqi primarily conceived an Islamic bank as a financial intermediary mobilizing savings from the public on the basis of *mudarabah* and advancing capital to entrepreneurs on the same basis. Profit accruing to entrepreneurs on the capital advanced by the bank are shared by the bank according to a mutually agreed upon percentage. The bank also provides a number of familiar services on a fee or a commission basis. The bank's own capital also goes into the business of offering banking services and advancing capital on a profit sharing basis. After accounting for administrative costs, the net revenue on these business activities constitutes the bank's profits, which are distributed to the owners of capital, both to the individuals that deposited their savings on the basis of *mudarabah* and the bank for its capital investment.

6. Islamic Law On Finance:

Given the principle of permissibility, Islamic commercial law can evolve within the limits imposed by Shariah. Recent history of the growth of the Islamic financial sector based on new rulings of Shariah scholars is an indicator of the adaptability of Islamic law to changed situations. While Islamic law can evolve, other elements of the legal infrastructure like laws and statutes and dispute settlement institutions also need to be strengthened. The adaptability features of Islamic law along with the strengthening the legal infrastructure is vital components of the development of the Islamic financial sector.

One of the important determinants of financial development is adaptability of law to changing conditions. Adaptability underscores the formalism of laws and the ability of legal traditions to evolve. Specifically, legal systems that adapt efficiently to the contracting needs of the economy foster development of the financial system. The question of adaptability of the law to changing circumstances is vital to the development of Islamic financial system. Issues like legal formalism, dynamism, and the efficiency with which laws can adapt to changing circumstances will determine to a large extent how this sector will grow in the future. Islamic law started with the advent of Islam. The overall goal of the Islamic law is to promote welfare (*masalih*) of mankind. This goal in broad general terms implies, among others, to ensure growth (*tazkiyah*) and justice (*qist*) and in specific terms relates to *maqasid al Shariah* implying the protection of religion, life, reason, progeny and property. Thus, the objective of Islamic commercial law would be to ensure one or several of these goals. For example, the goal of prohibition of *riba* or interest is to ensure justice and equity.

7. Adaptability Of Islamic Commercial Law:

Over the centuries, Islamic law has evolved to a body of 'a highly sophisticated system of rules, covering the whole field of what the contemporary world perceives as law'. Islamic laws and rulings regarding human activities can be divided broadly into two: devotional matters (*fiqh-ul-ibadah*) and dealings or transactions (*fiqh-ul-muamalah*). The rules and principles of nominate contracts are applied to new concepts and problems and by the process of analogy, applicable solutions are arrived at. The most common method of creating financial contracts has been the combination of traditional nominating contracts to create new contracts. Examples of these include the contemporary *financial murabahah* (or *murabahah* to the purchase orderer) a widely used instrument by Islamic financial institutions. The original sale contract (*murabahah*) is used with several other concepts (promise, guarantee) to produce a financing tool. Similarly, traditional *ijarah* contract is used with a sale or gift contract to form a financing instrument called '*ijarah wa iqtina*' or '*ijarah muntahia bit-tamleek*'. '*Musharaka Mutanakissa*' or diminishing *musharakah* associates *musharakah*

contract with that of a sale for financing purposes. Similarly, contemporary sukuk is a composite of multiple transactions/contracts.

8. Adapting Conventional Financial Products

Another method of creating new contracts in the Islamic financial sector is to adopt and adapt conventional financial instruments/products/contracts that meet the Shariah criteria. The conventional contracts or products can be modified by removing the undesirable components to make them comply with the Shariah principles. For example, equity based mutual funds have been adopted by Islamic financial institutions by adapting the stocks that can be included in these funds. Investments in stocks are allowed if they fulfill certain business and financial criteria derived from Shariah and fiqh. Accordingly, investment in companies that deal with forbidden goods/services like alcohol and tobacco, gambling, pornography, interest based financing institutions, etc. is not allowed. The financial filter developed on the basis of Islamic shariah is being used to weed out firms that have unwarranted dealings with interest-based transactions.

9. Application Of The Islamic Legal Infrastructure:

As pointed out, most Muslim countries have adopted one of the Western legal systems. The absence of a comprehensive legal system for a long time resulted in the lack of legal infrastructure institutions that can support the use of Islamic commercial law during contemporary times. With the advent of Islamic finance, Islamic financial contracts are being used, but this is being done in an alien legal environment. Even if individuals agree to use Islamic contracts, the laws and courts may not be there to interpret and enforce the form of these contracts. Successful application of Islamic law in contemporary financial transactions requires various supporting legal infrastructure institutions. Some issues related to the development of Islamic law and legal infrastructure institutions with respect to the financial sector are discussed below.

- a) Good documentation of contracts is important determinant of growth and liquidity of markets in financial products. Standardized documentation creates more predictability and certainty about the characteristics of the financial contracts. Agents involved are better able to understand their rights and obligations under the contract and enhances the confidence to enter the market and transact.
- b) The standardization of Shariah rules needs to take place at two levels. First, at the national level, the rules governing economic transactions can be standardized by a national Shariah body. This body will be responsible not only for issuing rulings but also codifying them for application. Examples of national level Shariah boards/authorities are those existing in Sudan and Malaysia. The harmonization of Shariah rules within national borders, however, will not solve the problems of global Islamic financial transactions. There is a need for an international body that can issue standardized rulings on economic transactions. Efforts by AAOIFI are given for this legal diversification. But as AAOIFI is an institution dealing with mainly accounting and auditing standards, there is need for a global Shariah body that can harmonize diverse bodies of knowledge to one standardized version that the Islamic financial industries around the world can use. Establishment of an international body to develop different Standards for Shariah Application in Finance Industry is inevitable.
- c) As most Muslim countries have adopted either the common law or civil law framework, their legal systems do not have specific laws/statutes that support the unique features of Islamic financial products. For example, whereas Islamic banks main activity in trading (*Murabaha*) and investing in equities (*Musharaka* and *Mudaraba*), current banking law and regulations in most jurisdictions forbid commercial banks to undertake such activities. This calls for specific laws and statutes that can support and promote Islamic financial services industry. While in some countries separate Islamic Banking laws have been passed (e.g., Kuwait and Malaysia), in others Islamic banking is covered under a section of the existing banking law (e.g., Bangladesh and Indonesia). The implications of these Islamic banking/financial laws on the operations and growth of Islamic financial sector will depend on the type of legal system in place.
- d) As the laws and their implementation are codified under the civil law regime, it would be difficult to have Islamic financing if new laws are not enacted as the existing rules and regulations are geared towards conventional banking practices. The Islamic banking law enacted by the legislature will form the legal foundation for Islamic banking and financial dealings. The Islamic banking laws passed in civil law country like Indonesia, however, are worded in general terms and lack details of the different Islamic modes of financing. Examples of such omissions include the prohibition of trading and taking equity positions and the absence of resolution of the double taxation in Islamic financial transactions (e.g. in case of *ijarah*). While Bank Indonesia is trying to fill some of the gaps through some regulations, these may not hold in the courts of law. Such uncertainty in the laws related to Islamic banking will have Islamic banks at a disadvantageous position compared to the conventional banks. Thus, there is a need for detailed codification of the law that would include the Islamic principles for financial transactions and the administrative procedures for carrying out these activities.
- e) Islamic contracts and transactions under the common law regime may have problems of interpretation as no precedents on these activities may exist. Promulgation of law in this system may not be as effective as in case of civil law regime as the judges may deviate from the statute if the statute is incompatible with the precedents. Common law regimes, however, provide more predictable results under legal documentation relative to the civil law system. While in the civil law system, the courts will interpret the contracts on the

basis of reasonableness and fairness, the Common law system will consider the provisions in a legal document more weight irrespective of other considerations like materiality or fairness. As the sanctity of the contract is greater in the common law system, there may be lower legal risk involved for Islamic banking instruments under this regime.

- f) Lack of Islamic courts in most Muslim countries that can enforce Islamic contracts increases the legal risks of using these contracts. As such, partners in transactions avoid using Islamic law as they want to avoid the impracticalities or the uncertainty of applying classical Islamic law. In an environment with no Islamic courts, Islamic financial contracts include choice-of-law and dispute settlement clauses. In such cases, two approaches can be taken. The first is to use Shariah as the governing law as the Islamic financial contracts' legitimacy should be judged by the principles of Shariah. To ensure such settlements the contracts would include a clause indicating Islamic law to be used for settlement of disputes. The second approach is to use the law of the country to settle disputes. In the former approach, the contracts should be shielded from the legal environment and disputes settled through commercial arbitration.

To ensure the growth of the Islamic financial industry, there is a need to have dispute settlement institutions or Islamic courts that understand the form of the contracts so that these can be interpreted and enforced accordingly. While the whole court system cannot be expected to change, a solution is to have special Islamic bench that deals with, among others, financial transactions. In this regard, Malaysia has adopted several steps to build some legal infrastructure institutions for Islamic financial industry. At the highest level, the High Court in Malaysia has dedicated high court judges to oversee litigations related to Islamic banking and finance. Furthermore, to complement the court system, the Kuala Lumpur regional Centre for Arbitration has been enhanced to deal with disputes on Islamic banking and finance for both domestic and international cases. To ensure the efficient functioning of the Islamic financial sector, the Central Bank of Malaysia has also set up a Law Review Committee to assess the common law based legislations and to assimilate the Shariah principles.

10. Main Reasons to Establish Islamic Banking System

There are mainly two reasons to establish Islami Banking system:

- i) Shariah
- ii) Socio-economic
 - a) To check inflation,
 - b) To do justice to the depositors,
 - c) To increase the investment,
 - d) To handover capital to the experts,
 - e) To protect the hoarders,
 - f) To decrease the income discrimination,
 - g) To full utilization of foreign currency or foreign capital,
 - h) To ensure proper supply & distribution of goods/wealth,
 - i) To increase the financial development of poors,
 - j) To relief the poors from oppression,
 - k) To extend the hands to the productive sector,
 - l) To stable the price hike.

11. Main objectives of Islamic economy

The objectives of Islamic economy are as under:

- i) To establish Adl (justice), to attain Hasanah (good) and Falah (welfare) in this life and the life hereafter.
- ii) To establish Ihsan (gracious conduct or kindness) in economic affairs.
- iii) To establish Maroof (proper or good acts, institutions) in economic life.
- iv) To eliminate Munker (evil, wrong or injurious practices from economic life).
- v) To free the humanity from un-wanted burdens and shackles and to make life easier for them.
- vi) To achieve maximum economic growth.
- vii) To maximize employment to ensure proper distribution of wealth in the society.
- viii) To achieve universal education.
- ix) To encourage cooperation in the society.
- x) To favoring the weaker sections of the society to establish them in life.

12. Profit, Interest, Riba

Profit means additional amount of business capital. In other words, the excess amount between purchase & sale with a risk of loss. Here there must be a business of commodity or sale purchase agreement. As per requirement of investment client, Islami Banks provides goods in lieu of money.

In Islami Banking he bears the risk who is the owner of capital.

Interest is the amount which is predetermined upon principal amount for a certain period with certain rate. In other words, excess over principal amount through fixed rate or premium for the use of money. Here time, amount and rate are fixed.

Riba: The word used by the holy Quran concerning interest is **Riba**. Riba is the predetermined return on the use of money or goods. In shariah, riba technically refers to the premium that must be paid by the borrower to the lender along with the principal amount/quantity as a condition for the investment/loan. All transactions based on Riba are strictly prohibited in Qur'an.

There are two types of Riba:

- i) **Riba Nasia:** In addition to investment (loan) amount is Riba Nasia. It has been restricted in Quran by time and again.
- ii) **Riba Fadal:** Excess of same commodity or same thing during spot exchange of the commodity. This has been restricted by prophet Hazrat(s) by Sunnat.

13. Conditions for or philosophy of Islamic mode of transactions

- (i) The transaction should be Riba (interest) free.
- (ii) The transaction should be Gharar (excessive uncertainty) free.
- (iii) The transaction should be Maysir (Gambling) free.
- (iv) The business product should be shariah permissible.

14. Profit mark-up & weightage

'Profit mark-up' means the difference amount of a purchase & sale deal between a banker & customer for a particular period. This term is used in Investment banking of Islami Banks.

'Weightage' means status distribution to various types of mudaraba depositors on the basis of tenor/types in terms of money/profit. In other words, extra money given/distribution to the mudaraba depositors considering their types of deposits on the basis of tenor. It is a formula in Islamic Banks towards distribution of profit on deposits as per types.

15. Functions of Shariah Board

- (i) The main functions of Shariah Council or Shariah Board is to advise the Bank authority to train up the manpower of the Bank so that they can run the Bank on the principles of Shariah.
- (ii) They also monitor/supervise the functions of the Bank whether they are performing as per norms.
- (iii) They initiate audit / inspection of branches of the Islamic Banks with the help of the Officers of the bank and submit audit / inspection report to the Board of Directors with their comments/ recommendations thereby ensuring Shariah compliance.
- (iv) They also collect information / data of their bank & other Islamic Banks of the world and arrange to preserve the information / data for uniform decision making on Shariah principle, research purposes.
- (v) Permission of Shariah Council is mandatory by Islamic Banks authority before launching any new product on Shariah admissibility.
- (vi) The Board also arrange seminar/workshop time to time on Islamic Banking to enhance the knowledge and understanding of the Islamic Bankers and the scholars of Islamic Banking.

16. Main differences between Islamic Banking and Conventional Banking

SL.	Islamic Banking	Conventional Banking
1	It is based on Quran and Hadith.	It is based on capitalistic theory.
2	It runs towards achievement of the beauty of Islamic Economics.	No concerned.
3	This type of banks run on profit/loss sharing	Run of interest based.

	basis.	
4	Inter-banks transactions is based on profit/loss basis.	On interest basis i.e. Call money rate.
5	Islamic Bank realize one time profit for any investment deal.	Conventional banks realize interest for any finance on compounding basis.
6	They don't realize any profit after the expiry date of deal.	Conventional banks realize interest even after expiry date of limit.
7	Depositors bears the risk of loss.	Interest rate predetermined. So, no risk of loss of the depositors.
8	Depositors and Bankers are business partners of banks. So, they are friendly.	The relationship as Banker-Customer or Debtor-Creditor.
9	Islamic Bank committed to implement welfare oriented principles of financing.	No such commitment.
10	Islamic Bank never invest money to run the business of <i>Haram</i> products.	No concerned.
11	They never finance to unlawful arms, drugs or any other anti-social business.	No concerned.
12	Implement investment plans on Mudaraba and Musharaka to stimulate or enhance the income of the poor people.	No such program.
13	To ensure social justice and welfare.	Not concerned.
14	Banks pay Zakat on equity other than Paid-up capital which ensures welfare to the poors.	No such system.
15	Islamic Banking has target: One, to implementation of the objectives of Shariah and the other is to earn profit.	Their only motive is to earn profit.
16	They buy or sell foreign currency on spot basis, not on forward booking or future basis.	Spot and forward buy/sell of foreign currency are used.
17	This type of Banks avoids financial activities on speculation.	Their main business on speculation basis.
18	Islamic Banks works under the surveillance of Shariah supervisory board.	No such surveillance.
19	Islamic Bank deals with money.	Conventional Bank deals in money.
20	Islamic Bank mobilize resources with money.	Conventional Bank mobilize resources in money.
21	Profit pull inflation/demand.	Interest push inflation/cost.
22	Islamic Bank convert the money into goods & services for investment.	This type of bank directly give loan to the borrower in cash.
23	This type of Bank invest money in the form of goods with the investment client as partner.	Conventional Bank and its' borrower acts as a debtor & creditor.

17. Methodology of distribution of profit to the Mudaraba depositors of Islamic Bank

Any benefit/income out of investment activities of the bank using *mudaraba* funds are shared by the bank with all types of *mudaraba* depositors as per agreed ratio. The depositors are not entitled to share any income of the bank from other services. The other services includes Commission & Exchange income, remittance income, L/C & Guarantee, purchase & negotiation of both inward & outward bills, service charge realized against Quard, Locker, ATM, Postage, Telecommunication etc. Gross income earned from the investment activities during a calendar year is separated from other income arising out of other activities and services offered by the bank. Out of the total investment income in a calendar year, first of all bank deduct the income derived from cost free deposits and Equity of the bank proportionately as per their share in the total investment. The share of gross investment income of *Mudaraba* deposits is generally distributed between the bank and the *Mudaraba* depositors at 35:65 ratio i.e. the bank get 35% as Management fee and as a reserve for loss against investment. Banks may fix the depositors share at higher ratio, in case of need. The different types of deposits get different weightages while allocating their share considering the type and tenor/period of *mudaraba* deposits. The rates of return on various types of cost bearing deposits of the conventional banks in the

money market play an important role on allocation of weightage at different rates to the different types of *Mudaraba* deposits.

Suppose, The Nice Bank earned Tk.100.00 Crore during a calendar year by investing Tk.1,000.00 Crore out of which Tk.200.00 Crore Equity of the bank; Tk.250.00 Crore cost free Al-Wadia CD, Sundry deposit & balance of Bills payable account and rest Tk.550.00 Crore of Mudaraba deposits. In this case, at the end of the year the competent authority of the bank will distribute the gross investment income as under:

Total income	:Tk.100.00 Crore
Less income from the Equity of the bank (200.00 Crore out of 1,000.00 Crore) 20%	: Tk.20.00 Crore
Less Income from Cost free deposits (250 Crore out of Tk.1000 Crore) 25%	:Tk.25.00 Crore
Rest	Tk.55.00 Crore

The rest Tk.55.00 Crore will be distributed among the bank (as Managerial fee and risk premium of bad debt) and depositors at 35:65 ratio as agreed term of Account opening form. Thus, Tk.19.25 Crore will get the bank and Tk.35.75 Crore will be distributed to the Mudaraba depositors of Tk.550.00 Crore considering their type and tenor of deposit.

(Amount in Crore)

Total invested fund or total deposit.....	1,000.00
Cost free deposit (Equity, CD balance, Bills payable & Sundry balance (45%)	450.00
Cost bearing deposit (Mudaraba deposit)(55%)	550.00
Gross investment income	100.00
Share of Cost free fund which is not entitled by the mudaraba depositors (45%)	45.00
Cost bearing deposit (Mudaraba deposit)(55%)	55.00
35% investment income of Mudarib (Bank) as Managerial fee out of 55 Crore	19.25
65% " " distributable to the mudaraba depositors	35.75

Now, from the undernoted table we have showed how Tk.35.75 Crore will be distributed among the Mudaraba depositors.

(Figure in thousand)

Sl no.	Name of Deposit	Total yearly average balance	Weightage	Weighted balance	Share of distributable profit	Percentage	
1	2	3	4	5 (3X4)	6	7	
01	Mudaraba Term Deposit						
	a)	01 month	548646	0.83	455376	30958	5.64
	b)	03 months	546235	0.88	480687	32679	5.98
	c)	06 months	622020	0.92	572258	38904	6.25
	d)	12 months	281074	0.96	269831	18344	6.53

	e)	24 months	252882	0.98	247824	16848	6.66
	f)	36 months	546255	1.00	546255	37136	6.80
02	Mudaraba Savings Deposit		119270	0.75	89453	6081	5.10
03	Mudaraba STD		760068	0.62	471242	32037	4.22
04	Steady Money		542705	1.15	624111	42429	7.82
05	Super Savings		234327	1.17	274163	18639	7.95
06	Multiplus Savings		250080	1.17	292594	19892	7.95
07	Money Grower						
	a)	05 years	169049	1.16	196097	13331	7.89
	b)	08 years	233002	1.17	272612	18533	7.95
	c)	10 years	271611	1.18	320501	21789	8.02
	d)	12 years	109589	1.19	130411	8866	8.09
08	Education Savings		5646	1.14	6436	438	7.76
09	Hajj Deposit		435	1.10	479	33	7.59
10	Smart Saver		7106	1.17	8314	565	7.95
Total (8)			5500000 (9a)		5258644 (9b)	357502 (9c)	

⊗ Individual weighted balance (Col.5) = Individual yearly average balance X Weightage (Col. 3X4)

⊗ Individual share of distribution (Col.6) = $\frac{\text{Total distributable profit X Individual weighted balance (Col.9c X Col.5)}}{\text{Grand total weighted balance(Col.9b)}}$

⊗ Percentage (Col.7) = $\frac{\text{Individual share of distributable fund X 100 (Col.6 X 100)}}{\text{Individual total yearly average balance. (Col. 3)}}$

18. Types of Deposit as per Shariah

Islamic banks receive deposits under two principles:

- i) Al-Wadeeah principle.
- ii) Mudaraba principle.

Al-Wadeeah:

Fund which is deposited with Banks by the depositors with clear permission to utilize/invest the same is called Al-Wadeeah. Islamic banks receive deposits in Current Accounts on the basis of this Al-Wadeeah principle. Islamic banks obtain permission from the Al-Wadeeah depositors to utilize the funds at its own responsibility and the depositors would not share any profit or loss earned/incurred out of using of these funds by the bank. The banks have to pay back the deposits received on the principle of Al-Wadeeah on demand of the holders. The depositors have to pay government taxes and other charges, if any.

Mudaraba:

Mudaraba is a partnership of labour and capital, where one partner provides full capital and the other one manages the business. The capital provider is called Sahib-Al-Maal and the user of the capital is called Mudarib. As per Shariah principles, the Mudarib will conduct the business independently following Shariah principles. The Sahib-Al-Maal may provide advices, if he deems fit but he can not impose any decision over the Mudarib. Profit, if any, is divisible between the Sahib-Al-Maal and the Mudarib at a predetermined ratio, while loss, if any, is borne by the Sahib-Al-Maal. Mudarib can not avail of any salary or remuneration against his labour as a manager or conductor of the enterprise/business. The deposits, received by Islamic banks under this principle are called Mudaraba Deposits. Here, the depositors are called Sahib-Al-Maal and the bank is called Mudarib. The Mudaraba deposits include:

- i) Mudaraba Savings Deposits (MSD)

- ii) Mudaraba Short Notice Deposits (MSND)
- iii) Mudaraba Term Deposits (MTD).

Different Islamic banks have developed various deposit schemes on the basis of this Mudaraba principle such as monthly deposit-based Hajj Scheme, Monthly/One time deposit-based Term Deposit Scheme, Monthly Mudaraba Profit Deposit Scheme, Monthly Mudaraba Marriage Savings Scheme, Mudaraba Savings Bond etc.

19. Principles of Investment Facilities Allowed by Islamic Bank:

- a) To invest fund strictly in accordance with the principles of Islamic Shariah.
- b) To diversify its investment portfolio by size of investment portfolio by sectors (Public & Private), by economic purpose, by securities and by geographical area including industrial, commercial & agricultural.
- c) To ensure mutual benefit both for the bank and the investment client by professional appraisal of investment proposals, judicious sanction of investment, close and constant supervision and monitoring thereof.
- d) To make investment keeping the socio economic requirement of the country in view.
- e) To increase the number of potential investors by making participatory and productive investment.
- f) To finance various development schemes for poverty alleviation, income and employment generation with a view to accelerate sustainable socio-economic growth and upliftment of the society.
- g) To invest in the form of goods and commodities rather than give out cash money to the investment clients.
- h) To encourage social upliftment of enterprises.
- i) To ensure avoid all the investment forbidden by the Islamic shariah.
- j) The bank extends investment under the principles of *Bai-murabaha*, *Bai-Muazzal*, Hire Purchase Under *Shirkatul Melk* and *Musharaka*.

Investment Policy Of Islamic Banking: Investment policy of Islamic Bank and non Islamic bank are fully different. The investment policies of Islamic bank are

- a) Strict observance of Islamic shariah principles.
- b) Investment to national priority sectors.
- c) Diversified investment portfolio: Diversification by size, sector, geographical area, economic purpose, securities and mode of investment.
- d) Preference to short-term Investments.
- e) Preference to investment of small size.
- f) To ensure safety & security of investments
- g) To look profitability of investments.
- h) To give support to government denationalization industrial program.
- i) Investment to trade and commerce sector.
- j) Investment to industrial sectors.
- k) Investment to Foreign Trade (import & export).
- l) Exploration of the possibility of investment in the existing Money & capital Market and help organization of Islamic Money & Capital Market.

Investment Strategy Of Islamic Banking:

The investment strategies of Islamic Bank are:

- a) To check exodus of investment clients.
- b) To induct new investment clients.
- c) To induct good investment clients of other Banks.
- d) To enhance existing limits of good investment clients.
- e) Extension of investment to transport sector.
- f) Extension of investment to backward as well as forward linkage industries.
- g) Extension of investment to Real Estate Sector.
- h) Extension of investment to Jute sector; particularly for trading and export purpose.
- i) Strengthening supervision, control and monitoring mechanism.
- j) Training and motivation of manpower to handle increased and diverse volume of investments.
- k) To give due consideration to high risk, high return and low risk, low return investment proposals.
- l) Adaptation of modern technology

Investment Facilities Allowed by Islamic Bank:

Islamic Bank invests its money in various sectors of the economy through different modes permitted by shariah and approved by the Bangladesh Bank. The modes of investment are as follows:

- i). Bai-Mechanism:
 - A. Bai-Murabaha
 - B. Bai-Muazzal

- C. Bai-Salam
- D. Istishna
- ii. Leasing, Ijara, Hire Purchase (HP), Hire purchase under shirkatul Melk (HPSM).
- iii). Shirkat Mechanism:
 - A. Musharaka
 - B. Mudaraba

Bai-Mechanism (Trading mode):

A. Bai-Murabaha: Bai- murabaha may be defined as a contract between a buyer and a seller under which the seller sells certain specific goods (permissible under Islamic shariah and the law of the land) to the buyer at a cost plus agreed profit payable in cash or on any fixed future date in lump sum or by installments. The marked-up profit may be fixed in lump sum or in percentage of the cost price of the goods.

Important features of Bai-Murabaha:

- a) It is permissible for the client to offer an order to purchase by the bank particular goods deciding its specification and committing him to buy same from the bank on murabaha, i.e. cost plus agreed upon profit.
- b) It is permissible to make the promise binding upon the client to purchase from the bank, that is, he is to satisfy the promise or to indemnify the damages caused by breaking the promise without excuse.
- c) It is also permissible to take cash / collateral security to guarantee the implementation of the promise or indemnify the damages.
- d) Stock availability of goods is a basic condition for signing a Bai-murabaha agreement. Therefore, the bank must purchase the goods as per specification of the client to acquire ownership of the same before signing the Bai-Murabaha agreement with the Client.
- e) After purchase of goods the Bank must bear the risk of goods until those are actually sold and delivered to the Client, i.e., after purchase of the goods by the Bank and before selling of those on Bai-Murabaha to the Client buyer, the bank bear the consequences of any damages or defects, unless there is an agreement with the Client releasing the bank of the defects, that means, if the goods are damaged, bank is liable, if the goods are defective, (a defect that is not included in the release) the Bank bears the responsibility.
- f) The Bank must deliver the specified Goods to the Client on specified date and at specified place of delivery as per Contract.
- g) The bank sells the goods at a higher price (Cost + profit) to earn profit. The cost of goods sold and profit mark-up therewith shall separately and clearly be mentioned in the *Bai-Murabaha* agreement. The profit Mark-up may be mentioned in lump sum or in percentage of the purchase/cost price of the goods, But, under no circumstance, the percentage of the profit shall have any relation with time or expressed in relation with time, such as per month, per annum etc.
- h) The price once fixed as per agreement and it cannot be increased further.
- i) It is permissible for the bank to authorize any third party to buy and receive the goods on Bank behalf. The authorization must be in a separated contract.

B. Bai-Muajjal:

Bai-Muajjal may be defined as a contract between a Buyer and a Seller under which the seller sells certain specific goods (permissible under Sharjah and Law of the Country), to the Buyer at an agreed fixed price payable at a certain fixed future date in lump sum or within a fixed period by fixed instalments. The seller may also sell the goods purchased by him as per order and specification of the Buyer. In case of Bank, Bai-Muajjal is treated as a contract between the Bank and the Client under which the Bank sells to the Client certain specified goods, purchased as per order and specification of the Client at an agreed price payable within a fixed future date in lump sum or by fixed instalments.

Important Features of Bai-Muajjal

It is permissible for the Client to offer an order to purchase by the Bank particular goods deciding its specification and committing himself to buy the same from the Bank on Bai-Muajjal i.e. deferred payment sale at fixed price.

- a) It is permissible to make the promise binding upon the Client to purchase from the Bank, that is, he is to either satisfy the promise or to indemnify the damages caused by breaking the promise without excuse.
- b) It is permissible to take cash / collateral security to guarantee the implementation of the promise or to indemnify the damages.
- c) It is also permissible to document the debt resulting from Bai-Muajjal by a Guarantor, or a mortgagor, or both like any other debt. Mortgage / Guarantee / Cash security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement.
- d) Stock and availability of goods is a basic condition for signing a Bai-Muajjal Agreement. Therefore, the Bank must purchase the goods as per specification of the Client to acquire ownership of the same before signing the Bai-Muajjal Agreement with the Client.
- e) After purchase of goods the Bank must bear the risk of goods until those are actually delivered to the Client.

- f) The Bank must deliver the specified Goods to the Client on specified date and at specified place of delivery as per Contract.
- g) The Bank may sell the goods at a higher price than the purchase price to earn profit.
- h) The price once fixed as per agreement and it cannot be increased further.
- i) The Bank may sell the goods at one agreed price which will include both the cost price and the profit. Unlike *Bai-Murabaha*, the Bank may not disclose the cost price and the profit mark-up separately to the Client.

C. Bai-Salam:

Bai-Salam may be defined as a contract between a Buyer and a Seller under which the Seller sells in advance the certain commodity(ies)/product(s) permissible under Islamic Shariah and the law of the land to the Buyer at an agreed price payable on execution of the said contract and the commodity (ies)/product(s) is/are delivered as per specification, size, quality, quantity at a future time in a particular place. In other words, Bai-Salam is a sale whereby the seller undertakes to supply some specific Commodity(ies) /Product(s) to the buyer at a future time in exchange of an advanced price fully paid on the spot. Here the price is paid in cash, but the delivery of the goods is deferred.

Important Features of Bai-Salam:

- a) Bai-Salam is a mode of investment allowed by Islamic Shariah in which commodity(ies)/product(s) can be sold without having the said commodity(ies)/ product(s) either in existence or physical/constructive possession of the seller. If the commodity(ies)/product(s) are ready for sale, Bai-Salam is not allowed in Shariah. Then the sale may be done either in *Bai-Murabaha* or *Bai-Muajjal* mode of investment.
- b) Generally, Industrial and Agricultural products are purchased/sold in advance under *Bai-Salam* mode of Investment to infuse finance so that production is not hindered due to shortage of fund/cash.
- c) It is permissible to obtain collateral security from the seller client to secure the investment from any hazards viz. non-supply/partial supply of commodity (ies)/product(s), supply of low quality commodity(ies)/Product(s) etc.
- d) It is also permissible to obtain Mortgage and/or Personal Guarantee from a third party as security before the signing of the Agreement or at the time of signing the Agreement.
- e) The seller (manufacturer) client may be made agent of the Bank to sell the goods delivered to the Bank by him provided a separate agency agreement is executed between the Bank and the Client (Agent).

D. Istishna'a:

Istishna'a is a contract between a manufacturer/seller and a buyer under which the manufacturer/seller sells specific product(s) after having manufactured, permissible under Islamic Shariah and Law of the Country after having manufactured at an agreed price payable in advance or by instalments within a fixed period or on/within a fixed future date on the basis of the order placed by the buyer. In *Istishna'a* contract, the buyer is called '*al-mustasni*', the seller '*al-sani*' and the goods or the subject matter of the contract '*al-masnoo*'.

Parallel Istishna'a

If the ultimate buyer does not stipulate in the contract that the seller will manufacture the product(s) by himself, then the seller may enter into a second *Istishna'a* contract in order to fulfil his contractual obligations in the first contract. This new contract is known as Parallel *Istishna'a*, whereby the obligations of the seller in the first contract are carried out.

Important Features of Istishna'a

- a) *Istishna'a* is an exceptional mode of investment allowed by Islamic Shariah in which product(s) can be sold without having the same in existence. If the product(s) are ready for sale, *Istishna'a* is not allowed in Shariah. Then the sale may be done either in *Bai-Murabaha* or *Bai-Muajjal* mode of investment. In this mode, deliveries of goods are deferred and payment of price may also be deferred.
- b) It facilitates the manufacturer sometimes to get the price of the goods in advance, which he may use as capital for producing the goods.
- c) It gives the buyer opportunity to pay the price in some future dates or by installments.
- d) It is a binding contract and no party is allowed to cancel the *Istishna'a* contract after the price is paid and received in full or in part or the manufacturer starts the work.
- e) *Istishna'a* is specially practiced in Manufacturing and Industrial sectors. However, it can be practiced in agricultural and constructions sectors also.

Leasing, Ijara, Hire Purchase (HP), Hire Purchase Under Shirkatul Melk (HPSM)

Hire Purchase under *Shirkatul Melk* is a Special type of contract which has been developed through practice. Actually, it is a synthesis of three contracts: 1. Shirkat 2. Ijarah and 3. Sale. These may be defined as follows:

Shirkatul Melk

Shirkat means partnership. *Shirkatul Melk* means share in ownership. When two or more persons supply equity, purchase an asset, own the same jointly and share the benefit as per agreement and bear the loss in proportion to their respective equity, the contract is called *Shirkatul Melk* contract.

Ijarah

The term *Ijarah* has been derived from the Arabic word which means consideration, return, wages or rent. This is really the exchange value or consideration, return, wages, rent of service of an asset. *Ijarah* has been defined as a contract between two parties, the Hiree and Hirer where the Hirer enjoys or reaps a specific service or benefit against a specified consideration or rent from the asset owned by the Hiree. It is a hire agreement under which a certain asset is hired out by the Hiree to a Hirer against fixed rent or rentals for a specified period.

Sale

This is a sale contract between a buyer and a seller under which the ownership of certain goods or asset is transferred by seller to the buyer against agreed upon price paid / to be paid by the buyer.

Thus, in Hire Purchase under *Shirkatul Melk* mode both the Bank and the Client supply equity in equal or unequal proportion for purchase of an asset like land, building, machinery, transports etc. Purchase the asset with that equity money, own the same jointly, share the benefit as per agreement and bear the loss in proportion to their respective equity. The share, part or portion of the asset owned by the Bank is hired out to the Client partner for a fixed rent per unit of time for a fixed period. Lastly the Bank sells and transfers the ownership of its share / part / portion to the Client against payment of price fixed for that part either gradually part by part or in lump sum within the hire period or after the expiry of the hire agreement.

Stages Of Hire Purchase Under Shirkatul Melk

Thus Hire Purchase under *Shirkatul Melk* Agreement has got three stages: a) Purchase under joint ownership. b) Hire and c) Sale and /or transfer of ownership to the other partner Hirer.

Important features:

- a) In case of Hire Purchase under *Shirkatul Melk* transaction the asset / property involved is jointly purchased by the Hiree (Bank) and the Hirer (Client) with specified equity participation under a *Shirkatul Melk* Contract in which the amount of equity and share in ownership of the asset of each partner (Hiree Bank & Hirer Client) are clearly mentioned. Under this agreement, the Hiree and the Hirer become co-owner of the asset under transaction in proportion to their respective equity participation.
- b) In Hire Purchase under *Shirkatul Melk* Agreement, the exact ownership of both the Hiree (Bank) and Hirer (Client) must be recognized. However, if the partners agree and wish that the asset purchased may be registered in the name of any one of them or in the name of any third party, clearly mentioning the same in the Hire Purchase *Shirkatul Melk* Agreement.
- c) The share / part of the purchased asset owned by the Hiree (Bank) is put at the disposal / possession of the Hirer (Client) keeping the ownership with him (Bank) for a fixed period under a hire agreement in which the amount of rent per unit of time and the benefit for which rent to be paid along with all other agreed upon stipulations are also to be clearly stated. Under this agreement, the Hirer (Client) becomes the owner of the benefit of the asset but not of the asset itself, in accordance with the specific provisions of the contract which entitles the Hiree (Bank) is entitled for the rentals.
- d) As the ownership of hired portion of the asset lies with the Hiree (Bank) and rent is paid by the Hirer (Client) against the specific benefit, the rent is not considered as price or part of price of the asset.
- e) In the Hire Purchase under *Shirkatul Melk* Agreement the Hiree (Bank) does not sell or the Hirer (Client) does not purchase the asset but the Hiree (Bank) promise to sell the asset to the Hirer (Client) part by part only, if the Hirer (Client) pays the cost price / equity / agreed price as fixed for the asset as per stipulations within agreed upon period on which the Hirer also gives undertakings.
- f) The promise to transfer legal title by the Hiree and undertakings given by the Hirer to purchase ownership of the hired asset upon payment part by part as per stipulations are effected only when it is actually done by a separate sale contract.
- g) As soon as any part of Hiree's (Bank's) ownership of the asset is transferred to the Hirer (Client) that becomes the property of the Hirer and hire contract for that share / part and entitlement for rent thereof lapses.
- h) In Hire Purchase under *Shirkatul Melk* Agreement, the *Shirkatul Melk* contract is effected from the day the equity of both parties deposited and the asset is purchased and continues upto the day on which the full title of Hiree (Bank) is transferred to the Hirer (Client).
- i) The hire contract becomes effective from the day on which the Hiree transfers the possession of the hired asset in good order and usable condition to the Hirer, so that the Hirer may make use of the same as per provisions of the agreement.
- j) Effectiveness of the sale contract depends on the actual sale and transfer of

ownership of the asset by the Hiree to the Hirer. It is sold and transferred part by part, it will become effective part by part and with the sale and transfer of ownership of every share / part. The hire contract for that share / part will lapse and the rent will be reduced proportionately. At the end of the hire period when the full title of the asset will be sold out and transferred to the Hirer (Client), the Hirer will become the owner of both the benefit and the asset consequently the hire contract will fully end.

- k) Hire Purchase under Shirkatul Melk is a binding contract for the parties to it — the Bank and the Client who are committed to fulfill / meet their undertakings / obligations in accordance with the relevant agreement.
- l) Under this agreement the Bank acts as a partner, as a Hiree and at last as a seller; on the other hand the Client acts as a partner, as a Hirer and lastly as a purchaser.
- m) Ownership risk is borne by both the Hiree and Hirer in proportion to their retained ownership / equity.
- n) Under this agreement the role of Hirer is one that of a trustee, the hired asset being a trust property in his hands; he will manage, maintain the asset in favour of the interest of the Hiree at his own cost as the exact subject of hire except in cases of any accident due to any event entirely beyond control of the hirer and natural calamity/disaster (acts of Allah) to be determined by the Bank after proper investigation within the knowledge of the hirer.
- o) The Hirer is responsible for keeping the hired asset(s) in good condition throughout the whole period of hire and if the asset is damaged or destroyed due to mismanagement, corruption, negligence, transgressions, default, etc. of the Hirer, he shall be responsible to compensate the Hiree (Bank) for that. Of course, such mismanagement, corruption, negligence, transgressions, default, etc. of the hirer shall be determined by the Hiree (Bank) after proper investigation within the knowledge of the hirer.
- p) The Hirer cannot, without obtaining prior written permission of the Hiree (Bank) make any changes in the exact item of the hire, and / or remove it from its place of installation and transfer it to another location.
- q) In a Hire Purchase under Shirkatul Melk agreement any stipulation may be made, provided it is not against the nature and requirements of the contract itself, nor does it violate the divine laws of Islam and is also acceptable to both the parties.
- r) Hire Purchase under Shirkatul Melk facilities may be for medium-term or long-term period which may be utilized for the expansion of production and services, as well as housing activities. The duration of Hire Purchase under Shirkatul Melk contract shall not exceed the useful life of the subject / asset of the transaction. The Bank should not normally enter a Hire Purchase under Shirkatul Melk transaction for items with useful life of less than two years.
- s) If, for any reason, the hire contract is revoked prior to the transfer of full title of the asset to the Hirer, then the title of the asset will be shared by both Hiree and Hirer — the Hirer will share that part of title which has been transferred to him against payment and the Hiree will share the remaining part.
- t) The hirer to secure the Bank (the Hiree) will pledge / hypothecate / mortgage his portion / part / share in the asset (acquired / to be acquired) and or any other asset / property of his own / third party guarantee to the Bank to fulfill his all liabilities / commitments including the accrued rental, if any.

Share Mechanism:

Mudaraba

Mudaraba is a partnership in profit whereby one party provides capital and the other party provides skill and labor. The provider of capital is called "*Shahib al-maal*" while the provider of skill and labour is called "*Mudarib*". So, Mudaraba may be defined as a contract of partnership where the *Shahib al-maal* provides capital to the *Mudarib* for investing it in a commercial enterprise by applying his labour and endeavor. Both the parties share the profit as per agreed upon ratio and the losses, if any, being borne by the provider of funds i.e. *Shahib al-maal* except if it is due to breach of trust i.e. misconduct, negligence or violation of the conditions agreed upon by the *Mudarib*. If there is any loss incurred due to the reasons mentioned above, the *Mudarib* becomes liable for that.

Types Of Mudaraba

Mudaraba Contracts may be divided into 2 types:

i. Restricted Mudaraba (Al Mudaraba Al Muqayyadah):

A restricted Mudaraba (Al Mudaraba Al Muqayyadah) is a contract in which the *Shahib al-maal* impose any restrictions on the actions of the *Mudarib* but not in a manner that would unduly constrain the *Mudarib* in his operations. Restricted *Mudaraba* may further be divided into three types:

- a) Restriction in respect of time or period: In this type of Mudaraba, the Mudaraba contract include a clause on duration of the business. After expiry of such period, the Mudaraba shall become void.
- b) Restriction in respect of place or location: In this type of Mudaraba, the Mudaraba contract includes a clause on place or location of the business. The *Mudarib* shall bound to do the business within the area of such place or location.
- c) Restriction in respect of business: In this type of Mudaraba, the *Shahib al-maal* restricts the actions of the *Mudarib* to a particular type of business as he (*Shahib al-maal*) considers appropriate.

ii. Unrestricted Mudaraba (Al Mudaraba Al Mutlaqah): An unrestricted Mudaraba (Al Mudaraba Al Mutlaqah) is a contract in which Shahib al-maal permits the Mudarib to administer the Mudaraba capital without any restrictions. In this case, the Mudarib has a wide range of trade or business freedom on the basis of trust and the business expertise he has acquired. Such unrestricted business freedom must be exercised only in accordance with the interests of the parties and the objectives of the Mudaraba contract. But, if Mudarib wants to have an extraordinary work, which is beyond the normal course of business, he cannot do so without express permission from Shahib al-maal. He is also not authorized to: a) Keep another Mudarib or a partner b) Mix his own capital in that particular Mudaraba without consent of the Shahib al-maal.

Shariah Rules for Mudaraba

Rules Relating to Mudaraba Contract: The general principle is that a Mudaraba contract is not binding, i.e. each of the contracting parties may terminate it unilaterally except in two cases:

- a) When the Mudarib has already commenced the business, in which case the Mudaraba contract becomes binding up to the date of actual or constructive liquidation.
- b) When the contracting parties agree to determine a duration for which the contract will remain in operation. In this case, the contract cannot be terminated prior to the end of the specified duration, except by mutual consent of the contracting parties.
- c) A Mudaraba contract is one of the trust based contracts. Therefore, the Mudarib invests Mudaraba capital on trust basis with in which case the Mudarib is not liable for losses except in case of breach of trust, such as misconduct, negligence and breach of the terms of Mudaraba contract. In committing any of the above, Mudarib becomes liable for the Mudaraba capital.

Musharaka:

Musharaka may be defined as a contract of partnership between two or more individuals or bodies in which all the partners contribute capital, participate in the management, share the profit in proportion to their capital or as per pre-agreed ratio and bear the loss, if any, in proportion to their capital/equity ratio.

Bank may take part in a business with its Client(s), where both the Client(s) and the Bank provide capital in fixed proportions, take part in the management of business and share the profit in proportion to their respective capital ratio or at pre-agreed ratio and bear the loss, if any, in proportion to their respective capital/equity ratio.

Important Features:

- a) The investment client will normally run and manage the business.
- b) The bank shall take part in the policy and decision making as well as overseeing (supervision and monitoring) the operation of the business of the client. The bank may appoint suitable personnel(s) to run the business and to maintain books of accounts of the business properly,
- c) In case of loss it will be shared on the basis of capital ratio.

Quard:

It is a mode to provide financial assistance/investment/loan with the stipulation to return the principal amount in the future without any increase thereon.

Quard Hassan:

This is a benevolent investment/loan that obliges a borrower to repay the lender the principal amount borrowed on maturity. The borrower, however, has the discretion to reward the lender for his investment/loan by paying any amount over and above the amount of the principal provided there will be no reference (explicit or implicit) in this regard.

If a bank provides its client any investment (loan), it can receive actual expenditure relating to the investment (loan) as service charge only once. It can not charge annually at a percentage rate.

If an investment (loan) is provided against the money deposited by a client in the bank, it has the right not to pay any profit against the amount of money given as investment/loan. But profit should be paid on the rest of the amount deposited as per previous agreement.

20. SUKUK

The latest development of the Islamic economic product is SUKUK which is a challenging instrument in the sphere of capital market. The first Sukuk bonds were issued by Malaysia in 2002 with the issuance of the first sovereign five-year global Sukuk. The demands for Malaysian Sukuk have always been on the rise. Malaysia is now a leader in Sukuk

transaction. According to the Thomson Reuters State of the Global Islamic Economy Report 2015/16, there was \$295bn of Sukuk outstanding as of the end of 2014. According to the same report \$1.814 trillion of assets are being managed in a Shariah compliant manner as of 2014 which is expecting to rise to \$3.247 trillion by 2020. Malaysia dominates the market shares in world Sukuk market. As at first half of 2015 Malaysia holds the largest market share of 54.9% or USD171.7 billion of global Sukuk outstanding.

What is Sukuk

SUKUK is the Arabic name for financial certificates, but commonly referred to as Shariah compliant bonds. The Arabic word Sukuk is plural (*sakk* for singular). Its origin can be traced back to early Islamic periods where the issuance of paper representing commodities for salary payments was called '*suk*'. In plural form '*suk*' is Sukuk. Sukuk, in its simplest definition are similar to a bond in conventional finance but must comply with the Islamic religious law, Shariah. Sukuk as in the Arabic term are commonly referred to as Islamic bond although literally they are referred to as Islamic investment certificates too.

Sukuk are defined by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) as "securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets". Securities Commission of Malaysia (SC) in its 2011 Islamic Securities Guidelines (Sukuk Guideline) defined Sukuk as "a certificate of equal value which evidence undivided ownership or investment in the assets using Shariah principles". The Fiqh academy of the OIC legitimized the use of Sukuk in February 1988. It is similar to a traditional bond. As the traditional interest paying bond is not permissible (as it is based on interest which is forbidden by Qur'an and *Sunnah*), the issuer of a Sukuk sells it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the Sukuk at a future date at par value.

Structure of Sukuk

In Malaysia, Sukuk issuance is regulated by the Securities Commission Malaysia. The structure of the Sukuk must be confirmed and approved by a Shariah Advisor appointed by the issuer who can either be an independent Shariah Advisor approved by the Securities Commission or a Shariah Committee with a Bank Negara-approved financial institution operating Islamic banking and finance activities.

Sukuk are structured in several different ways. While a conventional bond is a promise to repay a loan, Sukuk constitute partial ownership in debt (Sukuk Murabaha), asset (Sukuk Al Ijara), project (Sukuk Al Istisna), business (Sukuk Al Musharaka), or investment (Sukuk Al Istithmar).

Types of Sukuk

The Securities Commission's Islamic Securities Guidelines (Sukuk Guideline 2011) also mentioned several types of Sukuk applicable in Malaysia. They are Sukuk Murabahah, Sukuk Ijarah, Sukuk Mudarabah, Sukuk Musharakah and Sukuk Wakalah.

The seller of the Sukuk Murabahah is the issuer of the certificate, the subscribers are the buyers of that commodity and the realized funds are the purchasing cost of that particular commodity. The buyers or certificate holders own the Murabahah commodity who are entitled to the final sale price. The Sukuk Murabahah or the deferred payment Sukuk are more popular in Malaysia. Its trading in secondary markets are prohibited by Shariah due to the occurrence of trading in debt on a deferred basis which would ultimately result in *riba* (interest).

Sukuk Ijarah or lease-based Sukuk is basically a rental or lease contract that establishes the right to use an asset for a fee. In simpler terms, it denotes that the Sukuk holders are the investors who are also the owners of the asset and are entitled to receive a return when that asset is leased or rented out. All costs of maintenance and damage to the real estate are borne by the Sukuk holders. These Sukuk provide the owners the right to own real estates, collect the rent and dispose the Sukuk in such that does not affect the rights of the lessee. As Sukuk Ijara are securities of joint ownership, they can be traded at secondary markets with a price determined by market agents.

Sukuk Mudarabah is Sukuk based on equity partnership where the investors (Sukuk holders) are the silent partners or *rab al mal* while the *mudarib* or working partner is the party who utilizes the funds. Profits from the investment activity are shared between both parties based on the agreed formula.

Sukuk Musharakah is joint venture Sukuk whereby all partners contribute capital, labour and expertise. The profits or losses are also shared among all parties based on initially agreed ratios and agreement. These Sukuk share similarities with Sukuk Mudarabah but in contrast, Sukuk Musharakah have a committee of Sukuk investor representatives participating in the decision-making process. It is possible to trade Musharakah Sukuk in a secondary market.

Under Sukuk Wakalah (agency), an Islamic financial institution packages its contracts, receivable, shares or Sukuk certificates held by it into a portfolio which is then sold to investors. The income derived from this portfolio is utilized for servicing the coupon payments due under the Sukuk certificates.

Difference between Sukuk and Bond

In contrast to conventional Bonds which confer ownership of a debt, Sukuk offers an investor a share of an asset along with the commensurate cash flows and risk, adhering to Shariah principles of prohibiting charging or payment of interests. Sukuk signify the possession of a tangible asset while Bonds are often indicator of debt obligations. The latter

creates a 'lender and borrower' relationship between the bond issuers and the consumers where there is an existence of a fixed interest loan which is very *riba* in nature.

The face value of Sukuk is based on the market value of the fundamental asset whereas the face value of a bond price is based on the issuer's credit worthiness, often portrayed through its credit ratings. In the secondary market, a Sukuk sale means to sell an asset possession but selling a bond means selling a debt.

Sukuk also make it possible to raise the main asset and hence the value of the Sukuk certificates. This is not possible in bonds as the main debt cannot be raised.

Sukuk are suitable because they are asset-based securities rather than purely debt instruments. A Sukuk investor has a common share in the asset ownership linked to the investment which does not constitute a debt owed to the bond's issuer. This is different in conventional bonds where the issuer has a contractual obligation to pay to his bond holders on the stipulated dates, interests and principal. A bond is a share of debt, Sukuk are a share of the underlying asset.

Sukuk enable the future cash flow from the underlying asset to be transferred into the present cash flow as they may be issued for either existing assets or assets that will come in to the picture in the future. Sukuk investors are rewarded with a share of the profits from these assets and not interest payments, which is a violation of Shariah. They allow for the opportunity to invest in Shariah compliant assets which generally offer lower levels of risks but a predictable rate of returns. For cash-conscious investors, these instruments are tradable, allowing for easy liquidation.

Sukuk investors need to bear in mind that Sukuk are issued with specific maturity dates, the same with their conventional counterparts. Upon maturity, the Sukuk issuer buys them back. Initial investment in Sukuk is not guaranteed, meaning the Sukuk investors can or cannot get back the entire face value amount as they also share the risks of the underlying asset. In the event of defaults or failure to perform, the Sukuk investors must bear a share of the loss. (There are some Sukuk issued with repurchase guarantees. Sukuk *Ijarah* can sometimes come with a repurchase guarantee).

Sukuk are seen as an alternative to syndicated funding by many sovereign, multinational organizations, financial institutions and government-linked companies. Investors seeking long-term, credible and dependable source of investment returns should consider Sukuk for a viable investment alternative.

Islamic capital market starts its journey by introducing Sukuk in 2002 in Malaysia. In the passage of time it is growing fast as the Muslim investors showed deep interest on it. Gradually the Sukuk operations are being popular in various countries such as Indonesia, Brunei, Pakistan, Singapore, China, Bahrain, Egypt, Gambia, Iran, Kazakhstan, Kuwait, Qatar, Saudi Arabia, Singapore, Somalia, Turkey, United Arab Emirates, United Kingdom, Hong Kong and Sudan.

Bangladesh has become a role model of Islamic Banking. But Bangladesh could not enter in Islamic capital market like Sukuk as yet. Securities and Exchange Commission of Bangladesh can play a vital role to introduce Sukuk operations in prospective Islamic capital market of Bangladesh. A vast number of investors of Bangladesh can be attracted in capital market by introducing Sukuk in the capital market of Bangladesh. The Muslim investors of all over the world especially Middle East are interested to invest their money in Sukuk. So we can attract huge amount of foreign investment in Sukuk by introducing it through a Shariah Advisory Committee that can be constituted under the guidance of Security and Exchange Commission.

21. Islamic Banks in the World

The concept of Islamic Banking is several decades old. The first attempt to establish an Islamic financial institution took place in Pakistan in the late 1950s with the establishment of a local Islamic Bank in a rural area. Some pious landlords who deposited funds at no interest, and then loaned to small landowners for agricultural development initiated the experiment. The borrower did not pay interest on the credit advanced, but a small charge was levied to cover the Bank's operational expenses. The charge was far lower than the rate of interest.

The second pioneer experiment of putting principles of Islamic Banking and finance into practice was conducted in Egypt from 1963 to 1967 through the establishment of the Mit Ghamar Savings Bank in a rural area of the Nile Delta. The experiment combined the idea of German savings Bank with the principles of rural Banking within the general framework of Islamic values. The Bank's operation was based on the same Islamic principle i.e. no-interest to the depositors or from the borrower. This was the first Islamic Bank in an urban setting based in Cairo. The Bank is a public authority with an autonomous status. The principles of operation of the Naser Social Bank are very similar to those of the Mit Ghamr Savings Bank. However, the latter offers a full range of normal Banking services and a wide range of investment activities through equity participation.

Islamic Banking, contemporary to that in Egypt, emerged in Malaysia. It was a financial institution developed for the pilgrims of Malaysia. These institutions were established in response to what was the contention of the Malaysian Muslims that money spent on pilgrimage must be *Halal* and free from '*Riba*'. Consequently, Pilgrims Savings Corporation was established in 1963, which was later on incorporated into the Pilgrims Management Fund Board in 1969.

Later on, the Dubai Islamic Bank was established in 1975. Since then, a number of Islamic Bank and financial institutions have been established of different parts of the world and have been functioning successfully.

A significant development in Islamic Banking has been the granting of an Islamic Bank license in Saudi Arabia to the fifty-year old "Al-Rajhi Company", a firm noted for its currency, exchange and commercial activities, whose assets exceed \$5 billion. The firm began its operation in 1985 under the name of "Al-Rajhi Banking Investment Corporation."

22. Islamic Banking In Bangladesh

Bangladesh is the third largest Muslim country in the world with around 160 million populations of which 90 percent are Muslim. The hope and aspiration of the people to run banking system on the basis of Islamic principle came into reality after the OIC recommendation at its Foreign Ministers meeting in 1978 at Senegal to develop separate banking system of their own. After 5 years of that declaration, Bangladesh established her first Islamic bank "Islami Bank Bangladesh Limited" in 1983. At present, in Bangladesh, out of 56 banks, 8 full fledged Islamic Banks and 16 conventional banks(including three FCBs) have been working in the private sector on the basis of Islamic Shariah. Alongside, one non-bank Islamic financial institution named 'Islamic Finance and Investment Limited' (IFIL) has also been operating in the system as Islamic NBFIs since 2001. Islamic banks and non-bank financial institutions in Bangladesh since their inception have been gaining popularity in spite of some problems in their operation.

At present, 8 full-fledged Islamic banks viz.

- 1) Islami Bank Bangladesh Limited (IBBL:1983),
- 2) The ICB Islamic Bank Limited (the-then Al-Baraka Bank Limited and Oriental Bank Limited) (OBBL:1987),
- 3) Al-Arafah Islami Bank Limited (AIBL:1995),
- 4) Social Islami Bank Limited (SIBL:1995),
- 5) Shahjalal Islami Bank Limited (SJIBL:2001),
- 6) Export Import Bank of Bangladesh Limited (EXIM Bank:2004),
- 7) First Security Islami Bank Limited (FSIBL: 2009) and
- 8) Union Bank Limited (UBL:2013).

16 conventional banks have been operating in Bangladesh in line with the Islamic Shariah. The first Islamic bank, Islami Bank Bangladesh Limited (IBBL) was established in March, 1983 to conduct banking activities on the basis of the basic tenets of Islamic Shariah. Later, The Al-Baraka Bank Limited (currently ICB Islamic bank Limited) was established as the second interest-free Islamic bank in Bangladesh in March, 1987. The third and fourth Islamic banks of Bangladesh namely Al-Arafah Islami Bank Ltd. and Social Islami Bank Ltd. started their business in Bangladesh from September 27, 1995 and November 25, 1995 respectively. In the year 2001, the fifth private sector Islamic bank "Shahjalal Islami Bank Limited" started her banking operation. The sixth Islamic bank is the Export Import Bank of Bangladesh Limited. This traditional bank has converted her banking policies and principles in line with Islamic Shariah in 2004 and started operation as an Islamic bank. The seventh Islamic bank First Security Islami Bank Limited converted in 2009 to resume operation in line with the glorious Islamic Shari'ah. The only foreign Islamic bank "Shamil Bank of Bahrain EC (Islamic Bankers)" which is the largest Islamic bank in the world opened a branch in Dhaka in August, 1997 (later on, after several stage of mergers, this bank is renamed now as Bank Alfalah Limited operating in Bangladesh as an interest based bank having one Islamic banking branch in Dhaka). Besides, 16 traditional banks have been operating in the country on Islamic Shariah basis from 18th December, 1995 alongside the Islamic banks. These conventional banks have also established their own Shariah Supervisory Councils to guide their activities conforming to Islamic principles.

Number of Bank Branches of Islamic Banks (June, 2016)

	Name of the Bank	Urban	Rural	Total
A)	Full-fledged Islamic Banks	601	397	998
1	Islamic Bank Bangladesh Ltd	217	87	304
2	ICB Islamic Bank Ltd.	28	5	33
3	Social Islami Bank Ltd.	65	66	131
4	Al-Arafah Islami Bank Ltd.	70	63	133
5	EXIM Bank Limited	59	46	105
6	Shahjalal Islami Bank Ltd.	59	34	93
7	First Security Islami Bank Ltd.	77	73	150
8	Union Bank Ltd	26	23	49
B)	Islamic Banking Branches of Coventional Banks	18	3	21
1	The City Bank Ltd	1	0	1
2	AB Bank Ltd	1	0	1
3	Dhaka Bank Ltd	2	0	2
4	Premier Bank Ltd	2	2	4
5	Prime Bank Ltd	5	0	5
6	Southeast Bank Ltd	4	1	5
7	Jamuna Bank Ltd	2	0	2
8	Bank Alfalah Ltd	1	0	1
9	HSBC Ltd	0	0	0
C)	Islamic Banking Windows of Conventional Banks	25	0	25
1	Sonali Bank Ltd.	5	0	5
2	Janata Bank Ltd.	0	0	0
3	Agrani Bank Ltd.	5	0	5
4	Pubali Bank Ltd.	2	0	2
5	Trust Bank Ltd	5	0	5
6	Standard Bank Ltd	2	0	2
7	Bank Asia Ltd	5	0	5
8	Standard Chartered bank	1	0	1
D)	Tota=A+B+C	644	400	1044

Source: Bangladesh Bank

23. Role Of The Bangladesh Government And Bangladesh Bank:

The objectives of the monetary policy are to secure stability in the value of money and regulate the banking system prudently. Bangladesh Bank issued license in 1983 for establishment of first Islamic bank in Bangladesh "Islami Bank Bangladesh Limited". The Bangladesh Government also participated in establishing first Islami Bank by taking 5% share in the paid up capital. From the very beginning, considering lack of Islamic financial markets and instruments in the country, Bangladesh Bank granted some preferential provisions for smooth development of Islamic banking in Bangladesh. Among the preferential provisions, the following are important:

- 1) Currently, the scheduled commercial banks have to maintain a CRR (cash reserve ratio) averaging 6.5 percent daily on a bi-weekly basis against average total demand and time liabilities of the second preceding month, with an obligation to maintain daily minimum 6.0 percent cash against the same demand and time liabilities held by the bank. The current rate of SLR (statutory liquidity reserve) for conventional banks is 13.0 percent of demand and time liabilities. In case of Islamic shariah-based commercial banks, the rate of SLR is 5.5 percent of the demand and time liabilities. This discriminating provision had facilitated the Islamic banks to hold more liquid funds for more investment and thereby generate more profit.
- 2) Under indirect monetary policy regime, Islamic banks were allowed to fix their profit-sharing ratios and mark-ups independently commensurate with their own policy and banking environment. This freeness in fixing PLS ratios and Mark-up rates had provided scope for the Islamic banks to follow the Shariah principles independently for realizing goals of Islamic Shariah.

24. Relationship Between Central Bank And Islamic Bank:

A study regarding "The Relationship between Central Banks and Islamic Banks" prepared by IAIB was submitted to the third Expert Level Meeting on Islamic Banking Studies (Dhaka, 1989) . The recommendations adopted by the meeting include:

- The provision of financial assistance by the Central Banks in the form of Mudaraha deposits with the Islamic banks and by way of providing refinance to the Islamic banks under Mudaraba/Musharaka or any other Islamic mode of finance;
- Refinance facilities on the broils of PLS;
- Opening of current accounts at the Central Banks with occasional overdrawing facilities free of any charge and participation in the bank's clearing house;
- Regulation and Supervision of Islamic banks as applicable in interest-based banking in respect of permission for establishing banks or opening share capital, appointment of directors and auditors, foreign exchange regulations etc.;
- Lower liquidity requirements on the deposits accepted by Islamic banks till such time as appropriate Islamic financial instruments which can be counted towards liquidity requirements become available;
- For inspection of the Islamic banks, the Central Bank's personnel may be adequately trained in Shariah-based banking operations and the central banking authorities may consider preparing separate guidelines for inspection, keeping in view the special character of Islamic banks.

25. Role Of Bangladesh Bank In Promoting Islamic Banking In Bangladesh:

Unlike Bangladesh, in most Muslim countries a special law is passed prior to the establishment of an Islamic bank, which specifies the rules and regulations for the institution willing to engage in banking business based on Islamic principles. In Malaysia for example, the Islamic Banking Act 1983 was passed by Parliament prior to the establishment of the Bank Islam Malaysia Berhad in 1983 and this law applies to any Islamic banking institutions wishing to operate in Malaysia. However, despite having their own laws, Islamic Banks in most Muslim countries have to conform to other laws and regulations. Similarly, in the case of disputes or legal actions between banks and their customers, matters are referred to civil courts. For instance, the commercial transactions of Islamic Banks in Malaysia come within the jurisdiction of the civil court. Therefore, any legal proceedings between Islamic Banks and their customers are to be handled by the normal civil court.

Though there is no complete Islamic Banking Act till date for controlling, guiding and supervising the Islamic banks in Bangladesh, some Islamic banking provisions have already been incorporated in the amended Banking Companies Act, 1991 (Act No. 14 of 1991). Bangladesh Bank did not set up any separate Department at its Head Office to control, guide and supervise the operation of the Islamic banks. Inspection and supervision of the Islamic banks operation are being scrutinized by the Bangladesh Bank as per the general guidelines framed for the conventional banks. So, ensuring of the implementation of Shariah principles in the Islamic banks are being conducted by their own Shariah Councils. The role of Bangladesh Bank in controlling, guiding and supervising the Islamic Banks in Bangladesh in accordance with Islamic Shariah is very minimal. In observing the Shariah implementation status of the Islamic banks, Bangladesh Bank examines only the report of the respective banks' Shariah Councils. However, the inspectors and supervisors of Bangladesh Bank are not equally familiar with the technicalities of the different operational methodologies of the Islamic banking. This is because of the fact that there is no separate Department to look into this important matter and any concerted effort to devise separate inspection and supervision guidelines for the Islamic banks.

26. Measures Adopted By Bangladesh Bank:

Regarding the suggestions put forwarded by the study report of the IMF, Bangladesh Bank has already been complying with the following guidelines:

- a. Some legal provisions have been incorporated in the amended Bank Companies Act, 1991.
- b. For analysis of the operational risks of the Islamic banks, CAMEL rating framework is being used by the concerned Department of Bangladesh Bank.
- c. Information is being disclosed by the Islamic banks as per the same format designed for the conventional banks. A workshop was held in Bangladesh Bank in 1995 on "Islamic Banking Inspection Methodology" to devise separate inspection methodology for the Islamic banks. However, follow-up research work is going on this issue in the Bangladesh Bank.

27. Rapid Expansion Of Islamic Banks In Bangladesh

In view of the rapid expansion of Islamic banks in Bangladesh, Bangladesh Bank Issued a letter to the Islamic banks to carefully address and examine the upcoming problems in due time. To help actualize those, Bangladesh Bank identified the following problems and accordingly advised all Islamic banks on 5th March, 1997 to take appropriate measures on them through mutual discussion and co-operation:

- a. Development of an Inter-Bank Islamic Money Market.
- b. Constitution of Central Shariah Supervisory Board.
- c. Preparation of draft Islamic Banking Act.
- d. Establishment of Islamic Insurance Company.
- e. Development of New Financial Products in line with Islamic Shariah.
- f. Constitution of Consortium/Syndicate by the Islamic banks for large financing.

IBCF and Central Shariah Board in Bangladesh: In response to Bangladesh Bank's call, "Islamic Banks Consultative Forum (IBCF)" was constituted by the Islamic banks and banks having Islamic banking branches or windows in 1997 to take appropriate decision on the above identified areas. Later on, a Central Shariah Board of the Islamic Banks in Bangladesh has also been formed with the active participation and financial contribution of the said banks and banking branches. Membership to these forums is optional for the Islamic banks and financial institutions.

Government Islamic Investment Bond: In October, 2004, Bangladesh Bank has issued a *Mudaraba* bond named "Government Islamic Investment Bond" on behalf of the government as a first ever Islamic financial instrument in Bangladesh to facilitate the Islamic banks and financial institutions to invest their funds (to be calculated as an outlet for maintaining SLR). Government Islamic Investment Bond has been playing an important role in developing the Islamic financial instruments in Bangladesh. Islamic banks and financial institutions are actively participating to park their cash surpluses and enhance their return on their investments.

Focus Group on Islamic Banking: Recently, a Focus Group on Islamic Banking has been constituted in Bangladesh Bank to develop necessary guidelines to facilitate setting up of Islamic bank, Islamic bank subsidiary or branches in Bangladesh. Bangladesh Bank has issued Islamic Banking guidelines in September 2009 and thereby it is hoped now that implementation of this guideline will pave the way to bring the Islamic financial sector in close adherence to Shariah.

Member to the Islamic Financial Services Board, Malaysia: Recently, Bangladesh Bank has become member to the Islamic Financial Services Board, based on Malaysia, the body established to issue prudential and supervisory standards for the Islamic banking and finance industry. The existing supervisory process and procedures will be redesigned to evolve in line with the best international Islamic standards. Regulatory and supervisory standards, which can specifically address the unique peculiarities of the Islamic banking operations, are necessary to promote resilience and competitiveness of the Islamic banking sector. In this regard, the work of the IFSB would act as a catalyst to the development of a stronger and robust supervision framework in Bangladesh.

Working Group on Islamic Banking: In addition to that, a working Group on Islamic banking has been constituted at Bangladesh Bank to implement Strategy # 8 of Bangladesh Bank Strategic Plan 2010-2014. The working group has been working to develop Islamic monetary and liquidity instruments and supervision / inspection manual for Bangladesh Bank supervisors.

ICB AMCL Islamic Mutual Fund: To facilitate the Islamic capital market in the country and to attract the investors who want to invest in 'Shariah-based financial products, the government owned Investment Company 'Investment Corporation of Bangladesh (ICB) has introduced 'ICB AMCL Islamic Mutual Fund' for Taka 100 million in 2005 with the approval of the Securities and Exchange commission. ICB Capital Management Limited, a subsidiary of ICB is the sponsor and ICB is the Trustee & Custodian of the Fund. ICB AMCL is acting as the Asset Manager of the Fund.

IBBL Mudaraba Perpetual Bond (MPB): Islami Bank Bangladesh Limited has issued a bond named Mudaraba Perpetual Bond (MPB) of Taka 3,000 million in October, 2007 which is the first of its kind with a view to serve

multiple purposes like creating a vibrant bond market in Bangladesh, creating new avenues of investment for the prospective Islamic investors etc. From the viewpoint of the Islami Bank, the main purpose of the bond issue is to raise fund to maintain the capital adequacy requirement ratio of the Bank. As per the existing requirement of Bangladesh Bank, all commercial banks are required to maintain capital adequacy @10% of the risk weighted assets of the bank.

The purpose of the issuance of the MPB is to enhance the ability of the bank to make further investments by increasing the Capital Adequacy Ratio. One of the main objectives is to utilize the fund to be raised in prospective/profitable sectors. It is to be mentioned that through the issuance of the MPB, IBBL is going to play a pioneering role in creating a bond market in Bangladesh, as this will be the first of its kind in the country. It is worthwhile to mention that, through the issuance of MPB, IBBL will be able to reduce its cost of fund substantially, which will ultimately be beneficial for the stakeholders. It is to be further mentioned that, the fund raised through issuance of MPB will be utilised in the profitable investment programs of the Bank more profitable. In addition to the income derived from deployment of Mudaraba fund, the bondholders will be entitled to get a rate of profit equivalent to 10% of the rate of dividend to be declared by the Islami Bank Bangladesh Limited.

Islamic Banking In Conventional Banks:

One of the important developments in Islamic banking in last few years has been the entry of some conventional banks in the market and their use of Islamic modes of financing through their Islamic branches, windows or units. It necessitates and encourages the globalization of Islamic banking, which includes some of the giants in the banking and finance industry. Bangladesh was not indifferent to this turning move. Presently, 16 conventional banks have opened a number of Islamic banking branches alongside their interest based branches. These conventional banks should focus on the safeguards that ensure the Islamic nature of these branches such as separation and compliance with Shariah. Separation of Islamic banking branches includes separation of capital, accounts, staff employed and office. However, the most important thing is compliance with the dictates of Shariah. There should be strong Shariah supervisory boards in order to prepare the model agreement, to approve the structure of every new operation and lay down the basic guidelines for each and every mode of financing. There must be also some Shariah scholars employed to monitor the compliance with Shariah in daily basis. Besides, there should be an annual review of the transaction carried out during the year. The staff of the banks should also go through training program in order to understand the basic Islamic principles and the philosophy governing commercial transactions in order to implement it in their day-to-day work.

Islamic Non-Bank Financial Institutions In Bangladesh

Non-bank Financial Institutions (NBFIs) represent one of the most important segments of financial system and play very important role in mobilizing and channeling resources in Bangladesh. The NBFIs comprise investment and finance companies, leasing companies etc. numbering 34 (till 2016) are regulated by the Financial Institutions Act, 1993 and the regulations made there under. Out of 34 non-bank financial institutions, two NBFIs called 'Islamic Finance and Investment Limited' and Hajj Finance Company Limited have been functioning in line with the Islamic Shariah since 19 April 2001.

28. Recognition by Bangladesh Bank:

Though Bangladesh Bank has permitted Islami Bank of Bangladesh Ltd to carry on the banking business with Shariah Principal in 1983, there was no any legal framework under which Islamic banking business can run. Meantime, 8 banks have obtained permission from Bangladesh Bank to conduct Islamic banking, such as Islami Bank Bangladesh Ltd, Al-Arafah Islami Bank Ltd, Social Islamic Bank Ltd., Shahjalal Islami Bank Ltd., Export Import Bank of Bangladesh Ltd., First Security Islamic Bank Ltd. and Union Bank Ltd. Apart from that some conventional banks have got permission to open Islamic Banking Branches / Windows / Subsidiary such as Prime Bank Ltd, Dhaka Bank Ltd, Southeast Bank Ltd, The Premier Bank Ltd, Jamuna Bank Ltd, HSBC-Amanah, Standard Bank Saadiq, The City Bank Ltd, and AB Bank Ltd.etc.

As Islamic Banking has become a part of mainstream banking in Bangladesh, Bangladesh Bank, at least promulgated Guidelines for Islamic Banking through BRPD circular No. 15, dated 09 September, 2009. By this circular Islamic banks have got a legal framework as well as recognition by Bangladesh Bank as well as Government of Bangladesh.

Now we may highlight a liminary of the guideline:

a). Regarding formalities of Shariah Council in Section-III of the guideline it is embodied that "The Board may form an independent Shariah Supervisory Committee with experience and Knowledgeable persons in Islamic Jurisprudence ". By using 'may' it has not been compulsory to form 'Shariah Council'. In this regard we like to quote from comments of expert of Islamic Banking: "An Islamic Bank does not only have to have a Board of Directors, but it also has to have a Shariah Advisory Board. This is most important where Islamic Bank operate in a Society, which does not fully apply Shariah laws. The board shall possesses a high degree of independence both internally and externally". So, the formation of Shariah Board must be mandatory.

b). In appendix-III of the guideline it is mentioned that “Profit Sharing Ratio (PSR) between the Mudaraba depositors the bank (Mudarib) should be declared before the starting of accounting year / at the time of Mudaraba Contract and to be duly disclosed to the Mudaraba Depositors”.

To determine the obligation to the depositors the Profit Sharing Ratio should not be flexible. In this regard Bangladesh Bank can fix up the Profit Sharing Ratio like SLR and CRR. In Malaysia the profit sharing ratio is 70:30 which means that 70% of total income of the Bank to be distributed to the Mudaraba depositors. In Bangladesh different Islamic bank declares different profit sharing ratio. For the sake of depositors Bangladesh Bank can fix up the profit sharing ratio, so that no bank can deprive the depositors.

c). Except Izara Bill Baia Investment, Islamic Banks apply Mark-up profit on investment account as per agreed rate of profit during disbursement of investment. That is why the figure of total investment in General ledger carries the actual investment plus Mark-up. As a result the figure of investment of Islamic Bank appears to be inflated than the outstanding actual investment. Due to inflated investment amount Islamic bank faces inconvenience in meeting capital Adequacy ratio and other obligation of Bangladesh Bank. As such, the “Investment” item under specimen of Balance Sheet (Appendix-II) of said Guidelines should be “Investments (without Mark-up)”.

d). Profit earned after the expiry of investment deal cannot be transferred in to income account as per Shariah principle. The said profit is treated as compensation money (if realized later on) which is not clarified in the guidelines in question.

e). In the guidelines there is a provision from the conventional Banks to obtain license for opening Islamic Banking Branch(es). Actually, it is impossible to separate the fund of Islamic banking branch. In case of transaction in General Account the fund cannot be segregated. Moreover, if the said Islamic banking branch does not deploy the fund in investment financing, the depositors may be deprived remarkably. Moreover, dual policy in some bank can create mistrust of customers of Islamic banking branch on the principle of Shariah. So, dual principle policy should not be encouraged.

f). In case of Bai-Muazzal & Bai-Murabaha, generally a deal is allowed for a maximum period of one year. Some times the borrower ask for time more than one year for adjustment of the deal. In such case a banker can not allow (though Shariah does not object) time more than one year as per Bangladesh Bank directives. Moreover, some times before expiry of a deal (say one year) the borrower request the banker to extend validity period for justified reason. In that case under prevailing system a banker cannot extend the validity as the Mark-up meanwhile has been exhausted. To cope with the situation of a bonafide borrower there should be certain clarification in the guidelines of Bangladesh Bank.

29. Misconception on Islamic Banking

In Bangladesh, most of the people do not know the procedure of the Islamic Banking. As there is a limited scope to gather knowledge of Islamic Banking the following misconceptions are hindering the growth of Islamic Banking in Bangladesh:

Misconception- 1

“It is said that the profit allowed by Islamic banks is actually interest. It has been named profit by them as they receive it in a alternative way.”

Actually, it can be said that this misconception can be removed if the difference between profit and interest is understood. For instance , Mr. ‘X’ gave Tk.100 to Mr. ‘Y’ as a loan at an interest of Tk.10 repayable within one year. In another case, Mr. ‘A’ sold a property of Tk.100 at Tk.110 to Mr. ‘B’ on deferred payment basis repayable within one year. Are the benefits of the both transactions same? In fact, the transaction made between Mr. ‘X’ and Mr. ‘Y’ is on the basis of interest against loan. And the transaction made between Mr. ‘A’ and Mr. ‘B’ is on the basis of profit derived from buying and selling. Misconception lies with many men as they do not find any difference between interest and profit.

Misconception- 2

“It is said that the buying and selling showed by Islamic Bank at the time of investment is mere paperwork, it has no existence practically.”

In fact, it can be said that in the Bai-Muazzal investment system, Islamic Bank asks the investment-client to apply to the bank after fixing the price of the commodities he wants to buy. The bank verifies whether the price of the commodities is genuine. Being satisfied, the authorized officer issues a pay order or DD in favor of the seller. At the same time a contract is executed between Bank and the client where it is stipulated that the commodities are sold to the client in cash which is repayable within one year along with determined profit.

Here, there is no scope for any fake transaction. But some Islamic Banks nominate the client to act as buying agent (which is in compliance with Shariah) of the Bank and Bank disburse the investment (determined invoice value) through the account of buying agent. Seeing this procedure, it might appear that this arrangement is mere paper-transaction. It is, in fact, true, but if the Shariah allows the appointment of buying agent then there is nothing unethical. Whatever the procedure of the trading is, the intention of buyer and seller is actually important. And that intention is to remain refrained from interest.

Misconception- 3

“It is said that Islamic Banks offer fixed rate of profit on deposit as the conventional banks do. In fact, what the Islamic Banks offer on deposit in the name of profit, is nothing but interest”.

It is nothing but a misconception. Islamic Bank never offers fixed rate of profit on the deposit. At the time of opening of a Savings or deposit scheme account it is stipulated that by using the deposit the bank will pay a portion of income which derives from his deposit, as for example, 65 : 35. It means that the depositor will get 65 percent of the total profit that the bank earns and the Bank will get rest 35 percent. The said 65 percent of profit is credited to the account of depositors on the date of maturity or as per agreement.

It is notable that in case of mudaraba accounts like savings account, fixed deposit account etc, the rate of profit on deposit declared by the Banks is provisional one, not fixed. It means that the actual rate might be more or less after calculating the bank's profit and loss at the end of accounting period. If profit is credited to any account before calculating the profit and loss (such as fixed deposit) then it is adjusted after completion of the calculations. That is, if excess profit is credited, then it is deducted and if less profit is credited, then more profit is credited after final calculation of profit and loss accounts.

Therefore, it is not true that Islamic Bank offers fixed rate of profit on deposit.

Misconception- 4

“It is said that if investment (loan) is taken from Islamic Bank, then it must be repaid with fixed rate of profit, which is similar to the interest given in the conventional banks.”

It is another misconception. The excess amount between purchase & sale price with a risk of loss is profit. The amount which is predetermined upon principal amount for a certain period with certain rate is interest. If someone sells a commodity determining fixed rate of profit, then it won't be unethical. Because, here the rate has been determined upon the cost price. In the Murabaha system, at the time of allowing the investment, the Bank delivers the commodity after fixing the rate of profit. For instance, I bought the commodity at Tk.100. It will be sold if a profit of 15% is given. In another case, buying the commodity at Tk.100, it will be sold to the buyer at Tk.115 without declaring the cost price. The two transactions have no difference. It does not mean that it will be interest if it is expressed in terms of percentage.

Misconception- 5

“It is said that whatsoever the Islamic bank tells that it carries out business on the basis of profit and loss, it is not actually true. In fact, Islamic Bank doesn't share any loss with the client.”

It is also a misconception. Islamic Banks do business on the basis of profit and loss, though it may not do the business on that basis also. When the Islamic Bank accepts deposit, then definitely it is on the basis of Mudaraba principle i.e., on the basis of profit and loss. That means if the Islamic Bank can earn profit by utilizing the accepted deposit, then the client will get a portion of it at the agreed rate and if loss happens, then the depositor must share the loss. Both parties will share the loss – this is the Mudaraba principle. But when the Islamic Bank invests in the Murabaha system, then it doesn't share the loss. Because in the Murabaha system, bank does not promise to share the loss. Whether the Islamic Bank will share the loss, it depends on the terms and condition laid down in the contract. As for example, if the business is in Musharaka system, then in this case two or more people or institutions provide the capital on the basis of partnership. The bank is a partner in this case. If profit is earned in the business then it will be distributed as per the contract and if loss is incurred then partners have to share the losses in proportionately as per proportion of capital invested.

So, it is not true that Islamic Bank doesn't take risk of loss.

Misconception- 6

“It is said that though Islamic Bank does not deal in interest, but in case of transaction with Bangladesh Bank, does Bangladesh bank provide profit?”

It is true that Bangladesh Bank transacts with the commercial Banks on the basis of interest. And that's why the Statutory Liquidity Reserve (SLR) for Islamic Bank has been fixed at 5.50% whereas the SLR for conventional banks

is 13%. To avoid interest, Islamic Banks keep entire amount of SLR with Bangladesh Bank in cash (interest free) or in Islamic Bond.

30. Growth of Islamic Banking in Bangladesh

Table 01. Comparative Position of the Islamic Banking Sector (as of end December 2015)

(billion Taka)

Particulars	Islamic Banks	Dual Banking*	All Banking Sector	Islamic Banking Sector	Share of Islamic Banks among all Banks
1	2	3	4	5 (2+3)	6
Number of banks	8	16	56	24	42.86
Deposits	1552.2	89.4	8033.5	1641.6	20.43
Credits	1305.5	81.7	5952.9	1387.2	23.30

Source: Bangladesh Bank Report.

*Conventional + Islamic. Conventional banks which have Islamic banking branches do not maintain SLR individually.

At the end of December, 2015, out of 56 banks in Bangladesh, eight PCBs (Private Commercial Banks) operated as full-fledged Islamic banks and 16 conventional banks (including three FCBs) were involved in Islamic banking through Islamic banking branches. The Islamic banks have continued to show strong growth since its inception. Table 01 shows that the deposits of the Islamic banks and Islamic banking branches of the conventional banks stood at Tk.1641.6 billion at the end of December 2015 which accounted for 20.43 percent of total deposits. Total credit (Investment) of the Islamic banks and Islamic banking branches of the conventional banks stood at Tk.1387.2 billion at the end of December 2015 representing 20.30 percent of total credit of the banking system of the country.

Table 02. Comparative Position of the Islamic Banking Sector (as of end June 2009)

(billion Taka)

Particulars	Islamic Banks	Dual Banking*	All Banking Sector	Islamic Banking Sector	Share of Islamic Banks among all Banks
1	2	3	4	5 (2+3)	6
Number of banks	7	9	48	16	33.33
Deposits	428.0	36.4	2603.1	464.4	17.84
Credits	411.5	22.8	1939.9	434.4	22.39

Source: Annual Report 2008-2009, Bangladesh Bank.

The comparative position of Islamic Banking sector in 2009 and 2015 shows a remarkable growth of the sector over that period. Over the about six years deposits of Islamic banking sector has increased 2.59% while it was 0.91% in growth of credit (investment). The notable growth was registered in the growth of number of banks involved in Islamic banking business in Bangladesh i.e. 9.53%.

It is reported that a number of applications have been submitted to the Bangladesh Bank either for new Islamic bank or for conversion of existing conventional banks into Islamic banks. The above scenario shows a keen interest of Islamic banking by Bangladeshis which may be treated as a great threat to the conventional banking.

31. Prospects in Bangladesh

Like other Muslim countries Islamic Banking has been growing fast in Bangladesh. So it has tremendous prospects in future. Islamic bank's prospects are enumerated below:

- Islamic Banking has started its journey in Bangladesh in 1983 through opening only one Islamic Bank i.e. Islami Bank Bangladesh Ltd. Now, the banking sector of Bangladesh has got 8 full fledged Islamic Bank and 16 other partially operated Islamic Bank. Out of 56 commercial Banks 24 banks are involved with Islamic banking which is 43%. That means, almost half of the banks are being operated with a belief in Shariah. The growth shows that the entire banking sector may come under the umbrella of Shariah Banking in near future. And that will be a branding of Islamic Banking in the globe which Bangladesh deserves.
- Allah has forbidden Interest. *Allah has permitted trading and forbidden 'Riba'* (usury) (Surat Al Baqarah, Verse 275). A Muslim can not deals in Interest if he believes in Qur'an. In Bangladesh 90% people are Muslim. So there is a good prospect of Islamic Banking in Bangladesh. If the clients get opportunity to bank with Islamic Bank, the majority of them will obviously route their business with Islamic Banks.

- c). Islamic Banks do business on the basis of profit and loss basis which other banks can not do. The Musharaka and Mudaraba are the unique modes of Investment of Islamic Banks which are operated on the basis of profit and loss. But due to lack of honesty, integrity and transparency of the client these mode of investments could not be used widely. An in-depth research is needed to explore a dependable *modus operandi* with a view to establish the Musharaka and Mudaraba investment system in the economic environment of Bangladesh.
- d). As the Islamic Banks use their funds in asset-backed investment operations, it can help to reduce the inflation in the economy.
- e). Islamic Bank allow *Quard Hasana* investment with out profit in emergency cases and to the less fortunate people, which helps to eradicate poverty of the society.
- f). Islamic Bank is growing fast across the world. As such, a good business opportunity will be created through Islamic Banks with Islamic Banks of other countries.
- g). It is essential to establish Islamic Common Market with the support of Muslim countries. As the Islamic economy is expanding well, the Islamic Common Market may be visualized soon. At that time the business of Islamic Banks will increase remarkably.
- h). Bangladesh has been experiencing a sharp growth in Islamic Banking. But Bangladesh could not enter in Islamic capital market like Sukuk as yet. Securities and Exchange Commission of Bangladesh can play a vital role to introduce Sukuk operations in prospective Islamic capital market of Bangladesh. A vast number of investors of Bangladesh can be attracted in capital market by introducing Sukuk in the capital market of Bangladesh. The Muslim investors of all over the world especially Middle East are interested to invest their money in Sukuk. So we can attract huge amount of foreign investment in Sukuk by introducing it through a Shariah Advisory Committee that can be constituted under the guidance of Security and Exchange Commission.

32. Recommendations.

01. Mudaraba and Musharaka financing are the unique types of Islamic financing. As these types of financing are based on true declaration and honesty, Islamic banks did not extend their investment at a remarkable volume which is now (June, 2016) at a minimum level (only 1.86% of total investments). They should pay more attention to use the Mudaraba and Musharaka mode of financing.
02. As per contract the clients have to adjust their investment deal on or before maturity. After maturity Islamic banks can not transfer their profit in to their income account. But most of the clients do not adjust their liabilities within maturity period. In that situation many Islamic Banks create new deals for adjustment of old deals before expiry of the deal which is not fair practice. To overcome the situation, a penal charge may be imposed if the client does not adjust the investment deal with in expiry.
03. Islamic banks can not transfer the profit on investment into their income account after expiry of the deal. However, that profit is transferred to compensation accounts. After accounting period that compensation amount can not be used in their normal course of transactions. It is observed that banks have to allow waiver of profit and principal investment due to some obvious reasons like, death of client, genuine business loss, change of government regulations, adverse situation in liquidation of securities etc. In those cases the compensation money of bank can be used on humanitarian ground (if shariah permits).
04. There are 16 conventional banks in Bangladesh which are doing Islamic banking through window or separate branch. The management of the bank is earning profit as per shariah by one hand and earning interest (not permissible in shariah) by another hand, as if somebody has two wives, one is lawful and another is illegitimate, which is a question of morality. To uphold the image of the Islamic law (Quran and Sunnah) dual banking system should not be permitted and there should not impose any hindrance in the path of opening of new Islamic bank or conversion of conventional banks into the Islamic Banks.
05. Bangladesh has become a role model of Islamic Banking. But Bangladesh could not enter in Islamic capital market like Sukuk as yet. Securities and Exchange Commission of Bangladesh can play a vital role to introduce Sukuk operations in prospective Islamic capital market of Bangladesh. A vast number of investors of Bangladesh can be attracted in capital market by introducing Sukuk in the capital market of Bangladesh. The Muslim investors of all over the world especially Middle East are interested to invest their money in Sukuk. So we can attract huge amount of foreign investment in Sukuk by introducing it through a Shariah Advisory Committee that can be constituted under the guidance of Security and Exchange Commission.
06. In case of Bai-Muazzal & Bai-Murabaha, generally a deal is allowed for a maximum period of one year. Some times the borrower asks for allowing time more than one year for adjustment of the deal. In such case a banker can not allow (though Shariah does not object) time more than one year as per Bangladesh Bank directives. Moreover, some times before expiry of a deal (say one year) the borrower requests the banker to extend validity period for justified reason. In that case under prevailing system a banker cannot

extend the validity as the Mark-up meanwhile has been exhausted. To cope with the situation of a bonafide borrower there should be certain clarification in the Guidelines for Islamic Banking of Bangladesh Bank.

07. In international trade, Islamic banks can not avoid interest. While crediting interest in Islamic Bank's Nostro accounts maintained with the overseas banks Islamic banks can not reject it. However the interest is used in philanthropic activities. But while Islamic Banks are obliged to pay interest (such as, interest to be paid on DP bill) it can not avoid the interest. To avoid such type of transaction there is a requirement of a Islamic International Forum like ICC (International Chamber of Commerce) of which all Islamic Banks across the globe may be the members. Bangladesh may be the pioneer to initiate formation of such Forum.
08. Where there is an Islamic Bank it should be given preference to nominate L/C advising bank, negotiating bank, add-confirming bank etc. while doing international business in order to shariah compliance and to boost up Islamic Banking sector through out the world.
09. There is no accounting standard to be followed by Islamic Banks. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIF) can play a vital role for setting internationally acceptable accounting standard.
10. As per Article-5 of Uniform Customs Practice for Documentary Credit (UCP-600), Banks deal with documents and not with goods, services or performance to which the documents may relate. On that contrary Islamic Banks deal with goods by way of buying-selling, Rental or Partnership. So separate rules for Islamic Banks required to be adapted.
11. All the mode of investment of Islamic Bank are almost asset-backed. As such, there is less possibility of defaulting of investment and suit to be filed against entrepreneurs if norms of shariah are complied with. The performance of Money Loan Court is not satisfactory which is an inherent weakness of prevailing conventional banking. The nation can get rid of the such situation by practicing Shariah based Islamic banking.
12. To ensure the growth of the Islamic Banking we must have dispute settlement institutions or Islamic courts that understand the form of the contracts so that these can be interpreted and enforced accordingly

33. Conclusion

The Islamic banking sector of Bangladesh, due to popular support and market demand continued to grow at a rapid pace which is reflected by the increasing branch network of Islamic Banking Institutions. Islamic Banking Industry in Bangladesh has been highly contributing to spur economic growth and generate employment in the country to fulfill the vision of the government to reach the country at Middle Income Level by the year 2021. Thereby, this banking industry with more than 20% market share and 28543 employees have been playing a very dominant role in mobilizing deposits and financing in the real sector industries, services and other key sectors of the economy and collecting about a one-third portion of total foreign remittances in Bangladesh. At present 43% of existing commercial Banks are directly involved with running their shariah based banking. As the growth of Islamic banks in Bangladesh is increasing fast, there is a possibility to lead the Islamic banking sector in the globe by the Islamic banking of Bangladesh in near future. So the Government of Bangladesh should pay more attention to develop the Islamic Banking sector of Bangladesh.

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Thank you