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# Challenges of Sukuk Bond Market Development in Bangladesh

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**Abstract**

*Shariah-compliant Sukuk have recently been recognized as a promising financial product among Islamic financial institutions and are among the world's fastest-growing sectors. Furthermore, Sukuk plays a crucial and influential role across multiple aspects of the economy and financial services, and it also holds a privileged position in financial markets and international money markets. Bangladesh's path to Sukuk was fraught with difficulties. Bangladesh started its journey toward Sukuk with a bag of challenges. The paper empirically investigates challenges related to Sukuk market development in Bangladesh. Descriptive statistics were used to identify the existence and dimensions of challenges facing Islamic financial organizations' Sukuk in Bangladesh. The study found that the selected challenges affected the development of Sukuk in Bangladesh. Finally, the paper proposed policies to address challenges with Bangladesh's Sukuk bonds.*

***Keywords:*** *Sukuk bond · Financial markets · Development · Challenges.*

***JEL Classification:*** *E44 · G12 · O16*

## 1. Introduction

An Islamic shariah-based financial certificate known as a "Sukuk" represents a share of ownership in a portfolio of active or admissible assets in Islamic nations. Sukuk is an alternative financing mechanism based on Islamic Shariah principles that symbolizes undivided ownership of an underlying asset, specialized project, or investment activity. It provides the investor with evidence of ownership in an underlying asset, as well as other financial responsibilities when engaging in trade and other commercial operations. The term "investment sukuk" is defined in Shariah Standard No. 17 of the "Accounting and Auditing Organization of Islamic Finance Institutions (AAOIFI)". Because Islamic law prohibits lending with interest, it forbids the use of conventional bonds for financial transactions. A Sukuk is not a debt obligation because the profits from the certificate are used to purchase an asset in which the investor has a partial ownership share. A variety of Bangladeshi

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investors now have access to Sukuk, also known as Islamic Bonds. Sukuk offers a diversifying investment opportunity for long-term funding in crucial areas such as Bangladesh's infrastructure development initiative. As some nations struggle to secure long-term funding sources, sukuk appears to be a potential alternative to expand the funds available to finance investments and promote growth in Bangladesh. The absence of a solid issuance framework from regulatory institutions is one of the most significant hurdles in structuring a corporate Sukuk issue in Bangladesh.

## 2. Objectives of the Studies

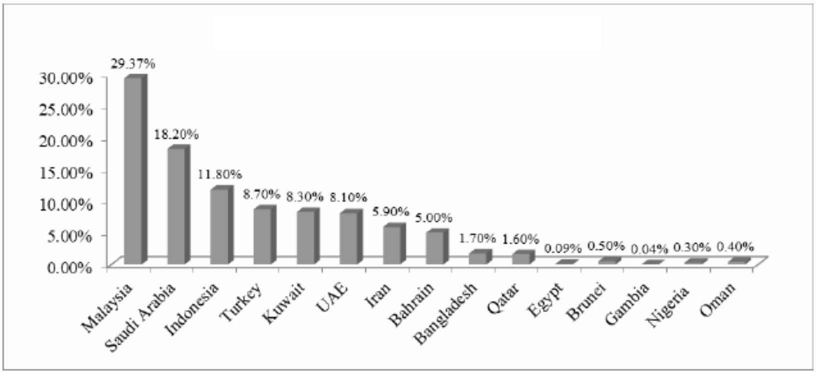


Chart 1. Total Sukuk Issuances by Country
Source: The International Financial Standards Board (IFSB)

In Bangladesh, sukuk bond issuance is an alternative financial solution for Islamic banks' excess liquidity, enabling them to invest in long-term development projects rather than relying primarily on interest-bearing financial products. In addition, the issuance of Islamic Sukuk will result in tangible assets that will contribute to economic growth. As an outcome, the purpose of our research is to examine the definition, historical context, and characteristics of SUKUK bonds. (ii) The current situation of Sukuk bonds in Bangladesh; (iii) The role of Sukuk bonds in Bangladesh's economic growth; (iv) Bangladesh's Sukuk Bond growth Challenges; and (v) Policy Recommendations for overcoming the barriers to Sukuk bond development in Bangladesh.

## 3. Data Source & Preliminary Analysis

The study is a descriptive research study. It is based on empirical data and on the existing literature, both extracted from multiple sources. Secondary data from the Bangladesh Bank and annual reports from a range of local and foreign financial institutions are analyzed. The resources for this study were compiled and consulted from scholarly journals, research reports, and working papers. Since this is a new experience for us, we used a descriptive approach in this study to highlight the significance of Islamic bonds (Sukuk) as an alternative investment instrument under Islamic law to aid Bangladesh's economic growth.

We explain why a Sukuk bond was necessary in Bangladesh, the global Sukuk market landscape, potential challenges in developing the Sukuk market, and the future prospects of the Sukuk bond in Bangladesh.

**4. Literature Review**

Sukuk, unlike conventional bonds, gives governments and enterprises access to the vast and growing Islamic liquidity pool. Bangladesh has made significant progress in Islamic banking, introducing sukuk through various financial initiatives. Sukuk issues are the subject of an increasing number of studies worldwide.

M. N. Hoque (2014) outlines several key topics and challenges. He emphasized capital guarantees, Shariah issues, a scarcity of qualified experts, economic issues, and contractual frameworks in all of their forms. The paper also examines Shariah rule harmonization and the challenges in identifying the governing law for sukuk issuance in the Bangladesh capital market.

W. S. Alowaiyesh, M. T. Mohamad, and M. S. M. Noh (2020) evaluate the legal and regulatory framework for sukuk in Kuwait. The most significant issues and concerns, according to the report, are related to the benchmark yield curve, public understanding, and sukuk ratings. The research study concludes with an agenda of proposed solutions, all of which require further coordination among government agencies and connected stakeholders.

Cakir and Raei (2007) assess the impact of sukuk on the expense and risk basis of investment portfolios using the Value-at-Risk (VaR) approach. The article examines whether the issuer's secondary-market behavior for Eurobonds and sukuk differs enough to provide diversification benefits. The authors created two hypothetical portfolios for their research: one consisting solely of Eurobonds and the other of both Eurobonds and sukuk. The authors find that the sukuk lowers the second portfolio's VaR.

Abdullah, Abdul Aziz, et al. (2014) discuss the issues related to issuing sukuk to fund infrastructure projects. According to the authors, sukuk issuance has become a popular funding option for infrastructure projects, surpassing traditional bonds. However, they note that supporting infrastructure projects poses certain challenges. The paper identifies a common risk across both Islamic and conventional capital markets when raising project funding. Among these are legal and regulatory risk, liquidity risk, market risk, credit and counterparty hazards, operational risk, organizational and capital risk, currency risk, and other challenges.

M. A. B. Al-Amine (2008) identifies several critical issues and barriers in the sukuk market. The authors specifically examine capital guarantee, contractual frameworks, price, and asset replacement in the context of ijarah sukuk, musharakah sukuk, and their many variants. It also discusses issues such as sukuk ratings, harmonizing Shariah law, and the difficulties in drafting laws to regulate sukuk issuance.

Kamil, K. H., Abdullah, M., Shahimi, S., and A. G. Ismail (2010) examine Islamic securitization through the use of sukuk structures. The authors examine risk-sharing behavior in Islamic financing through several forms of mudharabah and musharakah sukuk, structured via asset securitization. They do this using descriptive, analytical, and comparative methodologies. The research asserts that sukuk structures based on partnership principles are also considered risk-sharing arrangements rather than risk-shifting arrangements. The study has important ramifications for risk management strategies, particularly regarding sukuk architecture. As they focus on risk-sharing ideas that may lead to higher mobilization of savings and investment, originators and special-purpose vehicles (SPVs) may pay closer attention to more sukuk based on partnership principles.

## 5. Shariah-based Bonds (Sukuk) Vs Non-Shariah Bonds

Shariah-compliant bonds (sukuk) primarily differ from conventional bonds(non-shariah) in the manner in which returns are earned—through profit-sharing or lease income rather than fixed interest—and in the linkage of principal to underlying assets rather than ordinary debt, although the overall maturity periods are normally comparable.

### 5.1 Differences between Shariah-compliant Bonds and Non-Shariah-compliant Bonds in Terms of Yield and Maturity

The basic differences between Shariah-based bonds and non-Shariah bonds in terms of yield and maturity are given below –

Table 1. Shariah-based bonds Vs non-Shariah bonds in terms of yield and maturity

| Aspect | Shariah-based bonds (sukuk) | Non-Shariah bonds (Conventional) |
|---|---|---|
| Yield/Return source | Profit/rent from specific underlying Shariah-compliant assets or ventures. | Fixed interest on a debt obligation. |
| Form of yield | share of profit or rental/lease income from underlying Shariah-compliant assets or projects | Yield is mainly a function of the fixed coupon, credit spread, and market interest rates. |
| Risk–yield linkage | Asset-backed, risk-sharing; spreads are often less sensitive to equity volatility and sometimes narrower. | Pure credit and interest rate risk; spreads broaden with volatility. |
| Maturity Structure | Contractual maturity is often similar to the tenors of bonds. | Contractual maturity across standard tenors. |
| Principal at maturity | Represent ongoing ownership, with maturity returns tied to the underlying assets' current value or agreed sale price. | Repayment of face value debt, independent of asset values. |

### 5.2 The Reason for the Borrowers' Preference for Shariah-based Sukuk Bonds over the Existing Non-Shariah Bonds

Borrowers (issuers) tend to prefer Shariah-compliant sukuk over conventional bonds due to the prospect of attracting a broader investor base, complying with Islamic and ethical standards, and possibly enhancing pricing, credibility, and balance sheet management.

**Access to a broader investor base:**

- Sukuk enables governments and corporations to access investors who are unable or unwilling to invest in interest-based debt, including Islamic financial institutions and Shariah-compliant retail investors.

- The broader demand can elevate subscription levels and assist issuers in securing large-scale transactions that may be challenging to finance solely through traditional bonds

**Potential funding cost and pricing benefits:**

- Empirical and industry research indicate that sukuk can attain comparable or occasionally lower effective funding costs due to robust demand and a limited supply of high-quality Shariah-compliant instruments.

- Asset underlying and increased transparency necessary for sukuk structures may improve perceived credit quality, potentially resulting in narrower spreads for certain issuers.

**Alignment with Shariah, ESG, and reputation:**

- Sukuk are suitable for Islamic banks, Takaful firms, and Shariah-compliant corporates as they do not demand explicit interest (riba) and only finance kosher economic activity.

- Sukuk's ethical and asset-linked character aligns with ESG and socially responsible investing, enabling issuers to demonstrate responsible finance and build reputational capital.

**Balance-sheet, risk, and project-finance features:**

- Sukuk structures, such as ijara, musharakah, and mudarabah, can be customized to match project cash flows and share risk, which is especially appealing for projects involving a lot of assets and infrastructure.

- Sukuk markets help diversify funding sources beyond bank loans and conventional debt, and asset backing may enhance liquidity and capital metrics for Islamic banks issuing sukuk.

**Strategic and market development reasons**

- Governments in Islamic finance centers issue sukuk to establish Shariah-compliant capital markets and serve as standards for corporate issuers.
- Firms issuing sukuk gain awareness among global Islamic and Middle Eastern investors, thereby facilitating future capital-raising and cross-border expansion.

### 5.3 Reason for lenders' preference towards Shariah-based Sukuk Bonds over the Existing Non-Shariah Bonds in the Market

Lenders (investors) could prefer Shariah-compliant sukuk due to their combination of regular earnings, asset-backed structure, ethical adherence, and diversification advantages that set them apart from traditional bonds.

**Asset backing and potential value gain**

- Sukuk provides investors with ownership or beneficial interest in certain assets or projects, rather than relying just on the issuer's debt repayment promises.
- Sukuk's value can vary with asset performance, potentially leading to capital appreciation. In contrast, traditional bonds are generally based on interest rates and credit spreads, rather than asset performance.

**Regular income with risk-sharing**

- Sukuk investors earn Shariah-compliant income through monthly profit or rental distributions from underlying assets, rather than interest payments.
- Sukuk's risk-sharing principles link returns to asset performance, providing a more transparent and equitable return profile than fixed interest on loans.

**Ethical and Shariah compliance**

- Sukuk are ideal for Muslim investors seeking faith-based or ethical investments as they do not involve riba (interest), uncertainty, or financing of restricted sectors.
- Sukuk, often known as socially responsible or ESG-style securities, allow lenders to meet religious and ethical investment objectives while owning fixed-income assets.

**Diversification and risk characteristics**

- Adding sukuk to a bond and equities portfolio helps diversify returns and risk factors due to their unique structures and investor base, unlike ordinary bonds.
- Sukuk markets provide lenders with exposure to underutilized areas

and sectors, such as GCC infrastructure and real assets, that are not typically included in regular bond indices.

**Security and transparency of structure**

- Sukuk bonds with specified assets and clear cash-flow mechanisms, such as ijara leases and murabaha sales, offer greater transparency and perceived security than unsecured bonds.

- Particular structures offer investors greater security and ownership rights compared to unsecured creditor status.

## 6. Sukuk and Islamic Finance Principles

Islamic religious law in the context of Islamic finance is founded on religious and moral ideas, conceptions, and laws created over the course of Islamic history, principally based on the Qur'an and Sunnah. Fiqh (also referred to as Islamic jurisprudence) is the study and application of the Shari'ah's practical regulations and rules based on the sources. Islamic currency, including sukuk, has its origins in and is built upon the Islamic Shari'ah. Islamic financial rules also make sure that lenders and borrowers maintain a mutually beneficial balance and contractual clarity. Any financial transaction conducted according to Islamic law entails direct participation in asset performance (referred to as the "asset layer") and assigns specific rights and obligations to financiers in exchange for which they are eligible for a corresponding return in the form of state-contingent payments. Shari'ah law prohibits the exchange and purchase of debt contracts for the purpose of earning an interest gain (riba), profit taking without engaging in legitimate economic activity, asset transfer, and the existence of any conflict about the legitimacy of commitments. Only interest-free methods of financing connected to activities that do not involve pork, alcohol, guns, adult entertainment, or gambling are permitted in Islamic finance. However, if the lender and borrower share the investment risk and gains are produced in accordance with Shari'ah laws, Shari'ah does not prohibit profit-taking or payment for asset usage. Profits cannot be promised in advance and will only be realized if the investment is profitable. Debt trading is permissible in some countries under the Bai al-Dayn concept.

## 7. Classification of Sukuk

The three forms of sukuks offered are asset-backed, asset-based, and hybrid. An asset-backed sukuk's credit risk is completely based on the performance and creditworthiness of the underlying asset. The asset in an asset-based sukuk is there to meet Shariah rather than to generate revenue or cash. Hybrid sukuks, which permit the use of shariah-compliant financial contracts for refinancing purposes, have been introduced to the market to aid in mobilizing funds. According to Shariah Contracts, Safari et al. (2014) classified Sukuk into the following main categories:

(i) Musharakah Sukuk; A musharakah contract is a partnership arrangement between two (or more) persons in which the musharaka partners split the musharaka's earnings according to predefined ratios and divide the musharaka's losses based on their initial capital commitment.

(ii) Murabahah Sukuk; Murabahah is a sort of selling transaction in which both the cost of products and the profit on the sale are disclosed to both parties in advance. The purchase price, selling price, and profit margin are all explicitly disclosed at the time of the transaction.

(iii) Ijarah Sukuk; Ijarah Sukuk are based on the Islamic leasing basis. "Fixed payout" securities are another name for them. The repayment share and growth rate are agreed upon from the outset: the borrower receives Ijarah payments, while the holders receive monthly rental payments for ownership of the principal assets.

(iv) Mudarabah Sukuk; In a mudarabah, one party contributes capital while the other contributes labor and expertise. The latter does this by investing funds in a planned business and assigning each investor a share of the earnings based on the criteria established at the time of investment. Because just one party provides the capital, that party also bears all of the risk of loss.

(v) Istisna Sukuk; An Istisna sale contract directs a manufacturer to make a certain item for the customer. The Istisna Sukuk funds are used for manufacturing purposes, such as the production of commodities or construction. Payments to the holder are made in pre-agreed amounts in installments. Payments to the possessor are made in pre-agreed amounts in installments.

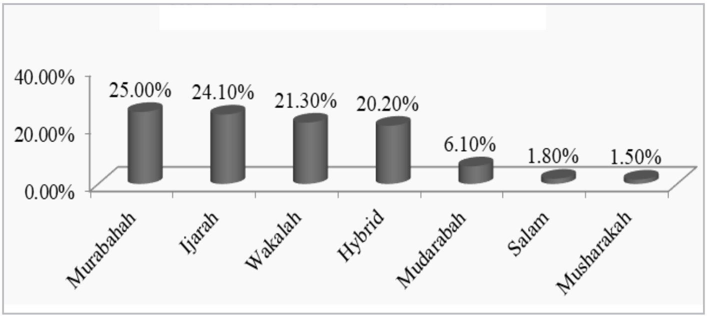


Chart 2. Global Sukuk Issuance by Structure

Source: International Investment Financial Market (IIFM) Study on SUKUK, 2021

vi) Salam Sukuk; In such agreements, the financial institution pays a down payment to acquire assets that must be delivered on a specific date by the seller. In exchange for an advance payment, the contractual parties agree on a future date for the delivery of items of a specific amount and quality.

In addition, many forms of Sukuk have emerged in light of modern information technology and environmental concerns. These are the ones: e-Sukuk: An e-Sukuk is a Sukuk issued and traded on an electronic platform. In September 2020, the Malaysian government introduced the first digital sukuk, available on digital banking networks and open to both institutional and individual investors. The participation of retail individuals, as well as corporate and sophisticated investors, contributed to the extraordinary success of this sukuk offering (International Investment Financial Market (IIFM) Study on SUKUK, 2021).

Green Sukuk: Green Sukuks are Shariah-compliant investments in renewable energy and other environmentally beneficial assets. Malaysia's first green sukuk was issued on June 27, 2021. The identification of green resources and projects is a big barrier to green sukuk. A Green Sukuk can be used to support reforestation, disaster relief, agriculture, sustainable land use, forests and natural resources, pollution prevention and control, and other projects. It may also be used to support resilient infrastructure, cleaner transportation, energy efficiency, waste management, and other projects (Source: World Bank report).

**8. Development of the Sukuk Market in Bangladesh**

Bangladesh possesses one of Asia's most rapidly expanding economies and the world's highest proportion of Muslims. As Bangladesh's economy grows, infrastructure construction is accelerating. On October 8, 2020, the government issued the 'Bangladesh Government Investment Sukuk Guideline (BGIS), 2020' to issue and administer sukuk under Shariah-based investment agreements (Source: Debt Management Department, Bangladesh Bank). Bangladesh launched its first sovereign investment sukuk (Ijarah Sukuk) on December 29, 2020, to seek funding for a project titled "Safe Water Supply for the Whole Country". The first sukuk was oversubscribed by over 4 times, indicating that investing in such a sukuk could offer a new potential channel for Bangladesh's financial markets. The large oversubscription of this inaugural sukuk demonstrated investors' interest in Islamic financial instruments in the capital market and the growing share of Islamic banking in Bangladesh. Moreover, the issue of such sukuks enables the Bangladesh government to study funding possibilities for Shariah-compliant ventures. Table 2 describes the auction allotment data for BGIS.

Table 2: Bangladesh Government Investment Sukuk (BGIS)

| Sukuk Project | Tenor | Underlying Contacts | Issuing Date | Maturity Date | Profit / Rental rate | Profit / Rental Frequency | Tradability | Outstanding BDT (Cr.) |
|---|---|---|---|---|---|---|---|---|
| 1. Safe Water Supply to the Whole Country | 5 Y | Ijarah | 2020-12-29 | 2025-12-29 | 4.69% | Half Yearly | Tradable at a negotiated price | 8000 |
| 2. Need-Based Infrastructure Development of the Government Primary Schools Project (1st Phase) | 5 Y | Ijarah | 2021-12-30 | 2026-12-30 | 4.65% | Half Yearly | Tradable at a negotiated price | 5000 |
| 3. IRIDP-3 Social Impact Sukuk | 5 Y | Istisna'a and Ijarah | 2022-04-20 | 2027-04-20 | 4.75% | Half Yearly | Tradable at a negotiated price | 5000 |
| 4. CDWSP Social Impact Sukuk | 5 Y | Istisna'a and Ijarah | 2024-06-06 | 2029-06-06 | 10.40% | Half Yearly | Tradable at face price | 1,000.00 |
| 5. CIBRR-2 Socio-Economic Sukuk | 7 Y | Istisna'a and Ijarah | 2025-03-13 | 2032-03-13 | 9.25% | Half Yearly | Tradable at face price | 3,000.00 |
| 6. RDIRWSP Socio-Economic Development Sukuk | 7 Y | Ijarah | 2025-05-20 | 2032-05-20 | 10.50% | Half Yearly | Tradable at face price | 2,000.00 |

Source: Bangladesh Bank.

Since the successful issuance of the first auction, the Bangladesh government has launched sukuk auctions six times. The last issuance of sukuk (Ijarah-based), titled "RDIRWSP Socio-Economic Development Sukuk," was held on May 20, 2025. Due to the enormous demand for Shariah-compliant securities, the offering was oversubscribed by over 4 times, and Sukuk has been hailed as a game-changer.

Sukuk certificates are mostly allotted among Shariah-based Islamic banks, FI & Insurance Islamic branches, and windows of conventional banks and insurance companies. Getting it more popular among individual investors and conventional banks is a challenge ahead for developing the Sukuk Markets in Bangladesh. The government of Bangladesh issued Islamic Sukuk bonds to fund various socio-economic development projects, including health, education, social, and rural infrastructure. Bangladesh Bank hosted an auction to offer Sukuk bonds to qualifying banks, NBFIs, insurance firms, and individuals. The central bank completed the necessary preparations for shariah-based bonds as a special-purpose vehicle for the issuance of government securities (Source: BSEC/Bangladesh Bank).

## 9. The Corporate and Institutional Development of the International Sukuk Market

Sukuk financing reduces the need for financial institution funding since the asset pool is available to investors without the need for financial intermediaries. This type of financing allows enterprises and institutions that are unable to obtain cost-effective funding due to their credit ratings to access the capital markets. Despite the apparent benefits of sukuk to the corporate/institutional sectors, these sectors have not taken advantage of the sukuk market to the extent anticipated. Despite sluggish entry into the corporate/institutional market, the few corporate and institutional sukuk issued thus far have spanned a diverse range of business activities. The inaugural issue of the Islamic Development Bank (IDB) was very impressive and drew significant market attention. The Middle East accounted for 70 percent of worldwide investors, Asia-Pacific for 16 percent, and European institutions for the remaining 14 percent. According to sources, the IDB is considering a second sukuk offering. The first corporate sukuk from Saudi Arabia (excluding IDB) refers to a combination of asset classes used to issue acceptable securities, such as Sukuk Al Ijara (MEED Magazine, August 1, 2003). Meanwhile, Freddie Mac's (the US Federal Home Loan Mortgage Corporation) offering was historic since it was the first Islamic mortgage securitization in the US. Although the sukuk market is still relatively new, it is clearly deepening, as evidenced by the quantity, size, and diversity of issues observed over the last two years. Sukuk, a byproduct of the rapidly expanding Islamic finance industry, has demonstrated its feasibility as an instrument for mobilizing long-term savings and investment from a broad investor base ready to participate in Islamic Shariah-compliant structures. The sukuk market's rise can also be related to its ability to manage liquidity, which is one of the essential aspects identified as necessary for the Islamic banking and finance industry's future development (Adam, N. J. 2005, November). Unfortunately, most Islamic nations, including Bangladesh, will continue to rely on external resources in the absence of robust internal markets. The absence of established legal and regulatory frameworks for most nations' capital markets will be a challenge, particularly for private foreign investments.

**10. Challenges of Developing a Sukuk Bond in Bangladesh**

According to analysts, there are several opportunities for sukuk bonds in the Bangladesh Capital market. However, there are a number of challenges, including the absence of a financial market and financial infrastructure, a formal legal foundation, central bank attention, an Islamic capital market, and knowledge of Shariah law. The growth of sukuk in Bangladesh can be accelerated by overcoming several challenges and constraints. Some of them are discussed below:

**i. Structural Complexity Challenge**

The complicated structure of the sukuk market is a key impediment to its expansion (Michael Bennet & Zamil Iqbar, 2012). Financial products with highly complex structures are particularly difficult to appraise and unwind in the event of default. During the financial crisis, several complicated products suffered major downgrades and defaults, and they are also the market leader in sukuk structuring. As a result, many investors and issuers who have had negative experiences with structured securities may remain turned off by the intricacy of sukuk arrangements. Sukuk bonds are stiff in this situation since they don't engage in any interest-based activities. The aforesaid restrictive environment in Bangladesh's capital market has severely limited investment prospects for Sukuk bonds and, hence, avenues for lawful earnings.

**ii. The Challenge of Establishing a Legal Framework**

The long-term viability of the Sukuk bond is greatly dependent on the legal and Shariah-based structure. It ensures the enforceability of Islamic financial contracts, provides sufficient protection for users of Islamic finance, and has a robust legal redress system. While it is simply unrealistic for parties to include all applicable Islamic laws in their contracts, many of the regulations left out are often just as essential as the outcomes of Islamic principles, such as the prohibition on interest (riba) and on undue risk and uncertainty (gharar). Therefore, even if the losing party argues that the contract is unlawful under Islamic law, the government's national legislation may enforce clauses that permit such practices, such as the payment of interest. At the same time, if the parties have agreed to terms forbidden by Islamic law, they may not be valid under local law. Amendments to existing regulations and the enactment of new legislation that promote the efficient operation of the Islamic capital market are a sine qua non for its continued expansion. Countries that introduce Sukuk bonds should amend current laws and regulations to provide an enabling environment for the Islamic financial system. Iran's and Malaysia's Islamic capital markets have legal backing.

**iii. Regulatory Challenge**

In Bangladesh, the Sukuk market is not yet fully regulated, and there is no standardized, recorded Sukuk transaction structure. For example, in the event of default, Shariah law is poorly regulated in Sukuk transactions. The lack of unified legislation governing Islamic finance, especially Sukuk, is a key hindrance to the market's continued expansion. AAOIFI2 and IFSB3 are two international organizations established to develop standards and guidelines. Its aims are to create accounting, auditing, and regulatory standards to guarantee that international financial institutions run smoothly. In November 2002, the worldwide Financial Standards Board (IFSB) was established in Kuala Lumpur, Malaysia, with the objective of defining globally prudential and supervisory standards for financial institutions worldwide.

**iv. Shariah Compliance Challenges**

Islamic finance principles and Shariah law control sukuk structures. Shariah compliance should always be guaranteed throughout the whole Sukuk structure, from issue to maturity. A Shariah board should approve each Sukuk issue to ensure compliance with Islamic law. Given the current Shariah Scholar criticism of the non-Islamic character of the majority of contemporary Sukuk, this kind of danger becomes even more important. It may be extremely damaging to an issuer's image to release financial products that are not Shariah-compliant, and it may take a while to regain investor trust (Obaidullah, M., 2009). Shariah law is based on the Quran and the Sunnah, but as these sources do not address every circumstance, certain Fatwas are based on Ijtihad, or subjective judgment. As a result, many of the researchers' findings are predicated on their ability to extrapolate from the data and make judgments. The decisions made by each Shariah board, as a consequence, vary substantially.

**v. Challenge from Diversified Market Players on the Supply and Demand Sides**

Investors who can strike a balance between social duty and profit maximization are in short supply. Retail investors aren't participating. There is a scarcity of long-term sukuk offerings to meet the requirements of long-term investors such as retirement fund funds, insurance companies, and takaful firms. Lack of investor diversification; banking institutions dominate, with NBFIs providing little intermediation. Long-term issues that fund infrastructure projects to meet the interests of long-term investors are either nonexistent or inadequate. There aren't enough institutional investors to make a difference. Financial inclusion issues affect a tiny proportion of the working population compared to the country's overall population. Neither the federal nor the state governments has issued any benchmarks for sovereign sukuks. There is a scarcity of long-term sukuk offerings that meet the needs of long-term investors, such as pension funds. (COMEC, 2018).

**vi. Liquidity Challenges**

Liquidity risk is crucial in Islamic finance in general, and in Sukuk in particular. International financial institutions have fewer resources to manage liquidity due to Shariah prohibitions on trading in debt and other commodities. Islamic banks are unable to obtain "last resort" credit from the central bank or short-term interbank loans, as Riba is illegal. The traditional bond market is less liquid than the stock market, although it is more liquid than the Sukuk market. Bond trading is primarily done "over-the-counter" (OTC), rather than on recognized exchanges. Traditional financial institutions, on the other hand, have access to a wide range of liquidity management tools. As a result, the formation of a healthy secondary market is more important for Sukuk than for ordinary bonds. The expansion of the primary market, on the other hand, has a significant impact on the secondary market. Sufficient supply should be available to meet the increasing demand for Sukuk. According to Tag El-Din (2007), governments should be more active in issuing Sukuk with varying maturities and risk profiles to develop a liquid secondary market.

**vii. Challenges of Default (Credit risk)**

The possibility that the counterparty will not fulfill its obligations to pay principal or interest on its debts is known as credit risk or default risk. The investment's entire cash flow and earnings are distributed to Sukuk holders in accordance with their respective portions and the Sukuk's structure. The volume of Sukuk issued, however, is not actually asset-backed. Asset performance, for instance, is no longer a concern for holders of Ijarah Sukuk. At maturity, the borrower consents to buy back the asset for the remaining Sukuk's face value. Sukuk holders are interested in collecting coupon payments when their securities mature. As a result, the borrower risks missing a payment on either the coupon or the Sukuk's face value at maturity. Sukuk will be fully backed by assets if rigorously issued in accordance with Shariah, thereby eliminating credit risk (Junaid & Azhar, 2010, p. 41). Due to Shariah's prohibition on debt trading, any debt rescheduling to achieve greater profit is prohibited under Sukuk. Because Sukuk issuers are more likely to default than traditional bond issuers, Sukuk default risk is higher (Tariq, 2007, p. 32).

**viii. Market Challenges**

Sukuk is subject to market risks, such as interest rate and currency rate risks.

**Rate of return risk (interest rate risk):** The unpredictable nature of interest rates on loans and savings accounts over time is referred to as interest rate volatility. Because a large portion of current Sukuk offerings have a specified payment, the rate-of-return risk is comparable to the fixed-rate risk in conventional bonds. As a result, a Sukuk loses value when the market interest rate increases. If Sukuk are designed as legitimate Shariah-compliant instruments with rewards based on actual revenues from the underlying asset, this sort of risk can be substantially minimized or even eliminated.

**Foreign exchange rate risk:** Both Sukuk certificates issued in another nation and Sukuk with an underlying asset denominated in that country's currency are subject to foreign exchange rate risk. Exchange rate volatility, as defined by I. Ozturk (2006), is the risk associated with unexpected exchange rate movements. According to Tariq (2007), in this case, currency rate oscillations could result in a loss for the investor or issuer. This kind of risk is hard to prevent since Sukuk is a global financial asset. Sukuk can be used by overseas investors as a hedging instrument to reduce exchange rate risk and by Islamic institutions to diversify their investment portfolios when issued in local currency.

**ix. Asset-related Challenges**

All Sukuk offers must be backed by physical assets, but selecting the right one might be difficult. The asset must be able to produce appealing returns and be compatible with Shariah. In non-Muslim countries, the differentiation between halal (activities allowed by Shariah regulations) and haram (activities forbidden by Shariah regulations) is frequently misleading and more complicated than in nations where Shariah principles are well-established (Nanaeva, 2010). For the most recent Ijarah Sukuk issuance, certain inventive structures were developed to address this problem. The originator, who is the owner of an asset, has the right to substitute all or a portion of the pool of investments with a product of identical worth under these frameworks. By selling alternative assets and using the proceeds to fund the project's next phase, he will eliminate asset-related risk and generate additional resources.

## 11. Other Sukuk-related Challenges

In Islamic finance, there is a critical shortage of experts. Because Sukuk trades on traditional markets, such experts should be well-versed in both traditional instruments and basic Shariah judgments. The lack of research, empirical studies, and historical data on Sukuk performance is the biggest obstacle to Sukuk development. The lack of openness and the reluctance of international Islamic organizations to provide enough information are other obstacles. Sukuk cannot escape double taxation, unlike regular bonds, which have the "tax shield" of interest payments. The initial expenses of the offering may be higher than those for regular bonds due to specific Shariah criteria for Sukuk financing and the lack of harmonization (Al-Sayed, O., 2013).

## 12. Policy Initiatives and Recommendations

Bangladesh Bank recently issued instructions to diversify investments, including measures to reduce risk by increasing the number of investable products in the capital market and allowing private entrepreneurs to invest in asset-backed green Sukuk. To encourage investment, the government has decided to exempt individual Sukuk bonds from income tax beginning in fiscal year FY22. These Sukuk-related judgments are encouraging for the development of the Sukuk bond in Bangladesh. Apart from that, several initiatives are suggested for the growth of the Sukuk market and the economic development of Bangladesh:

(i) Establishment of a sukuk market for Bangladesh that promotes the United Nations' Sustainable Development Goals (SDGs), thereby increasing its attractiveness and positioning in mainstream financial markets.

(ii) Adoption of a distinct legislation for Islamic capital markets, as well as amendments to associated acts, rules, and regulations to allow sukuk bonds to be included in the financial system.

(iii) Development of a comprehensive framework for using sukuk issuance to fund various short and long-term projects.

(iv) The establishment of a centralized Shariah authority to supervise the standardization of legal texts, sukuk forms, and Shariah judgments; and the adoption of a Shariah-based legal, regulatory, and oversight framework for Sukuk.

(v) Sukuk bond issuance to a wide range of investors, both private and institutional, such as insurance businesses and retirement funds, requires long-term investments as well as secondary market listing and trading.

(vi) Expansion of the Islamic money market and increase secondary trading liquidity. Efforts should be undertaken to strengthen macroeconomic stability at the government and monetary policy levels.

(vii) Infrastructure and institutional capacity building for the sukuk market.

## 13. Conclusions

The Islamic finance business in Bangladesh has experienced immense growth and development. There is a need for increased investment in infrastructure, as major development activities are underway in the ongoing mega projects. Bangladesh will require substantial infrastructure investments to achieve its Sustainable Development Goals (SDGs) target of attaining upper-middle-income status by 2031, and Sukuk could obviously help close that gap. However, in Bangladesh, this system has several difficulties. Despite having a flourishing sector (apart from banking regulations), Bangladesh is still trying to build a comprehensive regulatory and legal system for the Islamic bond market. In the absence of a comprehensive set of guidelines for specialized organizations such as sukuk, amendments to fundamental laws, such as the Companies Act, Income-Tax Ordinance, Registering Act, Bankruptcy Act, Trust Act, and Securities rules and regulations, might serve as an entry point. Official acknowledgment of sukuk (both legally and financially) is required to establish its track record in infrastructure project finance. This also points to a significant opportunity for the local market to issue sophisticated financial products, such as sukuk, in a well-planned manner, boosting infrastructure development. The challenges and opportunities confronting Bangladesh's Islamic finance sector, the potential for diversifying Islamic products, and the facilitation of Shariah-compliant investment flows are all significant topics that the government must address to influence Bangladesh's Islamic capital market. The government must also strengthen the bond market's qualitative attributes, including macroeconomic conditions, institutional strength, stock market performance, financial sector accountability, and corporate governance.

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