

Introducing Sukuk in Bangladesh: Key Issues

[A Joint Study With Central Shariah Board for Islamic Banks of Bangladesh (CSBIB)]

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Forewords

Considering the importance of Sukuk in the economic development of Bangladesh and the presence of Sukuk currently being at a very early stage, the research aims to identify the key issues in operationalizing government and corporate Sukuk in Bangladesh; and to provide recommendations that the relevant parties may adopt in resolving the Sukuk related issues and building a vibrant Sukuk market in Bangladesh. In achieving the set objectives, the research has conducted literature review. Besides, the study reviewed different initiatives taken by regulators. Furthermore, the researchers have conducted a good number of interviews to capture the experience and expectations of issuers, regulators, Shari'ah Supervisory Board members, Sukuk experts, lawyers, and so on. Most of the stakeholders agreed that we have a knowledge gap from technical and Shari'ah aspects. For proper structuring of Sukuk and to develop an efficient Sukuk market, a talent pool of well conversant with Shari'ah and operational regulations is a crucial need. Now-a-days, investors are sensitive about Shari'ah compliance. Therefore, those who are charged with governance have to acquire the trust of mass people. As Sukuk is different from the conventional bond or shares, hence, proper market awareness and comprehensive rules and regulations are needed. In the Bangladesh context, banks and financial institutions have a greater acceptability to the general investors. Therefore, to develop the Sukuk market, financial institutions need to step forward in issuing Sukuk.

As a maiden study on Sukuk at BIBM, I strongly believe that it's a great initiative of the authors which will create an awareness among the stakeholders to know about the Sukuk and how we could operationalize it. In this regard, I would like to thank the research team for their efforts. I extend my gratitude to the Central Shariah Board for Islamic Banks of Bangladesh (CSBIB) for partnering the efforts. I am also indebted to the distinguished panelists and the audience because this paper was finalized after incorporating the valuable comments of them. Any sort of further comments, suggestions on this study in the near future will be highly appreciated.

Dr. Md. Akhtaruzzaman
Director General

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Al praise to Allah (SWT) that because of Him, we were successful to conduct the maiden study on Sukuk. To conduct this research, the team is highly indebted to several distinguished scholars, academicians, eminent economists, capital market specialists, regulators, and different issuing institutions for their continuous guidance and support in conducting this research.

The research study was jointly conducted by Bangladesh Institute of Bank Management (BIBM) and Central Shariah Board for Islamic Banks of Bangladesh (CSBIB). For completing the study, the CSBIB team has contributed a lot. The research team is grateful to the Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh and especially to Mr. Abdur Rouf Talukder, the then Senior Secretary, Finance Division, Ministry of Finance (MoF) and Mr. Md. Firoz Ahmed, Deputy Secretary, Finance Division, MoF. The study team is beholden to Professor Shibli Rubayat Ul Islam, Chairman, Bangladesh Securities and Exchange Commission (BSEC) and his team for sharing some crucial insights. We appreciate the enthusiastic supports of Bangladesh Bank especially by Mr. Syed Tariquzzaman, the then Executive Director, Debt Management Department of BB, Mr. Rup Ratan Pine, the then General Manager, Debt Management Department of BB and their team.

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Executive Summary

The components of Islamic finance include Islamic banking, Islamic insurance (Takaful), Islamic capital market and Islamic social finance. The total size of the commercial components of global Islamic finance estimated to be USD 2.70 trillion as of 2020, of which 68.20 percent represented by Islamic banking, 30.90 percent by Islamic capital market and 0.90 percent by Islamic insurance. In Bangladesh, Islamic banking and Islamic insurance are currently at a progressing stage. Islamic banking was initiated in Bangladesh in 1983 and currently represent more than 27 percent of the total banking sector's deposits and financings. Islamic insurance was initiated in Bangladesh in 1999 and currently represents more than 14 percent of the insurance sector's total asset. However, the Islamic capital market in Bangladesh is at infant stage and significantly behind in comparison to other countries where different components of Islamic finance have a notable volume of operation.

The Islamic capital market comprises of Sukuk, Islamic funds and Islamic equities. Globally, Sukuk represents the largest portion (around 83%) of the Islamic capital market. In several countries, it is an integral component of the country's overall market capitalization volume. It provides an alternative funding avenue for the government, government-linked entities and corporate entities. Sukuk offers a wider investor base as people of all faith, including conventional financial institutions, can invest in Sukuk following Shari'ah compatibility of their mode of business. Similarly, Sukuk may also be issued by an entity for mobilizing Shari'ah compliant funds. The fund raised by issuing Sukuk can be used to finance asset acquisition, business expansion, building infrastructures, real estate development, and so on. The development of the Sukuk market stimulates long-run economic growth as anticipated by industry leaders, regulators and academics at different platforms.

Considering the importance of Sukuk in the economic development of Bangladesh and the presence of Sukuk currently being at a very early stage, the research aims to identify the key issues in operationalizing government and corporate Sukuk in Bangladesh; and to provide recommendations that the relevant parties may adopt in resolving the sukuk related issues and building a vibrant Sukuk market in Bangladesh. In achieving the set objectives, the research has conducted literature review. Besides, the study reviewed different initiatives taken by regulators. Furthermore, the researchers have conducted a good number of interviews to capture the experience and expectations of issuers, regulators, Shari'ah Supervisory Board members, Sukuk experts, lawyers, and so on.

The study identifies that the first corporate Sukuk was issued by Shell MDS Malaysia 1990. This Sukuk was structured based on the principle of deferred payment sale. Sukuk issuances were few and far between after the issuance of Shell MDS. Regular Sukuk issuances are observed since 2001, which marks the emergence of Sukuk market. Since 2001 Sukuk are issued in increased numbers and achieved significant growth. Malaysia (56.22%), Saudi Arabia (12.27%) and Indonesia (8.78%) are in the first, second and third position respectively considering Sukuk issuance during 2001-2020. Sukuk may be classified/leveled based on structure, applied Shari'ah principles, issuer or sustainability theme. Earnings from Sukuk investment may be fixed or variable.

Bangladesh Government has issued its first Sukuk of BDT 8,000 crore for an infrastructure project named 'Safe Water Supply to the Whole Country'. The Sukuk was issued in two tranches - the first was on 28 December 2020; and the second was on 09 June 2021 (each for BDT 4,000 crore) and it has received an overwhelming response from the market. Beximco Green-Sukuk Al Istisna'a (BDT 3,000 crore) is the first corporate Sukuk in Bangladesh. This is an asset-backed Sukuk considering that the ownership of the Sukuk assets is transferred to the issuer (SPV) free of any legal impediments.

Most of the stakeholders agreed that we have a knowledge gap from technical and Shari'ah aspects. For proper structuring of Sukuk and to develop an efficient Sukuk market, a talent pool of well conversant with Shari'ah and operational regulations is a crucial need. Most of the investors are very sensitive about Shari'ah compliance. Therefore, those who are charged with governance have to acquire the trust of mass people. As Sukuk is different from the conventional bond or shares, hence, proper market awareness and comprehensive rules and regulations are needed. In Bangladesh context, banks and financial institutions have a greater acceptability to the general investors. Therefore, to develop Sukuk market, financial institutions need to step forward in issuing Sukuk. As compared to conventional bond, cost of issuance is higher in case of Sukuk. To make it competitive, concerned authorities needs to take steps to reduce costs that include waiver of some duties/fees/taxes. In case of default in performance by the obligor, the trustee and SPV need to play a vital role for protecting the interest of the investors. At the same time, there should be a supportive judiciary system for resolving Sukuk operation related disputes and protecting the interest of the investors. A coordinated approach of Government, regulators, corporate bodies and other associated entities is essential to develop a strong Sukuk market in Bangladesh.

1. Introduction

Contemporary Islamic finance emerged in the last third of the twentieth century as a viable alternative to conventional finance. Although it is primarily intended to provide Shari'ah-based financial solutions to Muslims, it is widely accepted today irrespective of one's religious beliefs. Fictitious, speculative and harmful activities are not allowed in Islamic finance. Accordingly, many are attracted to Islamic finance due to the ethical values that it compulsorily embraces and its real economy-based activities. The resilience of Islamic finance during the Global Financial Crisis 2007-2008 also elevated its global acceptance. During the Covid-19 pandemic, Islamic finance played a pivotal role in providing financial assistance and supporting economic recovery in different countries. The role of Islamic finance is also frequently cited in achieving the Sustainable Development Goals (SDGs) of the United Nations.

The components of Islamic finance include Islamic banking, Islamic insurance (Takaful), Islamic capital market and Islamic social finance. The total size of the commercial components estimated to be USD 2.70 trillion as of 2020, out of which 68.20 percent represented by Islamic banking, 30.90 percent by Islamic capital market and 0.90 percent by Islamic insurance (IFSB, 2021). Reliable data on Islamic social finance is not available. However, combining its different segments including Zakat, Sadaqah and Waqf, the aggregate amount will comfortably cross the trillions-dollar mark.

In Bangladesh, Islamic banking and Islamic insurance are currently at a progressing stage. Compared to other countries, they are among the early initiators and their current market share places them among the top ten. For instance, Islamic banking was initiated in Bangladesh in 1983 and currently represent more than 27 percent of the total banking sector's deposits and financings (Bangladesh Bank, 2021). And, Islamic insurance was initiated in Bangladesh in 1999 and currently represents more than 14 percent of the insurance sector's total contributions (IFSB, 2021). Whereas, the Islamic capital market in Bangladesh is at the infant stage and significantly behind in comparison to other countries where different components of Islamic finance have a notable volume of operation.

The Islamic capital market comprises of Sukuk, Islamic funds and Islamic equities. Globally, Sukuk represents the largest portion (around 83%) of the Islamic capital market (IFSB, 2021). In several countries, it is an integral component of the country's overall volume of capital market instruments. It provides an alternative funding avenue for the government, government-linked entities and corporate entities. Any of them may issue Sukuk by fulfilling the Shari'ah requirements. Sukuk also offers a wider investor base as people of all faith, including conventional financial institutions, can invest in Sukuk. Generally, there is no Shari'ah restriction on investor type of Sukuk, however restrictions apply in the utilization of proceeds from Sukuk issuance. The proceeds can only be used in Shari'ah-compliant activities.

The fund raised by issuing Sukuk can be used to finance asset acquisition, business expansion, building infrastructures, real estate development, and so on. Recent studies, for example, Yıldırım, Yıldırım and Diboglu (2020); Ledhem (2020); and Smaoui, Mimouni and Salah (2021), have identified that development of the Sukuk market stimulates long-run economic growth. In the context of Bangladesh, the same is anticipated by industry leaders, regulators and academics at different platforms.

From the issuers' perspective, the Government of Bangladesh can issue Sukuk to meet its funding requirements. Similarly, Bangladesh Bank can issue Sukuk to mop-up excess liquidity in the banking system, and the corporates can issue Sukuk as an alternative instrument and to reach a wider investor base. From the investors' perspective, availability of sufficient and suitable Sukuk in the market is very important for Islamic financial institutions as they need Shari'ah-compliant instruments to manage their liquidity better. The institutional and individual investors also need alternative instruments, like Sukuk, to diversify their portfolios. For instance, Pirgaip, Ayaydin and Karan (2020) found that Sukuk including conventional bond portfolios offers diversification opportunities for investors, particularly when the economy worsens. Furthermore, as Bangladesh is a Muslim majority country, greater availability of Sukuk is likely to attract greater number of investors to the capital market.

Absence of a well-diversified capital market and heavy reliance on financing from banks – as this is the case currently in Bangladesh – is not suitable for sustainable growth. In this context, Bix Malaysia (2018) has highlighted the experience of Malaysia during the 1997 Asian Financial Crisis. A well-

diversified capital market was absent in Malaysia before the crisis, which allowed a heavy reliance on financing from banks. This had a great impact in resulting in excessive losses by the corporations during the crisis. In Bangladesh, Sukuk has the potentiality to greatly contribute in developing a vibrant capital market.

Considering the importance of Sukuk in the economic development of Bangladesh and the presence of Sukuk currently being at a very early stage, this research aims to achieve the following objectives:

- a) to identify the key issues in operationalizing government and corporate Sukuk in Bangladesh; and
- b) to provide recommendations that the relevant parties may adopt in resolving the issues and building a vibrant Sukuk market in Bangladesh.

In achieving the objectives, the research has conducted the following:

- a) Literature review: Relevant literatures are reviewed to gain an understanding about the fundamentals of Sukuk, its historical development, current global market position, and experience and steps taken in other countries;
- b) Review of initiatives taken by regulators: The study has identified some of the initiatives undertaken by the regulators in different countries and in Bangladesh. This would allow a gap analysis to identify what is present in Bangladesh and what needs to be done; and
- c) Interviews: The researchers have conducted 39 interviews to capture the experience and expectations of issuers, regulators, Shari'ah Supervisory Board members, Sukuk experts, lawyers, and so on (Appendix-I). This also assisted in identifying the issues and validating the recommendations that may work in the context of Bangladesh.

2. Fundamentals of Sukuk

2.1 Definition

Sukuk, plural of Sakk, are basically ‘certificates of investment’. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines Sukuk as ‘certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or the assets of particular projects or special investment activities’ (AAOIFI, 2003). The Islamic Financial Services Board (IFSB) provides a similar definition by stating that Sukuk ‘are certificates with each Sakk representing a proportional undivided ownership right in tangible assets, or a pool of predominantly tangible assets, or a business venture (such as a Mudarabah). These assets may be in a specific project or investment activity in accordance with Shari’ah rules and principles’ (IFSB, 2009). The definition provided by the Securities Commission Malaysia (SCM) connotes the same as they define Sukuk as ‘certificates of equal value evidencing undivided ownership or investment in the assets using Shari’ah principles and concepts endorsed by the Shari’ah Advisory Council’ (SCM, 2020).

From the above definitions, it is evident that the Islamic finance authorities are unanimous on Sukuk's core features: (a) Sukuk are structured on Shari’ah-based contracts; and (b) they represent undivided ownership of the underlying assets or investment activities. These features clearly differentiate Sukuk from conventional bonds, which are merely debt-based instruments providing interest as return on investment. All forms of conventional bonds are prohibited from Shari’ah perspective, irrespective of the nomenclature is used (OIC-IIFA, 1990 and AAOIFI, 2004).

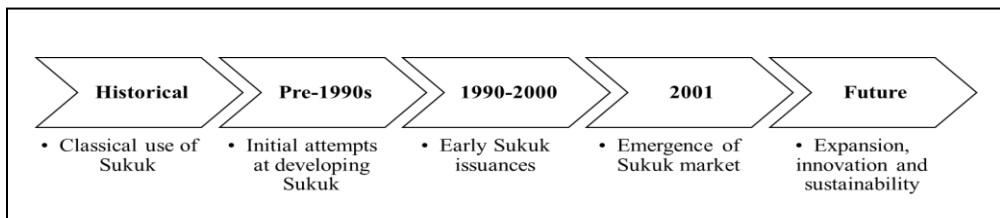
Sukuk is often referred to as ‘Islamic bond’, ‘Sukuk bond’, etc. with the tail ‘bond’. Although, Sukuk as we currently know, was developed as an Islamic alternative to conventional bond and more often as it does not provide bond-like cash flows, its connotation as ‘bond’ provides a misleading understanding about Sukuk. As identified above, the underlying structure of Sukuk is very different from ‘bond’. While ‘bond’ is based on merely an interest-bearing contract, the underlying structure of ‘Sukuk’ can be a sale, lease, partnership or investment agency contract or a combination of several contracts. Hence, calling ‘Sukuk’ as ‘bond’ significantly ignores Sukuk's dynamics and provides

a wrong signal that it is nothing but a fixed income instrument. Even if a Sukuk is structured as a ‘fixed income instrument’, its underlying Shari’ah compatible conceptual foundation and asset backing substantially differentiate it from the ‘bond’. Accordingly, AAOIFI Shari’ah Standard (No. 17, Item No. 2) highlighted that Sukuk are different from bonds (AAOIFI, 2003). Similarly, AAOIFI Governance Standard [No. 12, Appendix C (BC5)] states that ‘Sukuk should not be considered as bonds. These are unique instruments and the industry must wholeheartedly embrace this fact’ (AAOIFI, 2019). Nonetheless, it shall be noted that calling a Sukuk as ‘bond’ does not make the Sukuk as Shari’ah non-compliant.

2.2 Development of Global Sukuk Market

As identified in Figure 1, the development of the global Sukuk markets can be divided into several phases. This reflects the gradual development strategy that different countries adopted in developing their Islamic finance markets.

Figure 1: Phases of Global Sukuk Market Development



Source: Adapted from COMCEC (2018)

2.2.1 Historical: Classical Use of Sukuk

Although the examples of classical use of Sukuk found in the literature are substantially different from the present-day Sukuk, they provide a form of legitimacy to the present day Sukuk. The notable examples of classical use of Sukuk include the following:

1st Century AH (Late 7th Century CE): Commodity or Grain Coupons

The usage of the term Sukuk can be traced back to the 1st Century AH during the Umayyad Caliphate under the rule of Caliph Marwan ibn al-Hakam. A narration quoted in al-Muwatta’ of Imam Malik from that time evidences shows the presence of commodity or grain coupons (referred to as Sukuk) that were remitted to soldiers and public servants. These Sukuk entitled the Sukuk holders to receive commodities or grains when the Sukuk matured (ISRA, 2017).

1775: Securitization of Custom Collection by Issuing Shares

Ottoman Empire issued Esham (plural of Sahim, which refers to shares) to fund its budget deficit after its defeat by the Russians. The Ottoman Empire had no obligation to buy back the Sahim. Therefore, there was no certain maturity of the Sahim. The buy-back was at the government's discretion (Musari, 2021).

2.2.2 Pre-1990s: Initial Attempts at Developing Sukuk

There were some initial ad-hoc attempts at developing Sukuk during this phase. Examples include Muqaradah Sukuk in Jordan (1977), Participation Term Certificate in Pakistan (1980), Government Investment Issue (GII) in Malaysia (1983), and Revenue Sharing Certificates in Turkey (1984) (ISRA, 2017). The International Islamic Fiqh Academy (IIFA) of the Organisation of Islamic Cooperation (OIC) issued a resolution in 1988 legitimizing the Muqaradah Sukuk (OIC-IIFA, 1988).

2.2.3 1990-2000: Early Sukuk Issuances

The first corporate Sukuk was issued by Shell MDS Malaysia 1990. This was a Ringgit denominated issue with a modest size of RM 125 million. This Sukuk was structured based on the principle of Bai' Bithaman Ajil (deferred payment sale) (IIFM, 2010).

Sukuk issuances were few and far between after the issuance of Shell MDS. There were some small local issuances mainly in Malaysia. However, there was no active Sukuk market during this period. This phase is considered as the period for theory and model building (ISRA, 2017).

2.2.4 2001: Emergence of Sukuk market

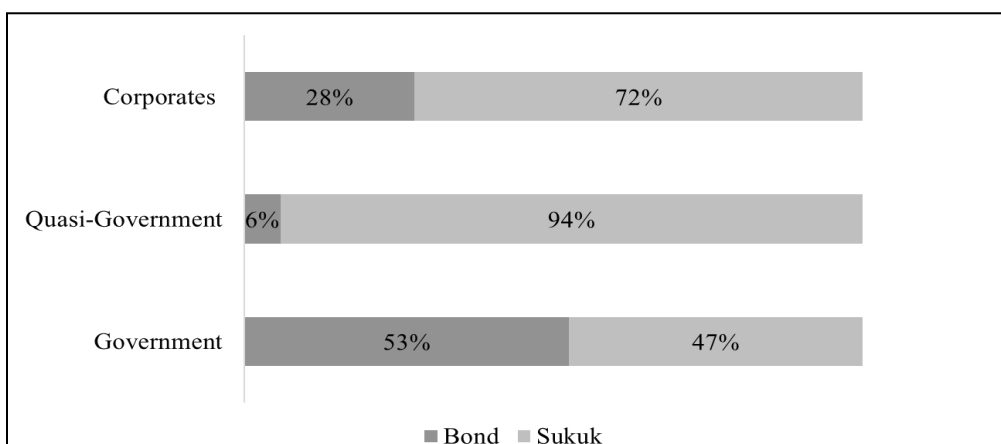
Regular Sukuk issuances are observed since 2001, which marks the emergence of Sukuk market. To name a few notable firsts -

- The Government of Bahrain issued its first sovereign Sukuk in the domestic market in 2001 (ISRA, 2017).
- Singapore issued its first Sukuk in 2001, which was a quasi-sovereign Sukuk (IIFM, 2010).
- The first global corporate (and quasi-sovereign) Sukuk was also issued in this year by Kumpulan Guthrie Berhad in Malaysia (IIFM, 2010).

- Indonesia entered the Sukuk market in 2002. Its issuances until 2008 were by corporate and quasi-sovereign, and had small average size. Its first sovereign issuance was in 2008 with a long-term Sukuk (IIFM, 2010).
- The United Kingdom issued its first sovereign Sukuk in 2014 and its second issuance was in 2021 with more than double size of the first (HM Treasury, 2021).
- The Government of the Hong Kong Special Administrative Region has issued its first USD-denominated Sukuk in 2014, and subsequently two more in 2015 and 2017 (Hong Kong Monetary Authority, 2019).

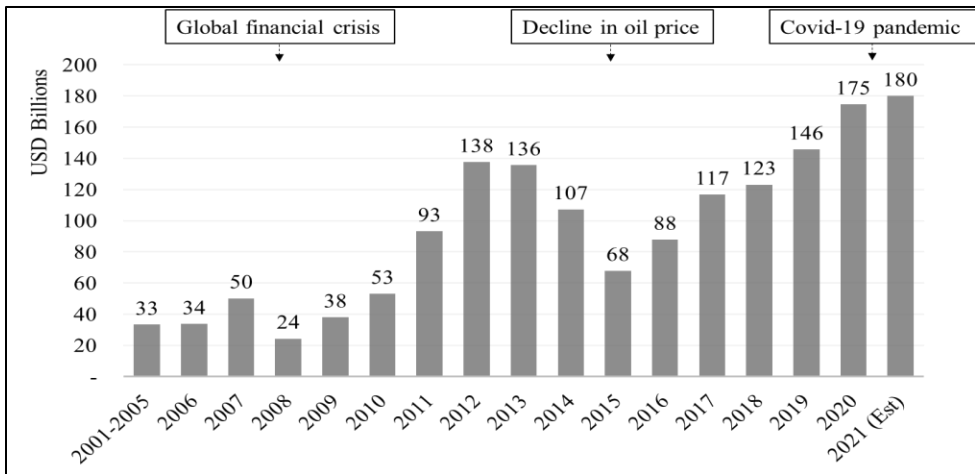
Since 2001 Sukuk are issued in increased numbers and achieved significant growth. In a few markets, it has evolved from an alternative financial instrument to an instrument of preference. For instance, as shown in Figure 2, Sukuk in Malaysia represents 72 %, 94% and 47% respectively of the total bond and Sukuk issuances by corporates, quasi-sovereign and sovereign issuances (Bix Malaysia, 2021). Figure 3 shows the growth of global Sukuk issuance since 2001. Table 1 shows the Sukuk issuing markets around the world.

Figure 2: Bond and Sukuk in Malaysia by Principal Outstanding as of 2021Q1



Source: Bix Malaysia (2021)

Figure 3: Growth in Global Sukuk Issuance



Source: Adapted from IIFM Sukuk Reports and Refinitiv

Table 1: Sukuk Issuing Markets - Representation in Total Sukuk Issuance (2001 – 2020) [%]

	Country	% of total		Country	% of total
1	Malaysia	56.22	19	South Africa	0.04
2	Saudi Arabia	12.27	20	Jordan	0.03
3	Indonesia	8.78	21	Ivory Coast	0.03
4	UAE	6.92	22	Senegal	0.03
5	Turkey	4.70	23	Gambia	0.03
6	Bahrain	2.77	24	Egypt	0.02
7	Qatar	2.53	25	Mali	0.02
8	Pakistan	1.60	26	Luxembourg	0.02
9	Sudan	1.44	27	Yemen	0.02
10	Brunei Darussalam	0.83	28	Togo	0.02
11	Oman	0.51	29	Germany	0.01

12	Kuwait	0.42	30	Japan	0.01
13	Hong Kong	0.22	31	Morocco	0.01
14	UK	0.12	32	China	0.01
15	Singapore	0.11	33	Kazakhstan	0.01
16	USA	0.10	34	Maldives	0.002
17	Nigeria	0.09	35	Sri Lanka	0.0004
18	Bangladesh	0.06	36	France	0.0001

Source: Adapted from IIFM Sukuk Reports

2.2.5 Future: Expansion, Innovation and Sustainability

As Sukuk finds itself in a strong market position, there is an increased focus on being more innovative in Sukuk structures and going beyond the mere rate of return expectations. The financial inclusion and integration with Halal economy agendas are getting prominence. A great emphasis is also given to the sustainability agenda. For instance, the World Bank has identified several themes under the sustainable Sukuk umbrella. These themes and the first Sukuk issuance under each theme are provided in Table 2.

Table 2: Sustainable Sukuk Themes

Sukuk Type	Objective	The First
Green Sukuk	Positive environmental outcome	The first green Sukuk was issued by Tadau Energy in Malaysia in 2017 to finance a 50MW solar power plant.
Social Sukuk	Positive social outcome	The World Bank issued ‘Vaccine Sukuk’ in 2014 to support immunisation efforts for children in developing countries. It was the first time Sukuk investors were offered an asset with both economic and social returns.

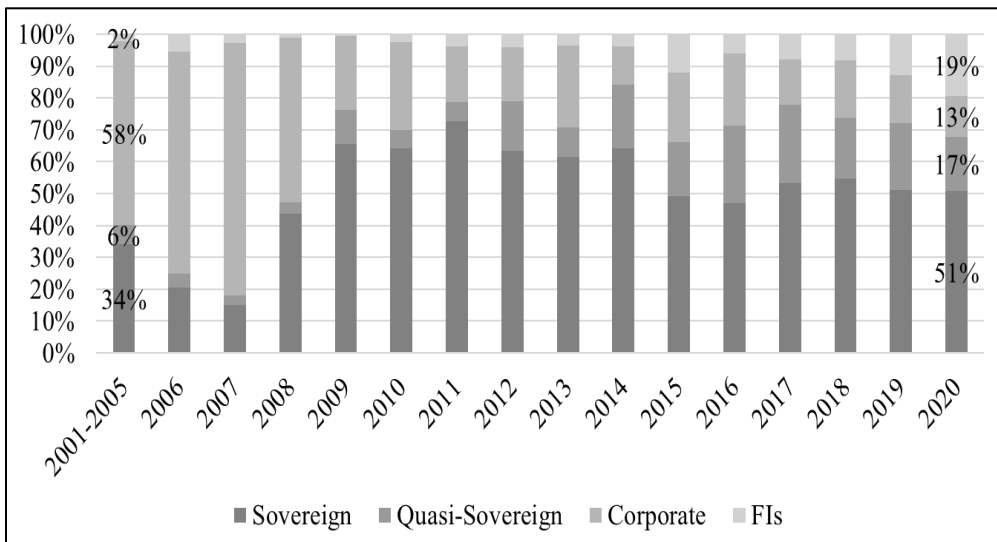
Sustainability Sukuk	Positive environmental and social outcomes	In 2019, Edra Solar Sdn Bhd issued the first sustainability Sukuk to refinance the construction costs of its 50MW solar power plant in Malaysia. This Sukuk also included a social component, namely land set aside for agricultural use by local farmers.
Sustainable Development Goal (SDG) Sukuk	Aligned with some or all the SDGs	In 2018, HSBC Amanah Malaysia Berhad issued the first SDG Sukuk that targeted specific SDGs.
Sustainable and Responsible Investment (SRI) Sukuk	Green, social, sustainable, SDG	Khazanah Nasional Berhad issued the first Ringgit-denominated SRI Sukuk in 2015 to support a non-profit organisation to transform 20 public schools under a Trust Schools Programme.
Blue Sukuk	Marine & ocean-based projects with positive environmental outcomes	No blue Sukuk has been issued so far. However, the first blue bond was issued in 2018. It is designed to support sustainable marine and fisheries projects.

Source: Adapted from World Bank Group (2020)

2.3 Types of Sukuk Issuers

Any type of entity may issue Sukuk to finance any Shari’ah permissible activities. Broadly, the issuers are divided into four categories, namely – (i) Sovereign *the Sukuk are issued by the governments. The average issue size of sovereign issuers is larger than others, which contributes to a larger share in Sukuk issue volume despite a lower number of issuances;* (ii) Quasi-sovereign *the Sukuk are issued by government-linked entities or state-owned enterprises or have the government’s backing;* (iii) Corporates *the Sukuk are issued by any corporate entity. The issue size of corporate issuers substantially varies as it can be from a hundred million to billion in any currency denomination;* and (iv) Financial institutions *the Sukuk are issued by financial institutions, including Islamic and conventional. A conventional financial institution may issue Sukuk provided that the complete issuance process, use of proceeds and other relevant requirements comply with the Shari’ah.* Figure 4 and Table 3 provides the distribution of global Sukuk issuance by issuer type.

Figure 4: Distribution of Global Sukuk Issuance by Issuer Type



Source: Adapted from IIFM Sukuk Reports

Table 3: Distribution of Global Sukuk Issuance by Issuer Type (%)

Year	USD Billions					% of Year Total			
	Sovereign	Quasi-Sovereign	Corporate	FIs	Total	Sovereign	Quasi-Sovereign	Corporate	FIs
2001-2005	11.32	1.98	19.19	0.74	33.22	34	6	58	2
2006	6.87	1.45	23.42	1.86	33.61	20	4	70	6
2007	7.59	1.50	39.70	1.40	50.18	15	3	79	3
2008	10.64	0.86	12.55	0.30	24.34	44	4	52	1
2009	24.88	4.00	8.86	0.19	37.93	66	11	23	1
2010	34.07	3.03	14.78	1.25	53.13	64	6%	28	2
2011	67.77	5.65	16.05	3.71	93.17	73	6	17	4
2012	87.09	21.65	23.24	5.62	137.60	63	16	17	4
2013	83.21	12.79	34.59	4.97	135.56	61	9	26	4
2014	68.79	21.64	12.68	4.20	107.30	64	20	12	4
2015	33.34	11.50	14.73	8.25	67.82	49	17	22	12
2016	41.26	21.32	19.82	5.40	87.78	47	24	23	6
2017	62.17	28.55	16.84	9.16	116.72	53	24	14	8
2018	67.38	23.61	22.04	10.12	123.15	55	19	18	8
2019	74.38	30.82	21.70	18.80	145.70	51	21%	15	13
2020	88.87	29.66	22.35	33.77	174.64	51	17	13	19
Total	769.61	220.00	322.51	109.73	1,421.85	54	15	23	8

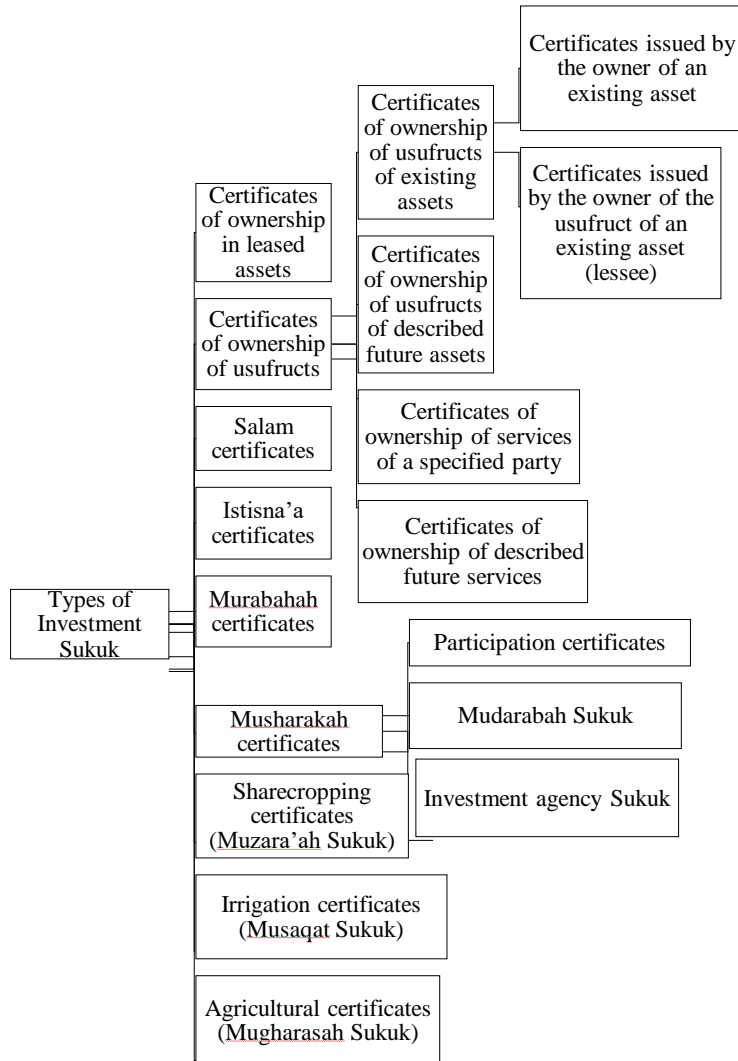
Source: Adapted from IIFM Sukuk Reports

2.4 Types of Sukuk Based on Underlying Shari’ah Contracts

Sukuk are structured by applying various Shari’ah-based contracts. In fact, there are a plethora of possibilities in structuring Sukuk. The structure depends on factors such as expected cash flow, rate of return, tenure, the availability and composition of underlying assets, risk appetite, credit remoteness, target rating, tax implications, Shari’ah opinion preference, so on (Ahmad, Ahmed, & Abojeib, 2021). In Shari’ah, there is no preference for using one Shari’ah contract over another.

Both the *Bangladesh Government Investment Sukuk Guideline, 2020* and *Bangladesh Securities and Exchange Commission (Investment Sukuk) Rules, 2019* allow all types of ‘Shari’ah concepts’ in structuring investment Sukuk, especially those mentioned in the AAOIFI Shari’ah Standard No. 17. The types of Sukuk named in the AAOIFI standard are provided in Figure 5.

Figure 5: Types of Sukuk Named in AAOIFI Shari’ah Standard No. 17



Source: AAOIFI (2003)

Various innovations are observed in the global market in terms of underlying assets and Shari’ah contracts (COMCEC, 2018). With experience and gaining of expertise, Sukuk structures have evolved from plain vanilla structures to complex structures involving several Shari’ah contracts. This is to maneuver

different regulatory barriers and also to cater for different needs and circumstances of the parties involved. Sukuk can be structured in a way that in financial substance and in risk-reward features it become almost similar to equity or bonds or a hybrid instrument. Nonetheless, Tables 4-8 identifies the application of Shari’ah contracts based on different types of issuance.

**Table 4: Popular Shari’ah Contracts in Structuring
Sovereign Sukuk (%)**

Shari’ah Contracts	International Sukuk Issuances				Domestic Sukuk Issuances				Total			Total
	2001-2018	2019	2020	Total	2001-2018	2019	2020	Total	2001-2018	2019	2020	
Bai’ Bithaman Ajil	0.00	0.00	0.00	0.00	4.15	0.00	0.00	3.28	3.65	0.00	0.00	2.87
Murabahah	0.13	0.00	0.00	0.10	61.27	32.25	30.02	54.90	53.89	27.34	26.74	48.19
Salam	2.68	0.00	0.00	2.08	1.77	1.70	2.68	1.87	1.88	1.44	2.39	1.89
Istisna'a	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ijarah	52.43	36.03	53.71	50.59	20.62	30.78	48.40	24.82	24.46	31.58	48.98	27.98
Mudarabah	0.00	0.00	0.00	0.00	1.23	0.00	0.02	0.97	1.08	0.00	0.02	0.85
Musharakah	0.00	0.00	0.00	0.00	4.30	0.00	1.14	3.53	3.78	0.00	1.01	3.10
Wakalah	23.78	17.65	25.71	23.24	0.91	5.72	0.77	1.34	3.67	7.54	3.50	4.03
Hybrid - Unidentified	2.73	0.00	0.00	2.12	0.33	0.00	0.00	0.26	0.62	0.00	0.00	0.49
Hybrid - Ijarah/Musharakah	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid - Wakalah/Murabahah	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid - Ijarah/Murabahah	1.16	24.26	20.57	5.94	0.00	0.00	0.00	0.00	0.14	3.70	2.25	0.73
Hybrid - Musharakah/Murabahah	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hybrid - Wakalah/Mudarabah	2.05	0.00	0.00	1.59	0.00	0.00	0.00	0.00	0.25	0.00	0.00	0.19
Hybrid - Murabahah/Mudarabah	15.03	22.06	0.00	14.33	5.42	29.54	16.98	9.03	6.58	28.40	15.12	9.68
Islamic Exchangeable Sukuk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Adapted from IIFM Sukuk Reports

Table 5: Popular Shari'ah Contracts in Structuring Quasi-Sovereign Sukuk (%)

Shari'ah Contracts	International Sukuk Issuances				Domestic Sukuk Issuances				Total			Total
	2001-2018	2019	2020	Total	2001-2018	2019	2020	Total	2001-2018	2019	2020	
Bai' Bithaman Ajil	0.00	0.00	0.0	0.00	0.03	0.00	0.00	0.02	0.01	0.00	0.00	0.01
Murabahah	1.09	0.00	0.00	0.77	53.98	37.07	68.37	52.96	25.89	17.91	23.94	24.51
Salam	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Istisna'a	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.01	0.01	0.00	0.00	0.01
Ijarah	12.01	0.00	0.00	8.49	7.40	0.00	13.71	6.95	9.85	0.00	4.80	7.79
Mudarabah	2.65	7.85	7.78	4.16	0.80	47.61	0.00	7.67	1.78	27.05	5.06	5.76
Musharakah	0.51%	0.00%	0.00%	0.36%	27.09%	2.16%	2.84%	20.88%	12.98%	1.04%	0.99	9.69
Wakalah	77.69%	92.15%	85.73%	80.90%	4.07%	0.93%	2.66%	3.46%	43.17%	48.08%	56.65%	45.67%
Hybrid - Unidentified	0.71%	0.00%	2.59%	0.92%	1.30%	0.00%	6.47%	1.64%	0.98%	0.00%	3.95%	1.25%
Hybrid - Ijarah/Musharakah	0.00%	0.00%	0.00%	0.00%	0.00%	8.03%	5.94%	1.81%	0.00%	3.88%	2.08%	0.82%
Hybrid - Wakalah/Murabahah	0.00%	0.00%	0.00%	0.00%	0.00%	4.20%	0.00%	0.62%	0.00%	2.03%	0.00%	0.28%
Hybrid - Ijarah/Murabahah	1.18%	0.00%	3.89%	1.46%	0.00%	0.00%	0.00%	0.00%	0.63%	0.00%	2.53%	0.79%
Hybrid - Musharakah/Murabahah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hybrid - Wakalah/Mudarabah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hybrid - Murabahah/Mudarabah	0.00%	0.00%	0.00%	0.00%	5.31%	0.00%	0.00%	3.97%	2.49%	0.00%	0.00%	1.81%
Islamic Exchangeable Sukuk	4.16%	0.00%	0.00%	2.94%	0.00%	0.00%	0.00%	0.00%	2.21%	0.00%	0.00%	1.60%

Source: Adapted from IIFM Sukuk Reports

Table 6: Popular Shari'ah Contracts in Structuring Corporate Sukuk

Shari'ah Contracts	International Sukuk Issuances				Domestic Sukuk Issuances				Total			Total
	2001-2018	2019	2020	Total	2001-2018	2019	2020	Total	2001-2018	2019	2020	
Bai' Bithaman Ajil	0.00%	0.00%	0.00%	0.00%	5.57%	0.00%	0.00%	4.78%	4.29%	0.00%	0.00%	3.70%
Murabahah	8.82%	22.29%	0.00%	9.27%	27.44%	23.41%	24.73%	26.96%	23.14%	23.16%	20.47%	22.95%
Salam	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Istisna'a	0.00%	0.00%	0.00%	0.00%	1.70%	0.00%	0.00%	1.46%	1.31%	0.00%	0.00%	1.13%
Ijarah	34.07%	2.74%	46.75%	32.61%	16.95%	10.92%	4.27%	15.59%	20.91%	9.06%	11.58%	19.45%
Mudarabah	9.16%	0.00%	1.30%	8.12%	8.67%	29.99%	23.04%	11.19%	8.78%	23.17%	19.29%	10.49%
Musharakah	10.34%	0.00%	0.00%	9.09%	23.08%	5.21%	6.17%	20.61%	20.14%	4.03%	5.11%	18.00%
Wakalah	22.55%	42.55%	28.57%	24.24%	5.92%	12.50%	9.61%	6.64%	9.76%	19.33%	12.87%	10.63%
Hybrid - Unidentified	2.77%	0.00%	0.00%	2.43%	10.27%	10.11%	27.53%	11.55%	8.54%	7.81%	22.79%	9.48%
Hybrid - Ijarah/Musharakah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hybrid - Wakalah/Murabahah	2.17%	0.00%	12.99%	2.60%	0.21%	6.35%	0.00%	0.61%	0.66%	4.91%	2.24%	1.06%
Hybrid - Ijarah/Murabahah	3.77%	22.29%	10.39%	5.39%	0.00%	0.00%	0.00%	0.00%	0.87%	5.07%	1.79%	1.22%
Hybrid - Musharakah/Murabahah	0.00%	0.00%	0.00%	0.00%	0.00%	1.03%	0.00%	0.07%	0.00%	0.80%	0.00%	0.05%
Hybrid - Wakalah/Mudarabah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.19%	0.24%	0.00%	0.00%	2.64%	0.18%
Hybrid - Murabahah/Mudarabah	0.00%	10.13%	0.00%	0.69%	0.00%	0.48%	1.46%	0.14%	0.00%	2.67%	1.21%	0.27%
Islamic Exchangeable Sukuk	6.35%	0.00%	0.00%	5.58%	0.19%	0.00%	0.00%	0.17%	1.61%	0.00%	0.00%	1.39%

Source: Adapted from IIFM Sukuk Reports

**Table 7: Popular Shari’ah Contracts in Structuring Sukuk Issued by
Financial Institutions**

Shari’ah Contracts	International Sukuk Issuances				Domestic Sukuk Issuances				Total			Total
	2001-2018	2019	2020	Total	2001-2018	2019	2020	Total	2001-2018	2019	2020	
Bai’ Bithaman Ajil	0.00%	0.00%	0.00%	0.00%	2.65%	0.00%	0.00%	1.21%	1.35%	0.00%	0.00%	0.73%
Murabahah	4.23%	0.00%	23.54%	7.70%	33.89%	19.38%	11.00%	23.04%	19.40%	12.91%	14.55%	16.88%
Salam	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Istisna'a	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ijarah	10.41%	0.00%	5.23%	7.89%	1.94%	0.00%	53.73%	20.06%	6.08%	0.00%	40.00%	15.17%
Mudarabah	21.20%	35.86%	12.12%	21.31%	5.49%	0.02%	10.29%	6.19%	13.17%	11.99%	10.81%	12.27%
Musharakah	16.12%	0.00%	0.00%	10.52%	5.94%	1.04%	1.07%	3.29%	10.91%	0.69%	0.76%	6.20%
Wakalah	28.83%	47.41%	13.60%	28.20%	33.78%	53.66%	8.84%	28.55%	31.36%	51.57%	10.19%	28.41%
Hybrid - Unidentified	14.96%	0.00%	0.00%	9.76%	5.77%	0.00%	0.00%	2.65%	10.26%	0.00%	0.00%	5.51%
Hybrid - Ijarah/Musharakah	1.18%	0.00%	0.00%	0.77%	0.00%	0.00%	0.00%	0.00%	0.58%	0.00%	0.00%	0.31%
Hybrid - Wakalah/Murabahah	2.42%	0.00%	7.85%	3.23%	0.23%	25.90%	0.00%	4.89%	1.30%	17.25%	2.22%	4.22%
Hybrid - Ijarah/Murabahah	0.00%	11.95%	13.60%	4.50%	0.00%	0.00%	0.00%	0.00%	0.00%	3.99%	3.85%	1.81%
Hybrid - Musharakah/Murabahah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hybrid - Wakalah/Mudarabah	0.64%	4.78%	24.06%	6.12%	0.00%	0.00%	15.07%	5.38%	0.31%	1.60%	17.62%	5.68%
Hybrid - Murabahah/Mudarabah	0.00%	0.00%	0.00%	0.00%	10.31%	0.00%	0.00%	4.73%	5.27%	0.00%	0.00%	2.83%
Islamic Exchangeable Sukuk	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Adapted from IIFM Sukuk Reports

Table 8: Popular Shari’ah Contracts in Structuring Sukuk - Total

Shari’ah Contracts	International Sukuk Issuances				Domestic Sukuk Issuances				Total			Total
	2001-2018	2019	2020	Total	2001-2018	2019	2020	Total	2001-2018	2019	2020	
Bai’ Bithaman Ajil	0.00%	0.00%	0.00%	0.00%	4.09%	0.00%	0.00%	3.19%	3.15%	0.00%	0.00%	2.44%
Murabahah	3.14%	2.86%	5.31%	3.38%	51.21%	30.03%	28.81%	46.41%	40.24%	22.86%	23.10%	36.36%
Salam	0.78%	0.00%	0.00%	0.59%	1.11%	1.00%	1.60%	1.16%	1.03%	0.74%	1.22%	1.02%
Istisna'a	0.00%	0.00%	0.00%	0.00%	0.43%	0.00%	0.00%	0.33%	0.33%	0.00%	0.00%	0.26%
Ijarah	29.17%	10.97%	17.74%	25.60%	17.86%	19.80%	40.48%	20.79%	20.44%	17.47%	34.96%	21.92%
Mudarabah	5.72%	9.10%	6.39%	6.20%	3.20%	11.30%	5.12%	4.23%	3.77%	10.72%	5.43%	4.69%
Musharakah	4.70%	0.00%	0.00%	3.55%	11.04%	1.24%	1.96%	8.98%	9.60%	0.91%	1.48%	7.71%
Wakalah	42.27%	56.55%	50.53%	44.98%	3.64%	11.72%	3.63%	4.43%	12.45%	23.55%	15.02%	13.90%
Hybrid - Unidentified	3.50%	0.00%	1.18%	2.80%	3.09%	1.58%	4.36%	3.09%	3.18%	1.16%	3.59%	3.02%
Hybrid - Ijarah/Musharakah	0.14%	0.00%	0.00%	0.11%	0.00%	1.12%	0.47%	0.17%	0.03%	0.82%	0.35%	0.15%
Hybrid - Wakalah/Murabahah	0.84%	0.00%	2.95%	1.01%	0.06%	4.60%	0.00%	0.50%	0.24%	3.39%	0.72%	0.62%
Hybrid - Ijarah/Murabahah	1.69%	11.96%	10.49%	4.00%	0.00%	0.00%	0.00%	0.00%	0.39%	3.16%	2.55%	0.93%
Hybrid - Musharakah/Murabahah	0.00%	0.00%	0.00%	0.00%	0.00%	0.16%	0.00%	0.02%	0.00%	0.12%	0.00%	0.01%
Hybrid - Wakalah/Mudarabah	0.67%	0.78%	5.42%	1.29%	0.00%	0.00%	3.21%	0.39%	0.15%	0.21%	3.74%	0.60%
Hybrid - Murabahah/Mudarabah	4.37%	7.80%	0.00%	4.21%	4.24%	17.45%	10.37%	6.28%	4.27%	14.90%	7.85%	5.80%
Islamic Exchangeable Sukuk	3.01%	0.00%	0.00%	2.28%	0.05%	0.00%	0.00%	0.04%	0.72%	0.00%	0.00%	0.56%

Source: Adapted from IIFM Sukuk Reports

2.4.1 Naming of Sukuk

The naming of Sukuk after its underlying Shari'ah contract intends to provide background information about the Sukuk structure, e.g. the legal and structural features it carries (Rainey & Salah, 2011). However, for a Sukuk to be Shariah-compliant, it is not a binding condition from Shari'ah perspective to name it after its underlying Shari'ah contract(s). The naming of Sukuk after its underlying Shari'ah contract(s) is a regulatory requirement, as is the case in Bangladesh. It is not a Shari'ah requirement. In this context Investment Sukuk Rules 2019: Section 5 states that:

- (a) Where an Investment Sukuk is structured based on single Shari'ah concept, the Sukuk shall be named according to that Shari'ah concept.
- (b) Where the Sukuk are structured using multiple Shari'ah concepts, the Sukuk shall be named after the prime concept, and the application of the multiple Shari'ah compliant transaction types shall be disclosed in the principal terms and conditions of the Sukuk.

If a Sukuk is structured based on only one Shari'ah contract, then its naming is straightforward. However, in reality, more often Sukuk are structured based on multiple Shariah contracts. In such cases, Bangladesh Securities and Exchange Commission (BSEC, 2019) requires naming the Sukuk after the 'prime concept'. But, in a hybrid structure, where the Sukuk is structured based on multiple Shari'ah contracts, which is the 'prime concept' could be debated. For instance, in Tables 4-8 above, Sukuk structured based on Wakalah may also include Ijarah and Murabahah. The Ijarah structures may also include Istisna'a.

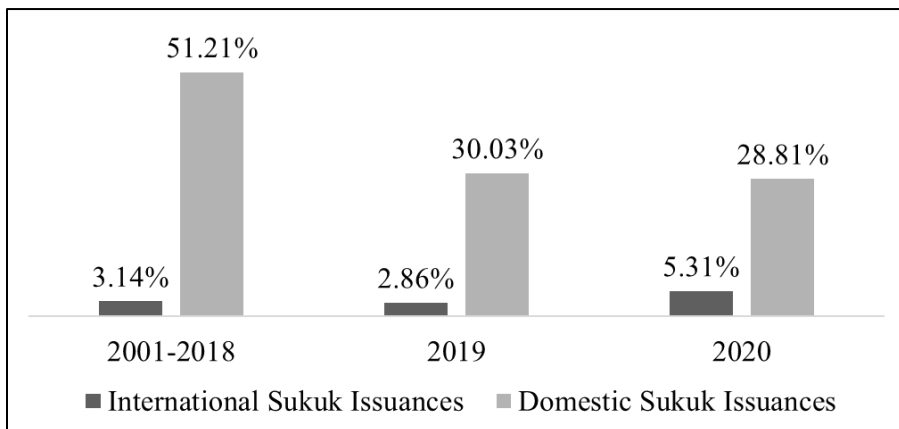
In this context, the SC Malaysia (2019) states that where the sukuk are structured using multiple Shariah principles, the Sukuk may be named according to the name of the issuer or obligor (where applicable). In any case, the application of the multiple Shariah principles must be disclosed in the principal terms and conditions of the Sukuk.

2.4.2 Differences of Opinion in Application of Shari’ah Principles

Tables 4-8 provided above shows that the Shari’ah contracts’ application varies depending on the type of issuer and whether the issuance is an international or domestic one. One of the reasons behind this is that differences of opinion exist among the Shari’ah scholars, supervisory boards and standard setters.

Hence, although all Sukuk are approved by respective Shari’ah Supervisory Boards, the acceptability of a Sukuk varies with the variation of the Shari’ah opinion. For example, sale of debt at negotiated price is acceptable in Malaysia, but not by the majority others (ISRA, 2017). Therefore, as provided in Figure 6, the Murabahah Sukuk (which results in debt) is highly popular for domestic issuances in Malaysia (where it is tradable at negotiated price), but not for international issuances (where this Sukuk generally is considered not tradable at negotiated price).

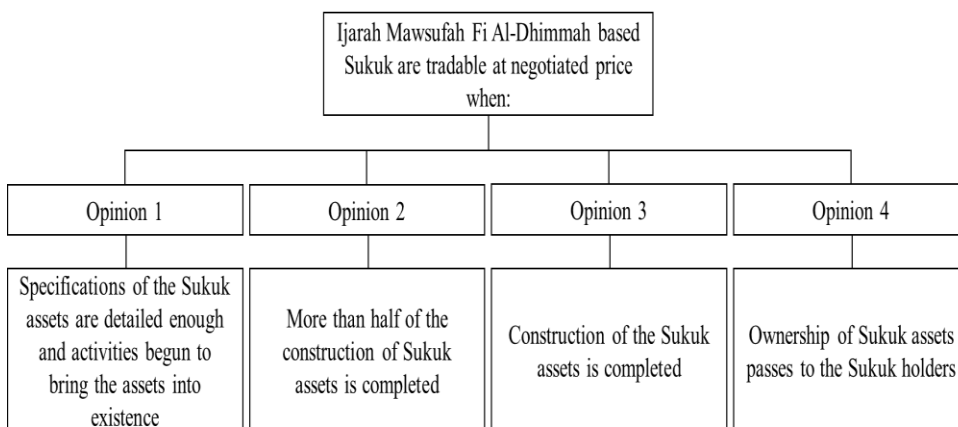
Figure 6: Share of Murabahah Sukuk in International and Domestic Issuances



Source: Adapted from IIFM Sukuk Reports

Figure 7 provides another example of differences of opinion. It shows that four different opinions are available regarding tradability of Ijarah Mawsufah Fi Al-Dhimmah based Sukuk.

Figure 7: Tradability of Ijarah Mawsufah Fi Al-Dhimmah based Sukuk



Source: Bouheraoua, Sairally, & Hasan (2012)

Different opinions are supported by their respective arguments, yet their acceptability vary from one party to another. Considering the existence of differences of opinion, the following standard clause is generally included in Sukuk’s prospectus:

Investors are reminded that, as with any Shari’ah views, differences in opinion are possible. Investors are advised to obtain their own independent Shari’ah advice as to whether the structure meets their individual standards of compliance and make their own determination as to the future tradeability of the Certificates on any secondary market (IIFM, 2020).

2.4.3 Evolution of Practice with Greater Clarity in Shari’ah Standards

The application of Shari’ah contracts in structuring Sukuk also evolve with new and clarified Shari’ah Standards. For example, subsequent to the criticisms of Sheikh Muhammad Taqi Usmani in an AAOIFI conference regarding certain practices of participatory structures (Usmani, 2007), AAOIFI issued a resolution in 2008 providing greater clarity in application of participatory contracts (AAOIFI, 2008). Consequently, certain amendments are introduced in Sukuk documents of participatory structures (ISRA, 2017).

Another example is the requirements set in the AAOIFI Shari'ah Standard No. 59 regarding tradability of Sukuk. This standard provides clarification regarding Sukuk's trading rules that were not present in the previously issued Shari'ah Standard No. 17 (Jivraj, 2021). The clarified requirements expected to impact Sukuk structuring that aims to comply with AAOIFI standards (Fitch Ratings, 2021).

The changes or greater clarity provided in Shari'ah Standards may result in short-term challenges. For instance, after the AAOIFI conference in 2007 and subsequent resolution in 2008, there was a sharp decline in the application of participatory structures (IIFM Sukuk Reports, n.d.). Similarly, after issuance of Shari'ah Standard No. 59, the UAE Sukuk market reported to face challenges as they are required to comply with AAOIFI standards (Arab News, 2021). Nonetheless, in the long run, the changes are expected to bring the market closure to the fundamental Shari'ah principles. This also pushes the market to be more innovative in structuring Sukuk.

2.5 Structures of Sukuk Based on Shari'ah Contracts

This section provides definition and illustration of some of the Sukuk based on their Shari'ah contracts.

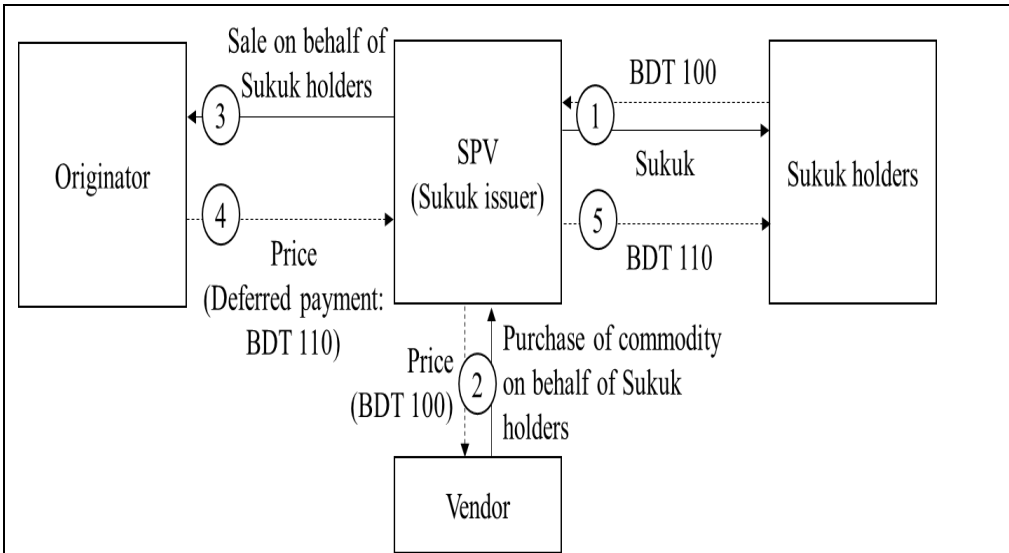
2.5.1 Murabahah Sukuk

The definition of Murabahah Sukuk as provided by different Islamic finance authorities are provided in Table 9 and a simple illustration of a Murabahah Sukuk is provided in Figure 8.

Table 9: Definition of Murabahah Sukuk

AAOIFI (2003)	These are certificates of equal value issued for the purpose of financing the purchase of goods through Murabahah so that the certificate holders become the owners of the Murabahah commodity. The certificate holders own the Murabahah commodity and are entitled to its sale price.
IFSB (2009)	In this case, the originator (and also, in some cases, the issuer) of the Sukuk is the buyer (on credit) of the Murabahah asset, the Sukuk investors are the sellers (on credit) of that asset, and the credit provided by the Sukuk investors and received by the issuer consists of the Murabahah selling price of the asset, which the originator sells to obtain the funds it seeks. The Sukuk holders own the Murabahah and are entitled to receive payment of that receivable (the selling price of the asset) either in instalments or in a lump sum at the end of the Murabahah contract. Such Sukuk, being securitised receivables, are not generally considered tradable in most jurisdictions.
SC Malaysia (2020)	These refer to certificates of equal value evidencing the certificate holder's undivided ownership of the asset, including the rights to the receivables arising from the underlying contract.

Figure 8: Illustration of a Basic Murabahah Sukuk



Step	Event	Underlying Assets of Sukuk
1	The Special Purpose Vehicle (SPV) has issued Sukuk and received BDT 100 crore from the Sukuk holders to purchase specified commodities.	Cash
2	The SPV has purchased the commodities from a vendor.	Commodities
3	The SPV on behalf of the Sukuk holders has sold the commodities to the originator on a deferred payment basis (BDT 110 crore).	Receivables
4	The originator makes payment to the SPV.	Cash
5	The Sukuk holders receive payment from the SPV.	This marks the maturity of the Sukuk

Source: Authors' own.

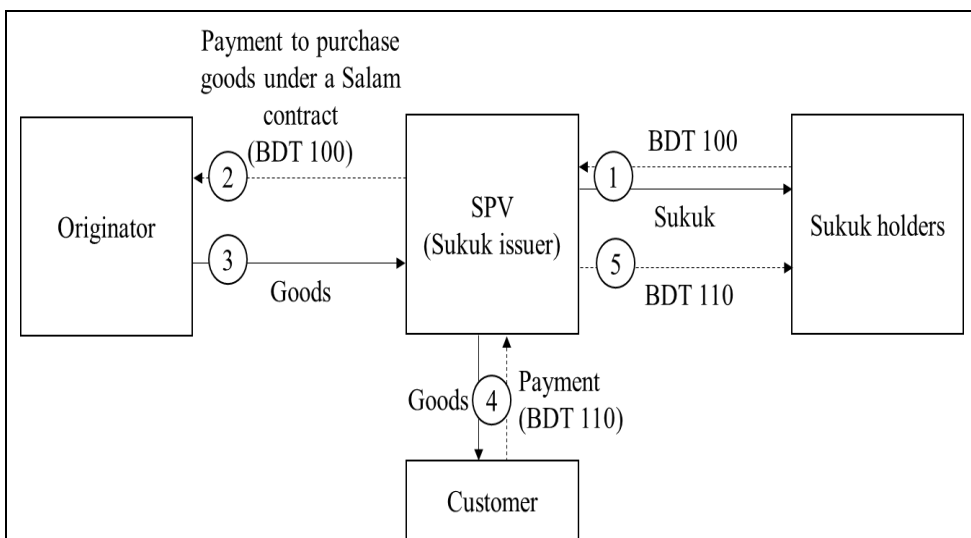
2.5.2 Salam Sukuk

The definition of Salam Sukuk as provided by different Islamic finance authorities are provided in Table 10 and a simple illustration of a Salam Sukuk is provided in Figure 9.

Table 10: Definition of Salam Sukuk

AAOIFI (2003)	These are certificates of equal value issued for the purpose of mobilising Salam capital so that the goods to be delivered on the basis of Salam come to be owned by the certificate holders. The holders of Salam certificates are the owners of the Salam goods and are entitled to the sale price of the certificates or the sale price of the Salam goods sold through a parallel Salam, if any.
IFSB (2009)	Salam Sukuk represents proportionate ownership of the capital of a Salam transaction, where the Salam capital is constituted by an advance payment to a counterparty as supplier of a commodity (the subject matter) to be delivered at a future date. This type of Sukuk is generally considered to be non-tradable since the subject matter is considered to be a financial asset (a receivable).

Figure 9: Illustration of a Basic Salam Sukuk



Step	Event	Underlying Assets of Sukuk
1	The SPV has issued Sukuk and received BDT 100 crore from the Sukuk holders to purchase described assets under a Salam contract.	Cash
2	The SPV on behalf of the Sukuk holders has entered into a Salam contract with the originator and paid BDT 100 crore for goods that the originator will deliver on a specified future date.	Receivables (Good to be received in the future)
3	On the specified delivery date, the originator has delivered the goods to the SPV.	Goods
4	The SPV has sold the goods to a customer and received BDT 110 crore as sale price.	Cash
5	The Sukuk holders receive payment from the SPV.	This marks the maturity of the Sukuk

Source: Authors' own.

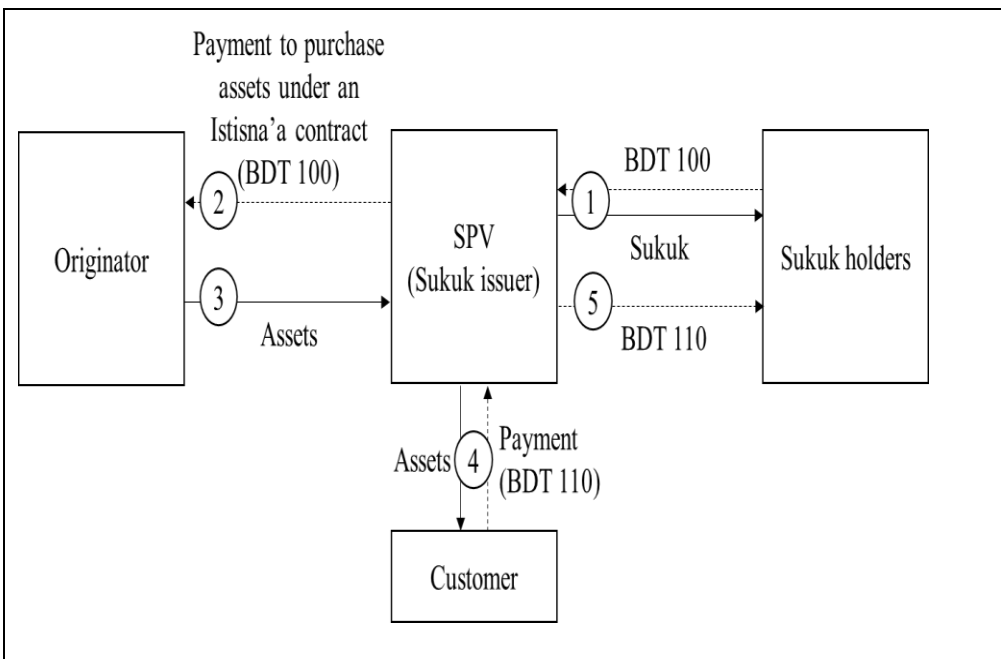
2.5.3 Istisna'a Sukuk

The definition of Istisna'a Sukuk as provided by different Islamic finance authorities are provided in Table 11 and a simple illustration of an Istisna'a Sukuk is provided in Figure 10.

Table 11: Definition of Istisna'a Sukuk

AAOIFI (2003)	These are certificates of equal value issued with the aim of mobilising funds to be employed for the production of goods so that the goods produced come to be owned by the certificate holders. The certificate holders own the product and are entitled to the sale price of the certificates or the sale price of the product sold on the basis of a parallel Istisna'a, if any.
IFSB (2009)	Istisna'a Sukuk represent proportionate shares in the financing of a project to construct an asset at a price to be paid in future instalments, the total of which equals the total face value of the Sukuk, in addition to mark-up.
SC Malaysia (2020)	These refer to certificates of equal value evidencing the certificate holder's undivided ownership of the asset, including the rights to the receivables arising from the underlying contract.

Figure 10: Illustration of a Basic Istisna'a Sukuk



Step	Event	Underlying Assets of Sukuk
1	The SPV has issued Sukuk and received BDT 100 crore from the Sukuk holders to purchase described assets under an Istisna'a contract.	Cash
2	The SPV on behalf of the Sukuk holders has entered into an Istisna'a contract with the originator and paid BDT 100 crore for assets that the originator will deliver on a specified future date.	Receivables (Assets to be received in the future)
3	On the specified delivery date, the originator has delivered the assets to the SPV.	Manufactured Assets
4	The SPV has sold the assets to a customer and received BDT 110 crore as sale price.	Cash

5	The Sukuk holders receive payment from the SPV.	This marks the maturity of the Sukuk
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Source: Authors' own.

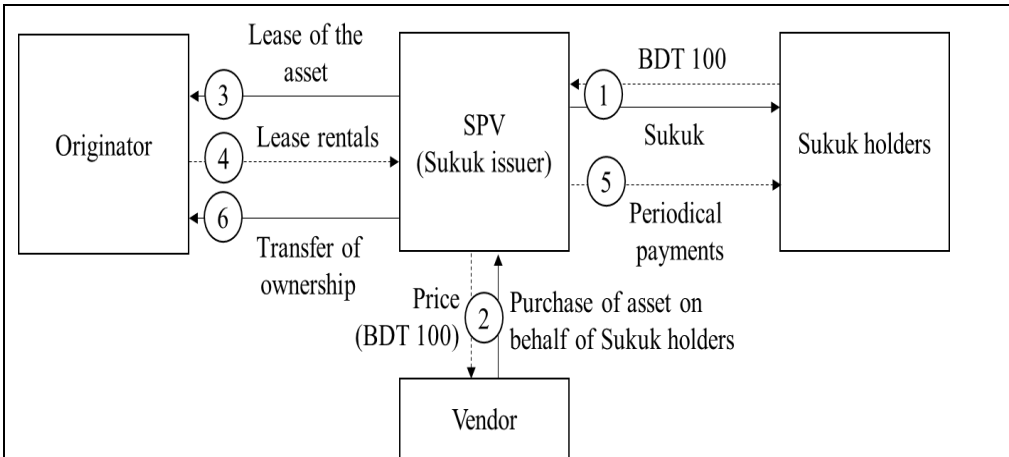
2.5.4 Ijarah Sukuk

The definition of Ijarah Sukuk as provided by different Islamic finance authorities are provided in Table 12 and a simple illustration of an Ijarah Sukuk is provided in Figure 11.

Table 12: Definition of Ijarah Sukuk

IFSB (2009)	Ijarah and Ijarah Muntahiyah Bi al-Tamlik (IMB) Sukuk represent the holder's proportionate ownership in leased assets where the Sukuk holders will collectively assume the rights and obligations of the lessor. The Sukuk holders are entitled to a share of the lease rentals in proportion to their ownership shares in the leased assets. Ijarah and IMB Sukuk are tradable from the issuance date, as the subject matter is a non-financial asset owned by the Sukuk holders.
SC Malaysia (2020)	These refer to certificates of equal value evidencing the certificate holder's undivided ownership of the leased asset and/or usufruct and/or services and rights to the rental receivables from the said leased asset and/or usufruct and/or services.

Figure 11: Illustration of a Basic Ijarah Sukuk



Step	Event	Underlying Assets of Sukuk
1	The SPV has issued Sukuk and received BDT 100 crore from the Sukuk holders to purchase specified assets.	Cash
2	The SPV has purchased the assets from a vendor.	Assets to be leased
3	The SPV on behalf of the Sukuk holders has leased the assets to the originator based on an IMB arrangement.	Leased assets (Lessor)
4	The originator makes periodical rental payments to SPV.	
5	The Sukuk holders receive periodical payments from the SPV.	
6	The ownership of the asset is transferred to the originator at the end of the lease term.	This marks the maturity of the Sukuk

Source: Authors' own.

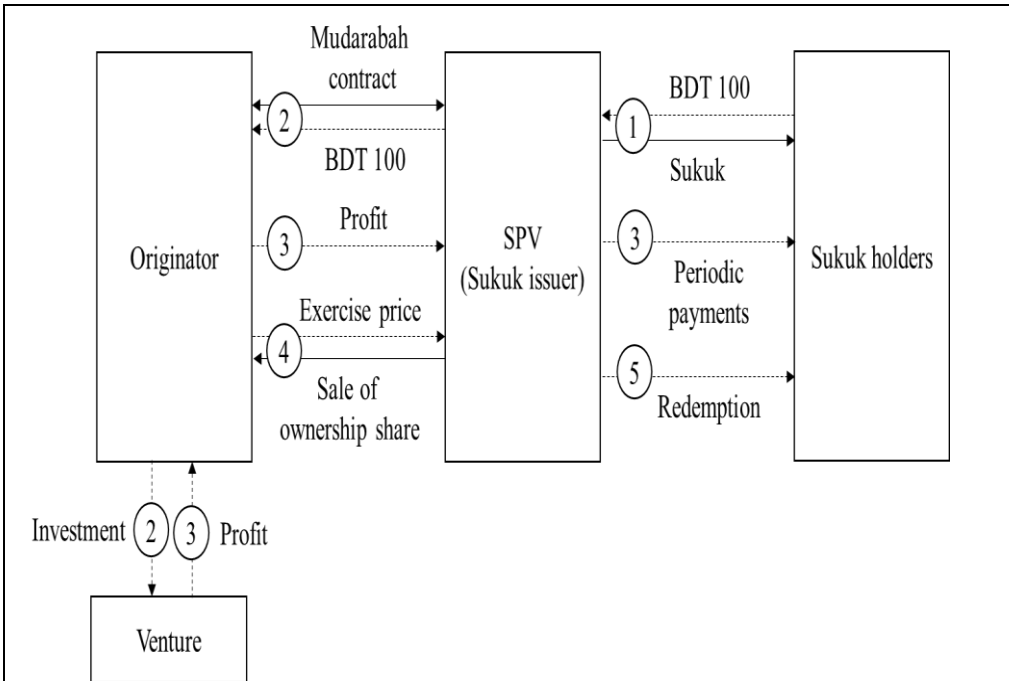
2.5.5 Mudarabah Sukuk

The definition of Mudarabah Sukuk as provided by different Islamic finance authorities are provided in Table 13 and a simple illustration of a Mudarabah Sukuk is provided in Figure 12.

Table 13: Definition of Mudarabah Sukuk

AAOIFI (2003)	These are certificates that represent projects or activities managed on the basis of Mudarabah by appointing one of the partners or another person as the Mudarib for the management of the operation. The certificate holders own the assets of Mudarabah and the agreed upon share of the profits belongs to the owners of capital and they bear the loss, if any.
IFSB (2009)	Sukuk holders subscribe to the certificates issued by a Mudarib and share the profits and bear any losses arising from the Mudarabah operations. Underlying investments in Mudarabah can be categorised as follows: a) Private commercial enterprise to undertake trading activities in, for example, commodities b) Private commercial enterprise to undertake business venture or project [other than (a)]
SC Malaysia (2020)	These refer to certificates of equal value evidencing the certificate holder's undivided ownership in the Mudarabah venture.

Figure 12: Illustration of a Basic Mudarabah Sukuk



Step	Event	Underlying Assets of Sukuk
1	The SPV has issued Sukuk and received BDT 100 crore from the Sukuk holders.	Cash
2	The originator has invested the capital in the venture as Mudarib of the Sukuk holders' capital.	Assets of the venture
3	The profit generated from the venture is shared between the originator and Sukuk holders as per pre-agreed ratio. The Sukuk holders received their share of profit in the form of periodic payments.	Assets of the venture
4	The originator has purchased the Sukuk holders' ownership share in the venture.	Cash

5	The SPV has transferred the redemption amount to the Sukuk holders.	This marks the maturity of the Sukuk
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Source: Authors' own.

2.5.6 Musharakah Sukuk

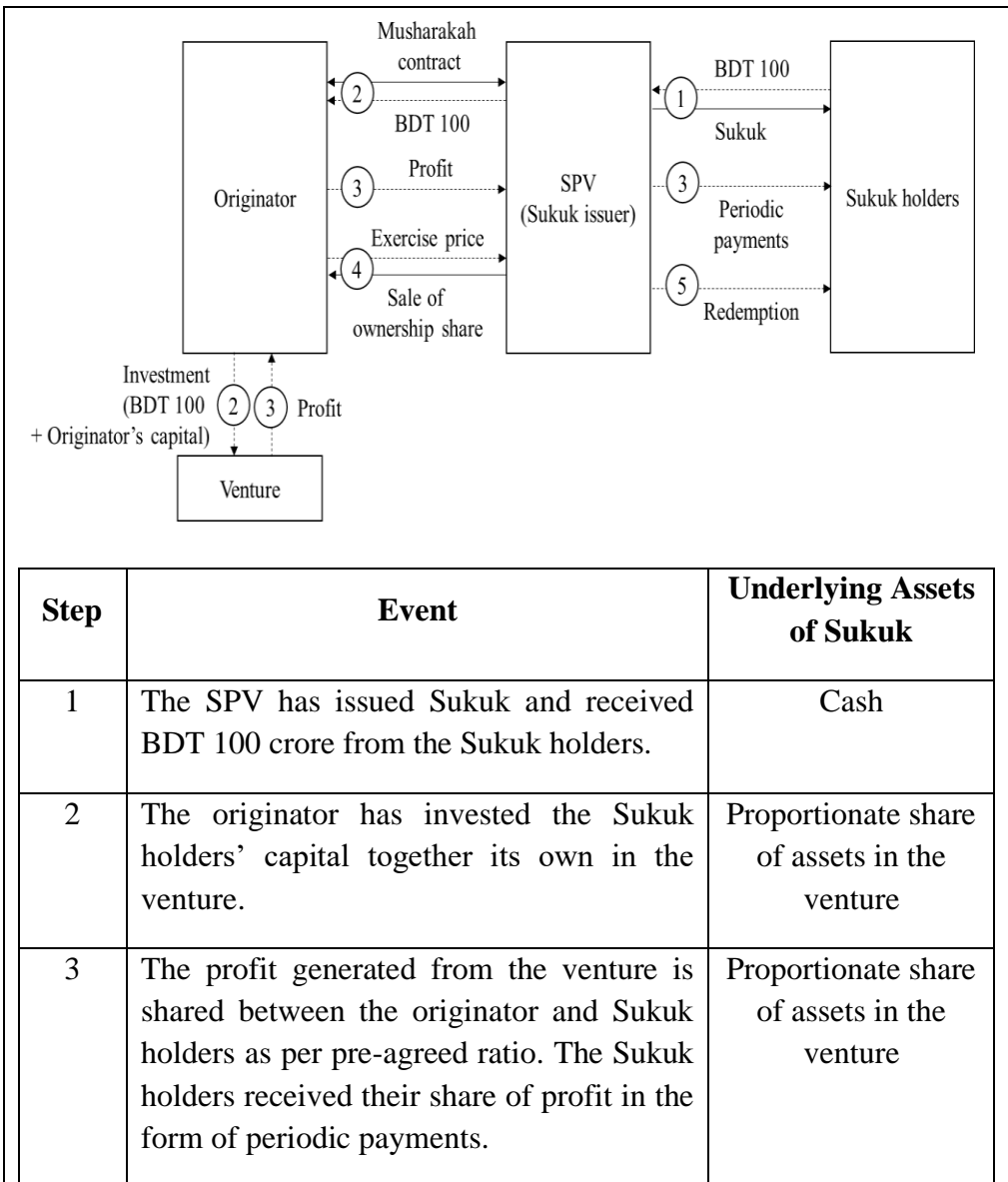
The definition of Musharakah Sukuk as provided by different Islamic finance authorities are provided in Table 14 and a simple illustration of a Musharakah Sukuk is provided in Figure 13.

Table 14: Definition of Musharakah Sukuk

AAOIFI (2003)	These are certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, developing an existing project or financing a business activity on the basis of any of partnership contracts so that the certificate holders become the owners of the project or the assets of the activity as per their respective shares. The certificate holders own the assets of partnership with the accompanying profits and losses and are entitled to their share in the profits of the partnership, if any.
IFSB (2009)	<p>Musharakah Sukuk represent the direct proportionate ownership shares of the holders in the assets of a private commercial enterprise or project, where the subscription money is normally employed in purchasing non-liquid assets or assets such as real estate or movable assets. A Musharakah Sakk is a profit- and loss-sharing instrument where the exposure is of the nature of an equity position in the banking book, except in the case of investments (normally short-term) in assets for trading purposes. Underlying investments in Musharakah that can be categorized as follows:</p> <ul style="list-style-type: none"> a) Private commercial enterprise to undertake trading activities in, for example, commodities b) Private commercial enterprise to undertake business venture or project [other than (a)]

	c) Joint ownership of real estate or movable assets (such as cars)
SC Malaysia (2020)	These refer to certificates of equal value evidencing the certificate holder's undivided ownership in the Musharakah venture.

Figure 13: Illustration of a Basic Musharakah Sukuk



4	The originator has purchased the Sukuk holders' ownership share in the venture.	Cash
5	The SPV has transferred the redemption amount to the Sukuk holders.	This marks the maturity of the Sukuk

Source: Authors' own.

2.5.7 Wakalah Sukuk

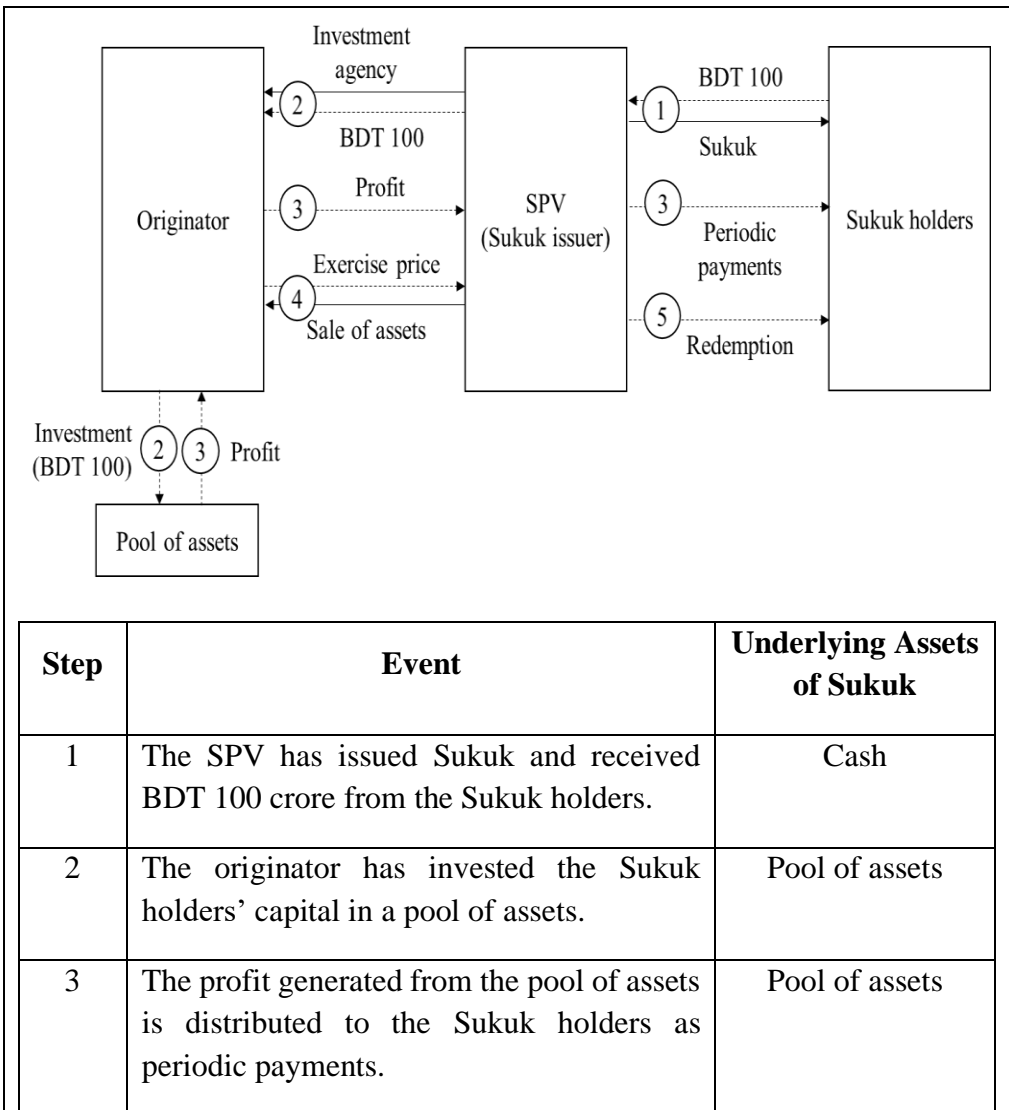
The definition of Wakalah Sukuk as provided by different Islamic finance authorities are provided in Table 15 and a simple illustration of a Wakalah Sukuk is provided in Figure 14.

Table 15: Definition of Wakalah Sukuk

AAOIFI (2003)	These are certificates that represent projects or activities managed on the basis of an investment agency by appointing an agent to manage the operation on behalf of the certificate holders. The certificate holders own the assets represented by the certificates with its benefits and risks, and they are entitled to the profits, if any.
IFSB (2009)	<p>The Wakalah Sukuk holders provide the capital for Shari'ah-compliant investment activity, and the investment agent (Wakil) undertakes investment of the funds. In this type of Sukuk structure, the portfolio of assets may comprise a broad range of Shari'ah-compliant assets that will be selected by the Wakil for a period of time corresponding to the duration of the Sukuk. The range of assets may include: Shari'ah-compliant equities; Shari'ah-compliant assets such as real estate and cars; murabahah, Istisna'a or even other Sukuk, etc. The underlying investments in Wakalah can be categorised as follows:</p> <ol style="list-style-type: none"> a) To undertake trading activities in foreign exchange, shares or commodities b) To invest in assets that can be leased or sold on a murabahah basis

	c) To invest in a combination of assets comprising shares, leasable assets, receivables from murabahah or Salam, etc
SC Malaysia (2020)	These refer to certificates of equal value evidencing the certificate holder's undivided ownership in the investment assets pursuant to their investment through the investment agent.

Figure 14: Illustration of a Basic Wakalah Sukuk



4	The originator has purchased the assets from the Sukuk holders.	Cash
5	The SPV has transferred the redemption amount to the Sukuk holders.	This marks the maturity of the Sukuk

Source: Authors' own.

3. Sukuk in Bangladesh

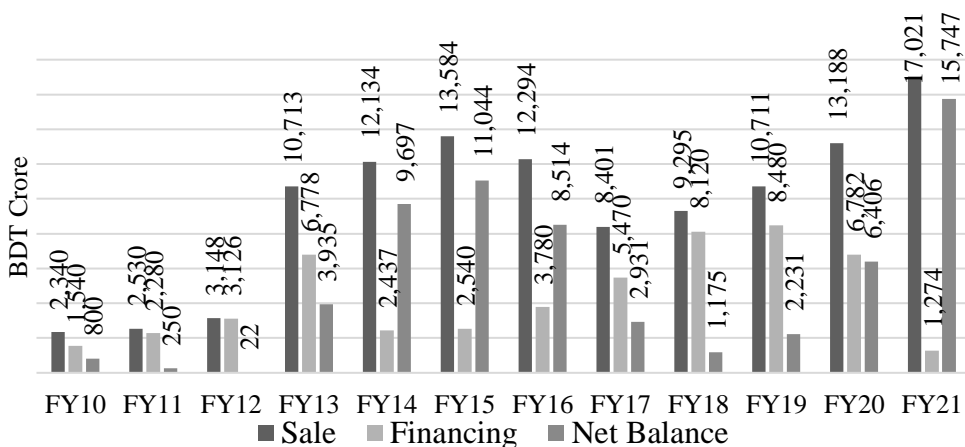
The Bangladesh Government Investment Sukuk (Ijarah Sukuk) is the first Sukuk issued under the *Bangladesh Government Investment Sukuk Guideline, 2020* and the Beximco Green-Sukuk Al Istisna'a is the first Sukuk issued under the *Bangladesh Securities and Exchange Commission (Investment Sukuk) Rules, 2019*. They are respectively considered as the first government Sukuk and first corporate Sukuk in Bangladesh. However, earlier examples of issuing Islamic alternative to conventional bond include Bangladesh Government Islamic Investment Bond (BGIIB) and Mudaraba Bond issued by a few Islamic banks.

3.1 Bangladesh Government Islamic Investment Bond (BGIIB)

The Government of Bangladesh introduced the BGIIB in 2004 with the objective to convert the excess liquidity of Islamic banks into investments. Prior to the newly issued Bangladesh Government Investment Sukuk, it was the only approved Shari'ah-compliant security for Islamic banks to invest in maintaining their Statutory Liquidity Requirement (SLR).

The BGIIB is structured based on Mudarabah principles, where Bangladesh Bank on behalf of the government plays the role of Mudarib. However, as the government is not utilising the proceeds from the BGIIB issuance (Bangladesh Bank, 2021), the proceeds roam among the Islamic banks providing very low and non-attractive yield. Because of re-rolling the fund among the Islamic banks, the demand for the fund is often well below the supply (Sarker, et al., 2019). Figure 15 provides the sale, financing and net balance (i.e. unutilised amount) of BGIIB over the periods of FY10-FY21.

Figure 15: Sale, Financing and Net Balance of BGIIB

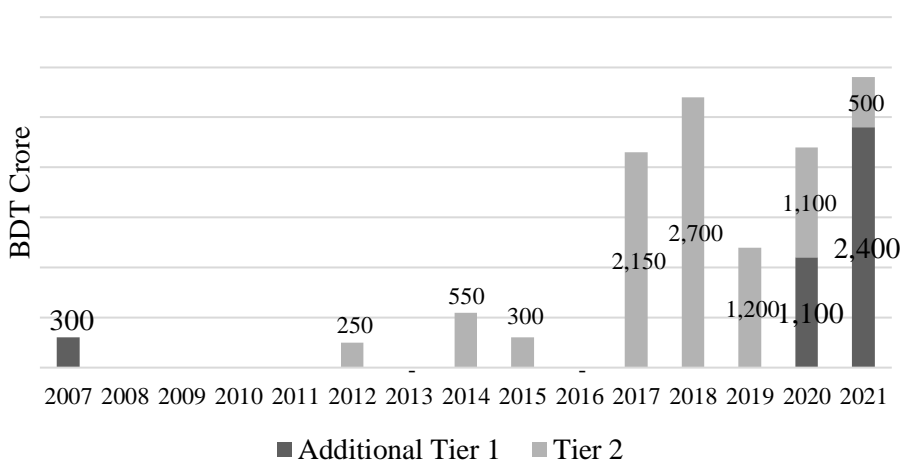


Source: Bangladesh Bank (2021)

3.2 Mudaraba Bond

Few Islamic banks in Bangladesh has issued Mudaraba bond to strengthen their Additional Tier-1 and Tier 2 capital. The general features of these Additional Tier-1 bonds include unsecured, contingent-convertible, and perpetual. Whereas, the general features of the Tier-2 bond include unsecured, non-convertible, subordinated, and fully redeemable. Figure 16 identifies the Mudaraba Bonds approved by BSEC until 05 September 2021.

Figure 16: Mudaraba Bonds Approved by BSEC



Source: BSEC (n.d.)

3.3 Bangladesh Government Investment Sukuk (Ijarah Sukuk)

The BDT 8,000 crore 5-year Sukuk was issued to fund an infrastructure project named Safe Water Supply to the Whole Country. The Sukuk was issued in two tranches. The first was on 28 December 2020 and the second was on 09 June 2021, each for BDT 4,000 crore. It has received an overwhelming response from the market. The bid for the first tranche was around four times and the bid for the second tranche was around eight times than the target amount. The key particulars of the Sukuk are provided in Table 16.

Table 16: Key Particulars of Bangladesh Government Investment Sukuk

<p>Parties in involved in Sukuk</p>	<p>Originator, Obligor and Lessee</p> <p>Finance Division, Ministry of Finance on behalf of the Government of the People’s Republic of Bangladesh</p> <p>SPV, Issuer and Lessor</p> <p>A separate section named “Islamic Securities Section” has been formed in the Debt Management Department (DMD) of Bangladesh Bank. The Deputy General manager of the DMD has been appointed as the head of the section. This section will work as SPV for the issuance and management of this Sukuk. SPV will work separately and independently as a front office and back office to issue Ijarah Sukuk certificate to raise funds from the investors and manage the fund.</p> <p>Trustee/ Trust Committee</p> <p>A trust committee comprising six members (headed by a Deputy Governor of Bangladesh Bank) is formed to ensure the rights and benefits of Sukuk certificate holders and mitigate any kinds of dispute arising during the Sukuk period.</p>
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Shari'ah Governance	A Shari'ah Advisory Committee has been formed by Bangladesh Bank comprising:	
	• Ex-officio members from Bangladesh Bank	
	• Ex-officio members from Ministry of Finance	
	• Members of Shari'ah Supervisory Committees of Islamic banks	
	• Secretary General of Central Shariah Board for Islamic Banks of Bangladesh (CSBIB)	
Total		
Uses of Proceeds	Infrastructure development (such as building construction, machinery, equipment and part purchase, arsenic iron removal plant, rain water harvesting unit, hydrological characterisation, the establishment of submersible pump, deep tube well, hand pump, multiple hand pump, solar panel, etc.) for implementing the project "Safe Water Supply to the Whole Country."	
Sukuk Assets	Ownership of existing and future assets including usufruct under the project	
Rate of Return	BGIIB rate as declared for the calendar year 2019 dated 12/05/2020 by the Bangladesh Bank + 1% which is 3.69%+1% = 4.69% (Fixed) per annum, payable semi-annually	
Security	Backed by the full faith and credit of the government	
Auction Result	<ul style="list-style-type: none"> • 1st tranche: 39 bids of BDT 15,153 crore • 2nd tranche: 67 bids of BDT 32,726 crore 	
Allotment	<ul style="list-style-type: none"> • 1st tranche: Pro-rata basis • 2nd tranche: The allotment was subject to the following quota 	
	Investor Category Type	Allotted %
	Shariah Based Islamic Bank, Financial Institute and Insurance Companies	70%
	Islamic Branch and Windows of Conventional Banks	10%

	Conventional banks and other Financial Institutes	15%
	Individual investors	5%

Source: Bangladesh Bank (2020 and 2021)

3.4 Beximco Green-Sukuk Al Istisna'a

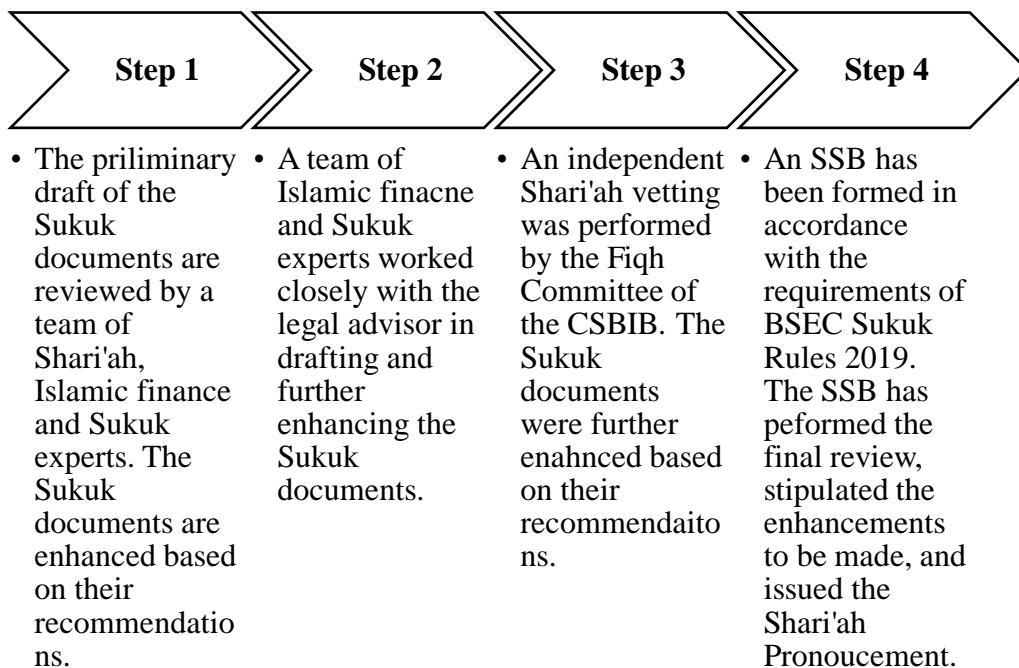
Beximco Green-Sukuk Al Istisna'a is the first corporate Sukuk in Bangladesh. This is an asset-backed Sukuk considering that the ownership of the Sukuk assets is transferred to the issuer (SPV) free of any legal impediments (Beximco, 2021). This BDT 3,000 crore Sukuk is an ambitious one considering its large issue size and absence of corresponding Sukuk or bond market in Bangladesh.

The Sukuk is structured based on Istisna'a and Ijarah (Ijarah Mawsufah Fi al-Zimmah) concepts. It has offered a Base Rate of 9% plus a Profit Margin Rate, payable semi-annually. The Sukuk has several credit enhancement features including assignment agreements, sinking fund, corporate guarantee, deposit of tariff payments, and Takaful / insurance. It also includes a conversion option that provides an option, not an obligation, to the Sukuk holders to convert their Sukuk into ordinary shares of Beximco Limited.

Out of the BDT 3,000 crore, 50% (BDT 1,500 crore) was offered through Private Offer, 25% (BDT 750 crore) was offered to existing shareholders of Beximco under Private Offer and the remaining 25% (BDT 750 crore) was offered to the public through Public Offer. According to TBS Report (2021), investors subscribed to 56% of the Public Offer. BSEC has allowed Beximco to offer the unsubscribed amount under Public Offer through Private Offer (Rahman, 2021).

The key structure documents of the Sukuk include - (i) Trust Deed; (ii) Master Istisna'a Agreement; (iii) Istisna'a Agreement; (iv) Assignment Agreements; (v) Purchase Undertakings; (vi) ale Undertakings; (vii) Ijarah Agreement; (viii) Purchase Agreements; (ix) Corporate Guarantee; and (x) Investment Management Agreement (Beximco, 2021). In drafting the Sukuk documents, the originator has adopted a four-step approach, which is presented in Figure 17.

Figure 17: Steps Taken in Drafting Documents of Beximco Green-Sukuk
Al Istisna'a



Source: Interviews

3.5 Regulations Facilitating Sukuk Issuance

The regulators and relevant authorities took active initiatives in introducing Sukuk in Bangladesh. Some of these initiatives are:

Bangladesh Government Investment Sukuk Guideline, 2020

The Ministry of Finance issued the Guideline via a Notification dated 8 October 2020 and circulated by Bangladesh Bank via a Circular on 21 October 2020 to all scheduled banks and financial institutions. The Guideline applies to matters related to issuance of Bangladesh Government Investment Sukuk.

Bangladesh Securities and Exchange Commission (Investment Sukuk) Rules, 2019

BSEC issued the Rules via Notification dated 22 May 2019 and Gazette of Bangladesh Government dated 29 May 2019. These rules are applicable for - (a) Issue of all types of investment Sukuk, either privately placed or being publicly offered, by any issuer to any investor and for matters connected

therewith and incidental thereto; and (b) Appointment or selection of parties involved in issuance of Investment Sukuk, governance of special purpose vehicle and for matters connected therewith and incidental thereto.

Bangladesh Securities and Exchange Commission (Debt Securities) Rules, 2021

BSEC issued the Rules via Notification dated 31 March 2021 and Gazette of Bangladesh Government dated 31 May 2021. These rules are applicable for – (a) Issuance of debt securities through private offer or public issue or offer; (b) Issuance of Islamic Shari’ah-based securities (ISBS) including Sukuk through private offer or public issue or offer; and (c) Issuance of asset-backed securities (ABS) through public issue or offer.

Bangladesh Bank Circulars on Utilization of Special Fund for Investment in Sukuk

Bangladesh Bank issued a Circular dated 27 September 2021 allowing the scheduled banks to invest their BDT 200 crore Special Fund in 100% asset-backed green Sukuk that are issued by the private sector to invest in renewable energy (e.g. solar power, wind power, biomass).

BSEC Directive on Governance of Trustee

BSEC issued a Directive dated 13 September 2021 regarding governance of trustee of Islamic Shariah Based Securities (ISBS) including Sukuk. The Directive requires establishing a professional team at trustee including having sufficient manpower, legal adviser and Shari’ah adviser. The Directive also set the exposure limit of trustee.

BSEC Office Order to Establish a Shari’ah Board

BSEC issued an Office Order dated 7 June 2021 to establish a Shari’ah Board at BSEC for the Islamic capital market. Accordingly, a draft guideline has been prepared.

Waiver of VAT

The Ministry of Finance via a Circular dated 7 September 2021 and Gazette of Bangladesh Government dated 13 September 2021 granted waiver on value-

added tax (VAT) in the cases of – (a) Sale of assets between originator and SPV; and (b) Lease or rental of assets between originator and SPV.

Waiver of Property Registration Tax

Amendment has been made in the Income Tax Ordinance 1984 to waive property registration tax for transfer of property to a trust or SPV established only for the purpose of issuing sukuk approved by the government or BSEC.

Initiatives Under Progress

Few other initiatives are currently under progress, which include – (a) Provisions on Sukuk are added in the draft Public Debt Act 2021; and (b) Similar to other government securities, income tax exemption for investment in government Sukuk is under consideration.

4. Summary of Interview Findings

The researchers have conducted several interviews in identifying the issues in introducing Sukuk in Bangladesh. Both government and corporate issuances were considered in conducting these interviews. As identified in Appendix-I, the interviewees include regulators and policy makers, individuals and entities directly associated with Sukuk issuance, members of the technical committees for Sukuk structuring, legal advisor for Sukuk documentation, members of the SSBs of Sukuk, and experts from the industry and academia. A summary of the interview findings is presented below.

4.1 Government Sukuk

4.1.1 Positive Experience During the 1st Sukuk Issuance

The positive experience in issuance of the 1st government Sukuk as identified from the interviews are provided below:

Trust-based cooperation among the government agencies

During the issue process, there was proper coordination and cooperation among different government agencies. They have adopted a ‘soft form’ of coordination instead of a ‘hard form’ to minimize the issuance costs. This is supported by the arguments that there is no matter of mistrust on the government, and forming separate SPV and trustee will increase costs, which ultimately have to be borne by the Sukuk holders.

Sukuk issued before the target date

Relevant authorities stated that they have successfully offered the first Sukuk before the target date. This was achieved due to the dedication of the Finance Division of Ministry of Finance and Bangladesh Bank and due support from the government.

Support from the stakeholders

The Sukuk issuance process received support from all stakeholders. The National Board of Revenue (NBR) extended crucial support in reducing the tax burden in Sukuk issuance.

Overwhelming market response

The debut Sukuk has received an overwhelming response from the market as the first tranche attracted four times and second tranche attracted eight times subscription than the offer. The concerned authorities are happy with the experience and market response. They already took the initiative to issue the second Sukuk. The government is thinking to issue large-sized Sukuk, instead of small issuances.

4.1.2 Challenges Faced During the 1st Sukuk Issuance

As the first-ever Sukuk issued by the government, the parties involved in Sukuk issuance has faced some challenges. The challenges include:

Absence of prior knowledge in Sukuk issuance

The relevant personnel at Bangladesh Bank and Ministry of Finance did not have prior knowledge and experience in structuring Sukuk and its operational procedures. They also did not know from whom they could get the necessary advice. They tried to gain knowledge through study of relevant publications including web-based learning.

Challenges in forming the Shariah Advisory Committee (SAC)

Bangladesh Bank has also faced challenges in forming the SAC as the names of competent Shari'ah and Sukuk experts was not readily available. Moreover, Sukuk as a new instrument in the market, there is a general lack of expertise in this area among the Shari'ah fraternity. It is crucial for the SAC to understand the modus operandi of the Sukuk before its Shari'ah endorsement.

Difficulty in dealing with the operational process

Due to the absence of separate laws and regulations, it was difficult for the issuing organs to deal with the operational process of Sukuk. For instance, at the initial stage, nobody had a clear idea about the formation of SPV and trustee for the government Sukuk.

Covid-19 pandemic

Those involved in Sukuk issuance also faced challenges due to the Covid-19 pandemic.

4.1.3 Recommendations for Future Sukuk Issuance

The interviewees suggested several recommendations for future Sukuk issuance which are summarized in the following box:

- **Regarding competent resources**
 - Formation of a technical committee for structuring Sukuk.
 - Developing competent resources at Ministry of Finance and Bangladesh Bank and not transferring them without ensuring replacement with necessary skill set.
 - Formation of a dedicated Sukuk unit under the Finance Division of MoF
 - BIBM and other educational and training institutions may invite Ministry of Finance, Bangladesh Bank and BSEC to all Sukuk related programs
 - More research should be done for developing Sukuk market in Bangladesh.
- **Regarding Sukuk operations**
 - Considering individual investors, government may offer higher rate of return aligning with inflation and bank-deposit rate for the upcoming issues.
 - To develop efficient mechanism and platform for transferring and trading Sukuk.
 - Formation of pricing guidelines for trading and redemption of Sukuk
 - Coordination with Dhaka Stock Exchange (DSE) for developing a platform for trading of Sukuk.
 - Formulation of plan (short, medium and long-term) for Government Sukuk with proper coordination
 - Identification of suitable project/assets for structuring Sukuk
 - SPV and trustee could be independent entities like Bangladesh Financial Intelligence Unit (BFIU)
 - Disclosure of Shariah basis by the SAC for general investors
 - Academia and researcher may propose some suitable structure for Government Sukuk.
- **Regarding regulations**
 - To introduce a dedicated Act on Sukuk.
- **Regarding future direction**
 - To establish Sukuk as an alternative to conventional savings certificates (Sanchayapatra) with a competitive rate.
 - To establish Sukuk as a tool for Social Safety Net program with a long-term vision
 - To establish Sukuk as an alternative to BGIIB
 - To create awareness among mass people for expanding the Sukuk market
 - The government may offer incentives for individual investors for expanding the Sukuk market

4.1.4 Contrary Recommendations

Few interviewees provided recommendations contrary to the commonly identified ones. They are provided below:

Not to rush in issuing the 2nd Sukuk

An interviewee opined that the government should not hurry in issuing the next Sukuk. They are in favor of taking time by observing the progress of the 1st Sukuk. They provided the argument that Bangladesh continued its development without Sukuk so far, hence the country would not suffer if no Sukuk is issued on an urgent basis.

Not to provide immediate tax waivers

An interviewee opined that it is not necessary to reduce tax and other duties related to Sukuk. The interviewee argued that Sukuk has to prove its credibility first before claiming tax waivers.

4.2 Corporate Sukuk

4.2.1 Originator's Perspective

High issuance cost

Sukuk issuance cost is much higher than that of conventional bonds and it is one of the main concerns for the originators. Cost related to trustee, government duties and fees for assets transfer, and additional cost for Shari'ah governance are counted as additional costs. The listing fee is also a concern.

4.2.2 Issue Manager's Perspective

Positive market response

Overall, there is positive attitude among the stakeholders of Bangladesh to the Shariah-compliant instruments especially to be interest-free.

Under developed market

The bond market in Bangladesh is not developed yet, and Sukuk being a new instrument poses a greater challenge. Interestingly, Bangladeshi investors are so far more enthusiastic for investment in equity instrument as compared to bond or Sukuk, though there is a great opportunity to get regular earning from Sukuk. There are also misconceptions and misunderstandings among the investors regarding Sukuk.

Wait and see approach of potential issuers

Corporates are taking time and observing others for issuing Sukuk. At this moment, several corporates are showing their interest for collecting fund through Sukuk. Nonetheless, they are also thinking about issuing cost, number of documents required for the issue and general perceptions of the investors. More institutional investors are expected in the Bangladeshi market, who could take prudent investment decision based on proper analysis.

Need an innovative approach

Innovations needed considering requirements of the originators, nature of underlying assets, risks of the obligor and investors, and tax implications.

More initiatives needed to reduce the tax burden

Although few amendments already been made to reduce tax burden in Sukuk, more initiatives needed to achieve tax neutrality. It is recommended to provide tax incentives to attract more participants in Sukuk at its early stage of development.

4.2.3 Underwriter and Trustee's Perspective

Greater risks involve in Sukuk

The underwriters feel that they are taking a greater risk because of market composition, lack of awareness and risk perceptions of investors, and overall readiness of the economy.

Fees does not commensurate the risks

The current underwriting fee does not commensurate the additional risk taken by the underwriter.

Shari'ah compliance concern

From the Shari'ah compliance aspect, there is a Shari'ah reservation regarding charging fee against underwriting. For example, AAOIFI Shari'ah Standards does not allow charging of fee for underwriting. Although there are other opinions that allow charging of underwriting fee in cases where it is a necessity and a “no free” underwriting is not available, it is important to develop a mechanism that would overcome any Shari'ah compliance related concern without depriving any party.

4.2.4 Trustee's Perspective

Too many responsibilities

Because of the salient features of Sukuk, a trustee has a tremendous role and responsibilities in the Sukuk process. For that reason, some of the entities are not much comfortable to act as a Trustee in a Sukuk.

4.2.5 Legal Advisor's Perspective

The requirements for SPV and trust formations needs to be further clarified

As per current BSEC rules, it appears that the SPV for Sukuk has to be in the form of a trust. However, such trust formation has created a lot of confusion to the extent of separating trust from the trustee. Therefore, the regulators may also consider formation of SPV through an incorporated entity. In some developed jurisdictions relating to securitization, SPVs are formed as incorporated legal entities in addition to trusts. The challenge in formation of an incorporated entity to be an SPV is, as of date, the absence of a legal framework for Sukuk. The same cannot be achieved under existing laws for incorporation of companies. SPV in the form of an incorporated entity has to enjoy tax exemption and easy to liquidate. In this regard, the laws of Singapore, EU, Australia, and UK relating to SPV for securitization can be reviewed. An orphan structure could be the best achieved under an incorporated entity for a specific purpose and professional managers can be on the board of such entity. There shall not be any direct risk of commingling of other assets with the SPV's assets. A total detachment can be achieved for an incorporated entity.

However, after final payment to the Sukukholders, the entity has to be struck off/ wound up without much formality. Since trust does not require any filings with any office except for registration, it is a preferred form. Therefore, similar provisions have to be laid down for incorporated entities, which could be registered with RJSC but only after receipt of consent from BSEC and after final payment to the Sukukholders, only with BSEC permission the same be wound up. Objects clause shall have to be specific and only in relation to Sukuk. As an alternative, more clarification in the regulations about the role, position and relationship between SPV and trustee may be helpful for the concerned stakeholders.

A copy-paste approach in drafting Sukuk documents is not appropriate

As every Sukuk is unique, preparer of the documents should be very careful drafting Sukuk documents. A copy-paste work may not be appropriate for Sukuk. This is particularly crucial in Bangladesh as those involved in drafting Sukuk documents are still learning.

4.2.6 Technical Committee and SSB Members' Perspective

The originator, technical committee and SSB demonstrated their best efforts

Members of the technical committee found the originators as sincere to modify relevant documents and to be Shari'ah compliant in structuring Sukuk. All members of the technical committee and SSB have given their best effort for making the structure, documents and relevant contract as Shariah-compliant.

Sukuk advisors must be equipped with up-to-date knowledge

It is a general perception that there is a lack of knowledge of overall market in terms of technicality and Shari'ah compliance of Sukuk. Sukuk advisors should equip themselves with up-to-date knowledge and information. A pool of experts combining Shari'ah and Sukuk knowledge needs to be developed.

Sukuk advisors and SSB members must be mindful of the volume of work involved in Sukuk

SSB members should be careful about their fiduciary responsibility. It is not possible for the committee to provide instant decision on a large number of documents. It is possible that the originator may rush in issuing Sukuk and allocate very limited time for drafting and finalizing documents. It would be better if all required documents are available to the SSB on timely manner. Adopting a systematic approach for drafting, reviewing and Shari'ah vetting may reduce time and effort. In this regard, the preparation and execution of a time budget may smoothen the process.

Meeting times should be properly utilized

During the meetings, important matters should be prioritized for the best utilization of the limited time.

A formal communication channel to be established between BSEC and SSB
BSEC may consider establishing a formal communication mechanism to seek clarification regarding any Shari’ah and regulatory compliance issues and promptly resolve any matters arising.

4.2.7 Industry Experts’ and Academics Perspective

Several recommendations are presented by the interviewees, which include:

- At the initial stage, small sized issues should be preferred over big sized issues.
- To build market confidence, the issuers should be credible and trustworthy corporate entities.
- There should be transparency and assurance regarding the quality of the underlying Sukuk assets along with relevant financials.
- Instead of a part, a total project may be considered for issuing a Sukuk and the whole project should be transferred to the SPV.
- To enhance confidence on issue and originator’s rating, the rating may be done by an external credit assessment institution (ECAI) having affiliation with a reputed international firm.
- Sukuk may be a suitable investment opportunity for the pension fund and insurance fund. Industry experts believe that this potentiality should be realised through timely and prudent decision.
- A coordinated approach between government agencies, regulators, corporate bodies and other associated entities is essential to develop a strong Sukuk market in Bangladesh.

4.2.8 Regulators’ Perspective

Sukuk is needed for the development of the country’s economy

Economy of Bangladesh is growing and it needs more capital, which is not possible to provide by only a traditional bank-based financing. For ensuring participation of all investors either Muslim or non-Muslim, individual or institution, local or foreign, Sukuk is the best solution. Regulators strongly believe that within few years, dependency on bank-based financing would be reduced and capital market will be vibrant with fixed earning securities. BSEC is arranging international roadshows for attracting foreign investment in the capital market, which includes Sukuk. Gradually, some initiatives are taking for the local market as well.

More awareness efforts needed

Awareness and learning programs are offered by Bangladesh Institute of Capital Market (BICM) and Bangladesh Academy for Securities Markets (BASM). BIBM and others may also play role in this regard by inviting representatives from BSEC and cooperates to the Sukuk related programs

Supportive response from government agencies

Government as a whole, NBR and BSEC are supportive to the Sukuk issuance. Setting a visionary and strategic approach and joint/coordinated efforts are crucial for developing the Sukuk market.

Green and small-sized Sukuk are preferred

Sukuk especially green Sukuk are getting the highest attention in the approval process. BSEC is thinking positively for bringing a number of small-sized Sukuk by trustworthy corporates.

Greater participation needed from the Islamic banks

Islamic banks are not showing interest to that extent for taking lead by offering corporate Sukuk. Accommodation of Sukuk in the regulation directly as an acceptable component of regulatory capital of banks would vacant the hindrance of bank-issuance.

Greater participation needed from the Islamic Insurance / Takaful Operators

Insurance Development and Regulatory Authority (IDRA) may take initiatives to include some provisions in their regulations for motivating/directing insurance companies for investing Sukuk.

Branding of Sukuk as a separate instrument

It is expected that regulators will take initiatives for branding of Sukuk separately, not as a type of bond in Bangladesh.

5. Observations and Recommendations

5.1 Human Capital Development

Most of the stakeholders agreed that there is a knowledge gap from technical and Shari'ah aspects. For developing the market and proper structuring and efficient operation of Sukuk, a talent pool of well conversant with Shari'ah and operational regulations is a crucial need. Especially, a group of selected officials

of Finance Division under Ministry of Finance, Debt Management Department of Bangladesh Bank, concerned units of BSEC and NBR should be trained. However, many other organs are associated with Sukuk process. Therefore, a mass-level initiative may be undertaken for developing the requisite human capital.

5.2 Shari’ah Governance and Shari’ah Advisory Services

Shari’ah is the fundamental issue in the Sukuk structuring and operations. Most of the investors are very sensitive about Shari’ah compliance. However, they may not have proper knowledge and capacity to properly evaluate the Shari’ah compliance aspects. Therefore, those who are charged with governance have to acquire the trust of mass people. In this context, forming a competent and credible SSB and its proper composition and structure is important. A technical committee may be formed to assist the SSB in the structuring phase of the Sukuk and drafting the relevant documents.

5.3 Regulatory Impediment

As Sukuk is different from the conventional bond and other instruments, enacting separate laws and regulations are needed. It is applicable for both government issuance and corporate issuances. The existing laws and regulations need to be reviewed on a regular basis to make them accommodative to the developments in the Sukuk market. A mechanism may be there to provide prompt clarification on different regulatory aspects in structuring and issuance of Sukuk.

5.4 Financial Institution Issuance

In the Bangladesh context, banks and financial institutions have acceptability to the general investors. To developing the Sukuk market, financial institutions needs to step forward in issuance and investment in Sukuk. There appears to be a contradicting clause in the BSEC (Investment Sukuk) Rule 2019 and Guidelines on Risk Based Capital Adequacy 2014 that became a barrier for the Islamic banks in issuing Sukuk. According to BSEC (Investment Sukuk) Rule 2019, Sukuk should be issued by an SPV. On the contrary, Guidelines on Risk Based Capital Adequacy 2014 of Bangladesh Bank stated that the instruments should be issued by the bank not by any ‘SPV’ set up by the bank as to fulfill general eligibility criteria to qualify as regulatory capital. Therefore, banks,

even an Islamic bank, are collecting fund through bond instead of Sukuk. Considering international experiences, regulators may think to make required changes in the regulations to support development of the Sukuk market.

5.5 Cost of Issuance and Investors' Incentives

As compared to conventional bond, cost of issuance is higher in case of Sukuk. These are related with processing, offering and legal expenses connected with transactions. To make it competitive, concerned authorities may consider to reduce and waive much of these costs. It is noted that some of the costs have already been reduced by government. Even after that, some other costs remain significant. Furthermore, some tax incentives for the investors may also be considered in the market developing phase.

5.6 Judiciary System for Resolving Sukuk Matters

In case of default in performance by the obligor, the trustee and SPV need to play vital roles in protecting the interest of the investors. At the same time, there should be a supportive judiciary system for resolving disputes in Sukuk matters and protecting the interest of the investors.

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Appendix-I List Interviewees

S/n	Background	Number
1.	Officials from Ministry of Finance (Existing and Former)	2
2.	Officials from Bangladesh Banks (Debt Management Department)	5
3.	Officials from Bangladesh Securities and Exchange Commission	3
4.	Officials from National Board of Revenue (Existing and Former)	1
5.	Representatives from Corporate Sukuk Originators	2
6.	Representatives from Issue Managers	2
7.	Representatives from Capital Management Company/Underwriter	3
8.	Officials from Commercial Banks	5
9.	Members of the Technical Committee formed for Corporate Sukuk	3
10.	Members of the SSB formed for Corporate Sukuk	3
11.	Members of the SSB formed for Government Sukuk	4
12.	Academics	2
13.	Sukuk/Islamic Banking Consultant and Industry Experts	3
14.	Legal Advisor	1
	Total	39

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Our best wishes to BIBM.

Selim R.F. Hussain
Managing Director & CEO
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