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Review Article

Evaluation of Shariah Based Financing Instruments for Infrastructure Growth in Bangladesh

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Abstract

This paper is intended to review and discuss the evolution of financing instruments which are implemented on the infrastructure development projects in Bangladesh. To describe the available financing tools for infrastructure development in Bangladesh. All the instruments have divided into three sections, such as; Foreign Direct Investment (FDI), Public Private Partnership (PPP) and Islamic Finance (IF). We also discuss the acts and legislation activities related to the infrastructure as well as these three modes of financing to find out the factors needed to be assessed for suggesting the government of Bangladesh. This is qualitative research utilizing case study. The outcome of this study reveals why Shariah based financing is in fact the best and most suited way of financing the development of infrastructure in Bangladesh. Due to the regulatory constraints, many Islamic financial institutions are unable to invest their funds on infrastructure projects in Bangladesh. It is anticipated that through the outcome of this research, Shariah based financing instrument can be enhanced the infrastructure growth in Bangladesh and it will provide guidance to the potential Islamic financial institutions to contribute the funds required to develop a specific infrastructural project in Bangladesh.

Keywords: Foreign Direct Investment, Public Private Partnership, Islamic Finance, Bangladesh.

1. INTRODUCTION

Bangladesh is a predominantly Muslim country with a people whose lives are largely governed by the Qur'an, as well as the sayings of Prophet Mohammed called the *Hadith*. The people have a deep spiritual allegiance to Islam and adhere strictly to its tenets [1]. The widespread influence of Islam on the lives, beliefs and practices of the Bangladeshi majority laid the foundation for the development of the country's Islamic financial system. The emergence of this sector can be traced back to the early 1980s when Islamic banking was first established in the country. This was subsequently followed by the rise of *takaful*, which is the Islamic insurance industry, and more recently, the Islamic capital market.

Bangladesh has a dense network of public infrastructure by which is meant a set of facilities providing essential public services. Such infrastructure ranges from construction, transportation and energy to communication, water supply and solid waste disposal, in addition to recreational facilities and housing. Of course, also included are the public and private entities that serve as infrastructure providers [2]. For many analysts, infrastructural development is a linchpin for national development, and is, in fact, viewed as a public good [3].

Infrastructural development typically involves multiple layers of complexity. This makes it imperative for policymakers and other constituted authorities in

[1] Alam, M. K., Ab Rahman, S., Mustafa, H., Shah, S. M., & Hossain, M. S, Shariah governance framework of Islamic banks in Bangladesh: Practices, problems and recommendations. Asian Economic and Financial Review, 9(1), 2019, 118.

[2] Waheed, U., Hudson, W. R., & Ralph, H., The big picture. In Public Infrastructure Asset Management. Second Edition: McGraw Hill Professional, Access Engineering, 2013.

[3] Hao, J. X., Infrastructure investment and economic development. University of Maryland, College Park, 2007.

Bangladesh to engage in diligent appraisal of infrastructural investment projects to ensure that their objectives align with the national interest and are successfully achieved [4]. In this regard, the development of any national infrastructural development plan must, from inception, be guided by the country's long-term interest and supported by an efficient regulatory framework [5].

Regrettably, the present state of the infrastructure in Bangladesh is far less than satisfactory. A principal explanation for this situation is the low level of long-term investment in this sector [6]. In response to this shortcoming, the government has resorted to a series of methods to fund infrastructural projects in the country. One of them is government budget. Since the country attained independence in 1971, funding for most infrastructural projects, including roads, industries, factories, airports, seaports, power and even health, has come from the national budget through taxes. Borrowing from foreign lenders, especially the World Bank and the Asian Development Bank, has also provided public financing for infrastructural investments.

Revenue generated through public taxes, however, makes only minimal contribution to the national budget, thus stifling government's investment in public infrastructure. To meet the shortfall in funding, the government has taken policy measures aimed at securing funds from local and private sources. An important aspect of this policy is the creation of the Private Sector Infrastructure Development Project (PSDIP), which is meant to address the problem of funding by encouraging both local and foreign private sector participation in the development of infrastructural projects [7]. The government has, in addition, established the Infrastructure Development Company Limited (IDCOL) and the Infrastructure Investment Facilitation Centre (IIFC), both of which are specially targeted at the facilitation of funding for infrastructural projects in the country [8].

As a result of the above measures, funding for many infrastructural projects in Bangladesh became much reliant on bilateral and multilateral sources, including foreign direct investments (FDIs), especially in the period between 1990 and 2010. Nevertheless, barring sectors, such as telecommunication, power and gas, infrastructural development in the country remained sluggish. With the further introduction of the Public-Private Partnership (PPP) in Bangladesh in 2010, the local and foreign private sector took over the funding of many infrastructural projects. In this way, the PPP helped in alleviating the funding constraints of the government [9].

Despite that, changes in the global financial landscape, especially since the period between 2007 and 2008, have dampened long-term foreign financial inflows to Bangladesh, both from bilateral and multilateral sources, including FDIs. Matters have become pretty more complicated with the global economic impact of the coronavirus pandemic. As a result, it is compelled to resort to domestic banks to source loans for the execution of infrastructural projects.

That, has, in turn, exerted more strain on local banks, which are already grappling with liquidity crisis as well as imbalance between assets and liabilities. Consequently, there is growing unease over the prospect of the private sector being overwhelmed. This whole situation creates a dire need for alternative means of funding for infrastructural development in the country. The present study investigates the prospects of introducing Islamic financing, particularly *sukuk*, as a viable option for the funding of infrastructural projects in Bangladesh.

Despite its relative nascency, Islamic finance has blossomed in recent years, with total assets worth roughly USD 2.88 trillion as of 2019 [10]. This system of financing holds enormous promises for rapid and sustainable development of infrastructural projects. It has the potential to accelerate infrastructural

[4] Grigg, N. S., Infrastructure finance: the business of infrastructure for a sustainable future. Hoboken, N.J: John Wiley & Sons, 2010.

[5] Andrei Boar, Ramon Bastida, & Marimon, A systematic Literature Review. Relationships between the Sharing Economy, Sustainability and Sustainable Development Goals, Sustainability, 2020, pp. 3-4

[6] Asian Development Bank (ADB), SECTOR ASSESSMENT (SUMMARY): INFRASTRUCTURE, 2020, available at: https://www.adb.org/sites/default/files/linked-documents/42180-013-ssa.pdf. See also, Uddin, J., & Sultana, N, Financing in Infrastructure and Energy Sectors and Issuance of Bonds in Bangladesh: Problems and Prospects. Dhaka: Research Department, 2013.

[7] Islam, N., Role of the infrastructure investment facilitation centre in the development of private sector infrastructure in Bangladesh. Transport and Communications Bulletin for Asia and the Pacific, 72, 2003, pp.77-100.

[8] Uddin, J., & Sultana, N, Financing in Infrastructure and Energy Sectors and Issuance of Bonds in Bangladesh: Problems and Prospects, 2013.

[9] Ahmad, Role of Public Private Partnership in Infrastructure Development: Bangladesh Experience, 2020.

[10] Islamic Finance Development Report 2020, available at: https://icd-ps.org/uploads/files/ICD-Refinitiv%20IFDI%20Report%2020201607502893_2100.pdf.

development by providing access to a larger investor base and diverse funding solutions [11].

The study ultilized the doctrinal research method. It was applied in understanding concepts, structures, issues and Shariah law. The case studies are conducted to the financing instruments, mainly Foreign Direct Investment (FDI), Public Private Partnership (PPP) and Islamic Finance (IF). The study uses a document review approach to review the available legal and regulatory documents to extract the information regarding three modes of financing (FDI, PPP, IF) and its relevant acts and policies that may allow the introduction of Shariah based financing instruments in Bangladesh. The method is based on the paper's objective: to review and discuss the evolution of financing instruments which are implemented on the infrastructure development projects in Bangladesh. The data collected from the library consists of primary and secondary sources such as statutes, books, articles, and internet sources.

The purpose of this paper is to evaluate shariah based financing instruments for infrastructure growth in Bangladesh. Therefore, this paper is divided five sections. Followed by this introduction, section two describes the Foreign Direct Investment (FDI) and its acts and policies issued by the government of Bangladesh. Section three deals with the current scenarios of Public Private Partnership (PPP) projects, Acts and status of the PPP projects in Bangladesh and section four presents the current situation of Islamic Finance, and its relevant acts, policies and products in Bangladesh. The final section is the conclusion and possible recommendations.

2. Evolution of Foreign Direct Investment (FDI) and Relevant policies

Foreign Direct Investment refers to the category of international investment to obtain a long-term interest in an enterprise operating in a foreign country. To put it another way, FDI is a global financial flow aimed at participating in and guiding the administration of a business [12]. Thus, FDI is considered as one of the major avenues of financing investment on infrastructure advance projects in many countries in the world. FDI generally goes beyond financing investment, it may include the provision of technology, equipment and management as well [13]. As far as Bangladesh concern, Bangladesh witnessed early success in FDI. There are examples from the 1970's and 1980's in certain sectors, such as in the health and agriculture sectors. In 1970's two Hospitals are established through FDI and government of Bangladesh, these are "Bangladesh Institute of Research and Rehabilitation in Diabetes Endocrine and Metabolic Disorders (BIRDEM)" and the National Institute of Cancer Research & Hospital. While in the early 1990's Karnafuli Fertiliser Company (KAFCO) was established as joint venture multinational project for the production of the fertilizer. However, Bangladesh inherited only small size of FDI, most of the cash held through transitional corporations. These corporations convert the capital into investment. As a result, the government of Bangladesh has created many acts policies, guideline, instructions and plans to attract FDI into the country, but some of them were not applied, misused, banned, and contains asymmetric information. For that reason, the study is only explained (available information) five (5) Act's, five (5) Policies, three (3) Guidelines and five (5) Institutes. These developments were followed all steps to achieve the national infrastructure development plan. The following Table 1 shows the concurrent development by years, and distance between the years.

The table above revealed that the Bangladeshi government has used numerous acts, policies, guidelines, instructions and plans to attract FDIs into the country. Crucial changes were introduced in four key areas concerning FDIs. These include a policy framework, incentives for foreign investments, labour laws, as well as protection of intellectual property rights and investments. These measures have attracted FDI inflows into Bangladesh from a diverse range of foreign destinations. Over the past thirty years, Bangladesh has hosted 1,600 foreign investment enterprises (FIEs) from approximately 170 South Asian companies.

[11] Houcem Smaoui and Salem Nechi, Does sukuk market development spur economic growth?, Research in International Business and Finance, 41, 2017, pp.136-147

[12] Rayhan, Mohammed Abu, 2014, "Contribution of Foreign Direct Investment to Economic Growth in Bangladesh", Masters Theses, Eastern Illinois University

[13] Mujeri, Shahnewaz, Fahim, Syeda, Sanjida and Adnan, 2021, "Foreign Direct Investment in Bangladesh: Analysis of Policy Framework, Impact and Potential", International Journal of Management and Accounting, 3(3), PP. 60-82

Table 1: Existing Infrastructure Development Act's by year

No	Years	Act	Purpose
1	1957	Bangladesh Small and Cottage Industries Act (BSCIA)	Private Investment (PI)
2	1973	Industrial Investment Policy (IIP)	PI
3	1974	Foreign Exchange Regulations Act (FXRA)	FDI
4	1980	The Bangladesh Export Processing Zones Authority Act (BXPZA)	FDI
5	1989	Investment Board Act (IBA)	FDI
6	1996	Foreign Private Investment (Promotion and Protection) Act (FPIA)	FDI & Private Investment
7	1997	Infrastructure Development Company Limited (IDCOL) – Policy	Private Investment
8	1999	Infrastructure Investment Facilitation Center (IIFC) – Policy	Private Investment
9	2004	Private Sector Infrastructure Guideline (PSIG)	PI
10	2006	Investment Promotion and Financing Facility (IPFF) - Policy	Private Investment
11	2010	The Policy and Strategy for Public-Private Partnership (PSPPP) – Policy	PPPA
12	2012	Guideline for VGF for PPP Project - Guideline for PPPTAF & Scheme for PPPTAF (VGF)	PPPA
Source: Own Creation based on information's collected from various Sources			

However, some acts, policies, guidelines, instructions and plans of FDI were not applied, misused, banned, and contained asymmetric information. As a result, a majority of foreign investors became wary of undertaking new investments in the country [14]. This situation can be attributed to a number of factors. Among them are the absence of the right institutional capacity to assist investors, poor financial markets, limited access to essential land and poor infrastructure. Others include the non-existence of elaborate policies targeted at domestic and foreign investors, poor power and energy supply and political turmoil, among others [15].

2.1 Key Requirements of FDI

The government has adopted a policy framework of encouraging FDI by offering provisions to foreign investors and firms to invest in the country. Bangladesh aims to benefit from the resource-transfer and employment effects of inward FDI. In recent years, the government has offered lucrative provisions such as tax concessions, grants or subsidies and new spending on infrastructure to capture FDI. For instance, the government of Bangladesh has not placed any restriction in terms of ownership for foreign investors. All the sectors are open to foreign investment with up to 100% foreign ownership. Some government-reserved industries, such as the manufacture of weapons and ordnance, as well as machinery, forest cultivation and mechanized extraction within forest areas, nuclear energy production, and security printing (currency notes) and minting, are still forbidden to FDI. Foreign multinational companies like Samsung, Honda have already set up their own manufacturing factories in Bangladesh through FDI to take advantage of the tax incentives whereas a joint venture firm Niloy-Hero Motors has been established in the country [[16]].

Nevertheless, four sectors received most of the FDI inflows namely telecommunications, banking, textiles, as well as gas and petroleum. This is due to the fact that they have been the most improved sectors since liberalisation. Yet, notwithstanding the significant improvements in acts and policies related to FDIs over the course of the last twenty years, FDI flows to Bangladesh are still at unsatisfactory levels. The Bangladesh Bank's Annual Report shows that as of 2021, the net FDI inflows amounted to just USD1,355 million [17].

Those investments account for only an infinitesimal fraction of total investments in Bangladesh that generate more than USD 22.2 billion in foreign exchange earnings through exports. This study observed that, although Bangladesh has, in previous decades, recorded some appreciable success in attracting FDI inflows to some of its infrastructural sectors, it continues to grapple with numerous difficulties that are inhibiting the fulfilment of its overall infrastructural development objectives.

2.3 Constraints of FDI on Infrastructure projects in Bangladesh

An effective and durable governance system is needed, if the country is to increase FDI inflows and attain a sustained economic development. The existing governance and political landscape is not favourable to

[14] Arif-Ur-Rahman, M., & Inaba, K, 2021, Foreign direct investment and productivity spillovers: a firm-level analysis of Bangladesh in comparison with Vietnam. *Journal of Economic Structures*, PP.1-23.
[15] Arif-Ur-Rahman, M., & Inaba, K, 2021, PP. 1-2.

[16] Neaz Mujeri and others, 2021, "Foreign Direct Investment in Bangladesh: Analysis of Policy Framework, Impact and Potential" International Journal of Management and Accounting.
[17] Bangladesh Bank, Annual Report, 2021, chapter. 11, External Sector Development, P. 121.

attract and retain FDIs [18]. There is no proper administrative coordination among relevant governmental bodies, and this coupled with widespread corruption, civil strikes and incessant regime change, does not augur well for FDI flows into the country. In the last five years, Bangladesh has witnessed political unrest, further undermining the country's image and making investors wary of operating in the country [19]. Moreover, the rules, regulations and investment policies relating to foreign companies lack the predictability necessary to enhance the confidence of foreign investors. Moreover, the complexity of the regulatory system makes it quite challenging for foreign investors to operate in the country. These factors deter FDI flows into the country and retard its infrastructural development. Further, the poor state of the infrastructure in Bangladesh and the high cost of doing business in the country are significant obstacles to the attraction of FDIs. For example, in the World Bank's report, "Doing Business 2017," Bangladesh ranked 177th from 189 countries in terms of the ease of doing business [20].

Apart from the factors recounted above, frustrating bureaucratic requirements and delays render it complex and risky for foreigners and even locals to invest in Bangladesh. Huge piles of critical files in need of regulatory approvals must pass through numerous bureaucratic channels where they must suffer lengthy delays or compromising governmental interference. This scenario prevents the country from achieving the level of FDI inflows needed to boost its infrastructural sectors and general economic development.

3. Evolution of Public Private Partnership (PPP) and Relevant Policies

Apart from Foreign Direct Investment (FDI), the Bangladeshi government has also relied on alternative financing mechanisms to help it cope with inadequate funding from government sources, which is hampering its infrastructural development objective. One of such mechanisms is the Public-Private Partnership (PPP) scheme. This scheme is also expected to help the government in achieving the country's Vision 2041, which is aimed at attaining the status of an upper-middle-income country by the year, 2041. The realisation of Vision 2041 demands substantial investments in infrastructural development projects. To stir the implementation of the PPP arrangement, the government issued the "Policy and Strategy for Public-Private Partnership" (PSPPP) programme in 2010 [21].

Pursuant to PSPPP 2010 programme, the government established a unit under the Prime Minister's Office for the purposes of providing the necessary facilities based on a standard operating procedure of an international standard. The PSPPP 2010 programme was later reviewed and transformed in 2015 into the PPP Act, 2015. In addition to that, the government adopted other measures in the form of acts, rules and guidelines. Examples include the Bangladesh Investment Development Authority (BIDA) Act; Government-2-Government (G2G) Policy; and Rules for Public-Private Partnership Technical Assistance Financing and Guidelines for Contractual Employment in PPP Authority, among others. The synopsis of the act is in the following Table 2.

3.1 Variety of PPP Models

Different variants of PPP are used in different countries, as dictated by the types of projects involved. However, Bangladesh employs three main PPP models in infrastructural projects. These are the Build-Own-Operate (BOO), the Build-Operate-Transfer (BOT) and the Build, Own, Operate and Transfer (BOOT). The use of these types of PPP is meant to outsource the management of projects to the private sector [22].

This study maintains that PPP schemes fair better at meeting infrastructural needs and are valuable to both the public and the private sectors. Among the possible gains derivable by the public sector are (i) economic stability because private sector investments in infrastructural development frees the government from the burden of interest-yielding loans; (ii) access to new expertise, cost-efficient and innovative technologies brought by private partners into project implementation; (iii) acceleration of growth rate spurred by the involvement of private partners that boost investment and production capacities. On its part, the private sector gains through increased business and innovation.

3.2 Private Organizations Involved in the PPP project Implementation

Under the Companies Act of 1994 and prior to the adoption of the PPP Act, project implementation by the private sector was undertaken through three government organisations. These are the Infrastructure Development Company Limited (IDCOL), Investment Promotion Financing Facilities (IPFF) and Infrastructure Investment Facilitation Company (IIFC). These private organisations are primarily aimed at encouraging and facilitating infrastructural projects in Bangladesh through PPP schemes. They help in

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[18] Kafi, M. A., Mainuddain, M., & Islam, M. M. (2007). Foreign direct investment in Bangladesh: Problems and prospects. Journal of Nepalese Business Studies, 4(1), 47-61.

[19] Hasan, M. K, 2017, The Study of the Problems in Attracting Inward FDI in Bangladesh.

[20] Hasan, M. K. (2017). The Study of the Problems in Attracting Inward FDI in Bangladesh. World Vision, 11(1), 56-73.

[21] Government of Bangladesh, Public Private Partnership Authority, Prime Minister's Office. Available at: https://www.pppo.gov.bd/finance.php.

[22] Ibid

meeting shortfalls in the funds needed to support medium to large-scale infrastructural and renewable energy projects in the country. Other roles played by these organisations extend to the provision of expert assistance to relevant government ministries, divisions or agencies on diverse matters. These include project formulation, design and development, as well as other technical, engineering, implementation, and monitoring issues concerning projects approved under the PPP scheme. These government-sponsored companies have served as vehicles for the implementation of PPP projects across Bangladesh.

Table 2: Synopsis of PPP act of Bangladesh

No	Years	Act	Purpose
1	2015	Bangladesh Public-Private Partnership Act (PPPA)	Agreement
2	2016	Bangladesh Investment Development Authority (BIDA) Act	PI, FDI, PPP
3	2017	Government 2 Government Policy (G2G)	PPP
4	2018	Rules for Public-Private Partnership Technical Assistance Financing - Guidelines for Contractual Employment in PPP Authority	PPPA Supporting
Source: PPP Website			

3.3 Constraints of PPP on Infrastructure projects in Bangladesh

The preceding discussion of the acts, policies and guidelines relating to two means of funding used by the Bangladeshi government, namely FDIs and PPPs, shows that, in respect of PPPs, they are fraught with complex operational challenges. Thus, they have, so far, not made any significant contribution to infrastructural development projects in the country. First among those challenges is that these projects require detailed plan and preparation, which, in turn, call for relevant technical, financial and legal skills. This is particularly true, considering that project preparation is expensive and requires risk-sharing with the private sector [23].

Second, is the fact that there is no guarantee that a private party, which helped in identifying an investment opportunity and conducting the necessary feasibility study will eventually be awarded the project. As a result, private investors are usually reluctant to spend their time, effort and resources in identifying and evaluating the viability of opportunities only for them to be awarded to other competitors [24]. Third, is the highly prohibitive cost required to undertake feasibility studies for huge infrastructural projects.

Thus, there is no incentive for private investors to get involved in such projects without any certainty that they would eventually be awarded to them. In some cases, project costs could be escalated, particularly when a developing country, such as Bangladesh, is involved, given the low quality manpower, research, information and statistics available, all of which combine to render projects unattractive to private investors [25]. Fourthly, the pre-project development evaluation phase mostly involves government agencies, which are likely to be more concerned with the national interest than the interests of private interests, thus rendering the projects less economically viable for the latter [26].

4. Evolution of Islamic Financial Industry (IFI) in Bangladesh and Relevant Policies

The predominance of the Islamic religion in Bangladesh and strong devotion to Islamic principles laid the foundation for Islamic finance in the country. The early 1970s witnessed a revival of the Islamic financial sector following strong government initiatives. In 1974, the government signed the Charter of the Islamic Development Bank (IDB) at the Finance Ministers' Conference held in the Kingdom of Saudi Arabia. As a signatory to that Charter, Bangladesh signaled its willingness to structure its economic and financial system in accordance with Shariah principles.

The government of Bangladesh took a series of other steps towards the entrenchment of Islamic finance in the country. First, in 1979, it received a written recommendation from the UAE government for the establishment of an Islamic bank modelled on the Dubai Islamic Bank. Second, in 1980, the Bangladeshi central bank, called Bangladesh Bank, mandated its Director of Research to investigate the operation of Islamic banks in the Middle East. Third, the governor of the Bangladesh Bank participated in a conference organised in Sudan to deliberate over a report on certain issues, such as regulation, promotion and supervision of Islamic banks. Fourth, the Ministry of Finance instructed the Bangladesh Bank to embark on

[23] An, X., Li, H., Wang, L., Wang, Z., Ding, J., & Cao, Y. (2018). Compensation mechanism for urban water environment treatment PPP project in China. Journal of Cleaner Production, 201, 246-253.

[24] Weiermair, K., Peters, M., & Frehse, J. (2008). Success factors for public private partnership: cases in alpine tourism development. Journal of Services Research, 7.

[25] Li, X., Wen, J., You, Z., & Wang, Y. (2020). Feasibility Analysis of PPP Mode of Port Construction Based on the Whole Life Cycle. Journal of Coastal Research, 103(SI), 556-560.

[26] Sun, H., Liang, Y., & Wang, Y, 2019, Grey clustering evaluation for the cooperation efficiency of PPP project: Taking Beijing Metro Line 4 as an example. Mathematical Problems in Engineering.

experimental operations in Islamic banking by opening counters at all branches of nationalised commercial banks in the country. Moreover, a number of senior bank executives participated in an international seminar on "Islam, banking and Insurance" held in Geneva, as well as an advanced course on Islamic finance in Egypt. Additionally, two professional bodies called the Islamic Economics Research Bureau (IERB) and the Bangladesh Islamic Bankers' Association (BIBA), provided training on Islamic banking to senior bankers and economists to prepare them for future leadership in Islamic banks in Bangladesh. These series of measures boosted the growth of Islamic finance in Bangladesh.

Presently, the Islamic financial industry is a crucial part of the country's financial system [27]. In fact, it now dominates the finance industry. The rapid development of the Islamic finance industry prompted the government to adopt several acts, policies, guidelines and rules meant to meet market demand. Nonetheless, as this study found, there are presently no distinct acts or Shariah Supervisory Board for Islamic finance at the central level. There exists just one policy and one guideline for Islamic banking, as well as two rules for the Islamic capital market (*sukuk*). For *takaful*, which is the Islamic insurance industry, there is no policy or guideline. The table 3 shows the available acts and Policies of Islamic Finance in Bangladesh.

4.1 Legal Framework, Regulation and Governance of IF

In the absence of a specifically dedicated legislative framework, Islamic financial institutions in Bangladesh are presently governed by regulations meant for regular banking and finance. Several other regulatory acts were found to govern financial institutions and banks, including their Islamic counterparts in Bangladesh. These are the Bangladesh Bank Order, 1972; the Income Tax Ordinance, 1984; Financial Institutions Act, 1993; the Bank Companies Act, 1991; Insurance Development and Regulatory Authority (IDRA); and the Securities and Exchange Commission Act, 1993.

In respect of regulatory bodies for Islamic finance in Bangladesh, there are seven regulatory bodies exist, five of them being government institutions and two being private organisations. The former includes the Ministry of Finance (MoF), Bangladesh Bank (BB), Bangladesh Securities and Exchange Commission (BSEC), Insurance Development and Regulatory Authority (IDRA); and the Microcredit Regulatory Authority (MRA). The latter are the Islamic Banks Consultative Forum (IBCF) and the Central Shariah Board for Islamic Banks of Bangladesh (CSBIB).

From the review of the current regulatory system of Islamic finance in Bangladesh, the study found that, in the absence of a central Shariah Supervisory Board, all Islamic financial institutions in the country rely on their individual Shariah supervisory board for the support and supervision of their Islamic financial operations in the country. This study stressed that, instead of allowing Islamic financial institutions to form their own Shariah supervisory boards, a central one should be created at the central level to oversee Shariah issues relating to Islamic financial institutions and their operations. For now, though, the Shariah Supervisory Board is helping in the resolution of disputes among Islamic financial institutions, using unique Shariah approaches, while also meting appropriate sanctions on those found to be in breach of Shariah principles.

4.2 Existing Shariah Governance Framework

The overall practice of Shariah governance in Bangladesh, such as; the existing Shariah governance system is essentially voluntary, rather than regulatory. This suggests the absence of a binding and comprehensive Shariah governance framework in the country [28]. This is largely attributable to the non-existence of distinct acts, laws, and regulatory bodies dedicated to the control, guidance and supervision of Islamic financial institutions. This situation allows every Islamic financial institution in the country to create its own Shariah governance system for its business operations. For example, the Bangladesh Bank has made amendments for Islamic banks under the in the Banking Company Act, 1991. However, the Bangladesh Bank failed to establish a special department charged with the control, guidance, and supervision of Islamic banks.

However, there exist two non-governmental institutions created to support and oversee Islamic financial operations in the country. These institutions are the Islamic Banks Consultative Forum (IBCF) and the Central Shariah Board for Islamic Banks of Bangladesh (CSBIB). They play a key role in promoting Islamic finance and Shariah governance [29].

It is revealed that, Islamic financial intuitions of Bangladesh are not bound to follow the overall standards and guidelines of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Service Board (IFSB) [30]. It is also revealed that due to the absence of a separate Islamic financing law, the Islamic finance industry obstructs the effective functions and Shariah compliance activities. The study suggests that Bangladesh should have independent Shariah supervisory board at the central level to examine and monitor the Islamic financial activities. Md. Kausar Alam also provided similar recommendation [31].

4.3 Supportive Provision of Islamic Finance

The Bangladesh Bank had granted some preferential provisions for smooth development of Islamic finance in the country (see Table 5). Among these provisions are:

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[27] Moniruzzaman, M, 2018, Growth and Prospect of Islamic Finance in Bangladesh. Journal of Economics and Management Sciences, 1(1), PP. 253-53.

[28] Alam, 2019, Shariah governance framework of Islamic banks in Bangladesh: Practices, problems and recommendations. Asian Economic and Financial Review, 9(1), 118.

[29] Alam, M. K, 2021, A proposed centralized Shariah governance framework for Islamic banks in Bangladesh. Journal of Islamic Accounting and Business Research.

[30] Uddin, 2020, Islamic Social Finance in Bangladesh: Challenges and Opportunities of the Institutional and Regulatory Landscape.

[31] Alam, 2019, Shariah governance framework of Islamic banks in Bangladesh: Practices, problems and recommendations.

Table 3: Existing Acts and Policies of IFI – Bangladesh

No	Products & Services	Act	Policy	Guidelines	Rules	Central Shariah Council	Regulated by
1	Islamic Banking	X	1	1	X	X	Bangladesh Bank (BB)
2	Takaful	X	X	X	X	X	the Insurance Development and Regulatory Authority (IDRA)
3	ICM/ Sukuk	X	X	1	2	X	Bangladesh Securities Exchange Commission (BSEC)
Source: various sources							

Table 4: Key Acts and Ordinance of Islamic Finance in Bangladesh

No	Name of the Act	Sector
1	Banking Companies Act, 1991 amended in 2003	Banking including Islamic
2	Financial Institutions Act, 1993	Non-Bank Financial Institution
3	Bangladesh Bank Order 1972 amendments up to 2003	Banks and Financial Institution
4	Securities and Exchange Commission Act 1993	Capital Market
5	Insurance Development and Regulatory Authority (IDRA)	Insurance and Takaful
6	Income Tax Ordinance 1984	Islamic Banking
Source: Various Sources		

Table 5: Supportive Provision of Islamic Finance and its Purposes

No	Provision	Purpose
1	Tax exemption for Islamic deposit product under the "The income Tax Ordinance 1984" Income tax exemption Tax waives	Allowing the amount of profit shared by the investment's clients with IBs and the amount of profit paid on Mudharabah Deposit by the IBs as expenditure. Income tax exemption and Tax waives are applicable for Sukuk.
2	Research and Islamic Economic Division	To handle different matters relating to Islamic banking in the country
3	Statutory Liquidity Reserve (SLR) requirement of Islamic banks	Islamic banks allowed to maintain their Statutory Liquidity Requirement (SLR) at 12.5 percent of the total deposit liabilities while it is 19 percent for the conventional banks.
4	Profit Sharing Ratio	Islamic banks allowed to fix up their profit-sharing ratios and mark-ups independently
5	Bangladesh Government Islamic Investment Bond (BGIIB)	To maintaining the liquidity requirement for Islamic banks and Islamic financial institutions
6	Guidelines for Conducting Islamic Banking	To support the sector with licensing, reporting and product guidance
7	Identifying Risk Factors Relating to Islamic Mode of Investment under Risk Based Capital Adequacy for Banks	These guidelines are applicable for Islamic banking sectors by detailing, among other things, capital charges for different financial transactions, risk arising in different Islamic finance products such as murabaha, salam and ijarah etc.
8	Onsite Supervision Guidelines	It described rules and guidelines of regulation by recognizing the specific features of Islamic modes of finances. It also deals with the supervision of Shariah based banks and conventional banks having Islamic banking branches/windows.
9	Islamic interbank Fund Market (IIFM)	To enhance the liquidity management tools of Islamic Banks.
Source: Various Sources		

4.4 Islamic Capital Market in Bangladesh

The government of Bangladesh has taken other steps to promote Islamic capital market products. In 2012, the Bangladesh Bank introduced an Islamic money market to address the short-term liquidity management issues faced by Islamic banks [32]. Under Islamic money market platform, the Bangladesh Bank acts as the custodian, and interbank transactions are made limited overnight tenors based on profit sharing modes. Also, in September 2013, the first Islamic index fund in Bangladesh called Alliance S&P Shariah Index Fund was formed [33]. In respect of *sukuk*, the

[32] Abidin, Z. I. Z. (2014). Islamic Capital Markets and Liquidity Management: Facilitating Sharī`Ah-Compliant Financing and Investment in Islamic Financial Services Board. (2014). Prospects And Challenges in The Development of Islamic Finance for Bangladesh. Islamic Financial Services Board: Kuala Lumpur.

[33] Ibid.

mudharabah bond going by the name, "Bangladesh Government Islamic Investment Bond" was introduced in October 2004. This was to support the liquidity management of Islamic banks [34].

The first sovereign *sukuk* was issued by the government of Bangladesh when the Debt Management Department (DMD) of Bangladesh Bank issued a BDT 80 billion *sukuk ijarah*. The money raised was used to fund the "Safe Water Supply for the Whole Country" project on December 28, 2020 [35]. In 2022, Bangladesh issued its first green *sukuk* called the "Beximco Green Sukuk". This instrument, which was first traded on the Dhaka and Chittagong stock exchanges, was meant to raise USD400 million for the financing of 230 MW of solar power generation [36]. The Beximco Green Sukuk is an example of the significant role that *sukuk* can play in supporting the development of infrastructural projects in Bangladesh.

4.5 Constraints of IF on Infrastructure projects in Bangladesh

The discussion of the act, policy and guidelines of Islamic finance regulatory framework of IF in not efficiently operating to contribute on infrastructure projects development in Bangladesh. These regulatory constraints prevent many Islamic financial institutions, including Islamic banks, *takaful* and the Islamic capital market, from investing their funds in infrastructural development projects in Bangladesh [37].

4.5.1 Islamic Banking

In Bangladesh, Islamic banks are widely recognised for their stellar performance within the banking system [38]. The banking industry continue to expand their market share in terms of deposits and investments in the whole of the country's banking system. Nonetheless, despite their excess liquidity, Islamic banks have rarely provided any financial support for the development of infrastructural projects in Bangladesh. This is because of the absence of Shariah-compliant instruments and an organised regulatory framework governing Islamic finance. Further, Islamic banks cannot fill the gap created by the absence of the Islamic capital market in Bangladesh as they cannot undertake such infrastructural investments or issue capital market instruments yielding interest. This severely impedes the funding of infrastructural projects. These constraints explain the paucity of investments made by Islamic banks in infrastructural projects in Bangladesh [39].

4.5.2 Islamic Insurance (*Takaful*)

Given the complex and long-term nature of infrastructural projects, *takaful*, which is the Islamic insurance industry, is in a very good position to provide funding for infrastructural development in Bangladesh. The experience of a country, such as Malaysia, is proof of the positive role that the *takaful* industry can play in the development of infrastructural projects. Nevertheless, the *takaful* industry in Bangladesh is still not firmly established as to be able to support infrastructural development projects. This is due primarily to regulatory restrictions and the embryonic state of the country's Islamic capital market. However, it has been found that substantial *takaful* funds have been invested with Bangladesh Bank for security purposes. The *takaful* industry also has investments in shares and bonds, as well as in Islamic banks in the form of fixed deposits [40].

4.5.3 Islamic Capital Market

Financing through the Islamic capital market in Bangladesh is still not quite pronounced, especially in terms of the offering of diversified financing products. Thus, the foundation of the country's Islamic capital market remains too weak to be able to back infrastructural development. For example, large-scale infrastructural projects, need on the average, about BDT100 billion (USD 1.1 billion), whereas as of 2020, the value of the domestic *sukuk* market stood at only about USD 0.9 billion, a figure, which is far below what is needed to fund the development of infrastructural projects. This further highlights the feeble state of Bangladesh's Islamic capital market and the regulatory framework relating to *sukuk* offerings [41].

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[34] Ibid.

[35] Mamun, M. S. A., & Nabi, M. G. (2021). Sovereign investment Sukuk in Bangladesh. Retrieved from https://thefinancialexpress.com.bd/public/views/sovereign-investment-sukuk-in-bangladesh-1619191089

[36] Islam, S. (2022). Green bond in Bangladesh attracts investors in trading debut. Retrieved from https://www.pv-magazine.com/2022/01/14/green-bond-in-bangladesh-attracts-investors-in-trading-debut/

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5. CONCLUSION

The paper concludes that, the development of infrastructure is crucial and should be put in high prioritization agenda, not only for fulfilling the basic infrastructure facility but also for growing the economic development. For that reason, the paper has reviewed and disclosed the existing financing instruments which are implemented on the infrastructure development projects in Bangladesh. This paper found that three main financing mechanisms are used to develop the infrastructure projects in Bangladesh mainly Foreign Direct Investment (FDI), Public-Private Partnership (PPP) and Islamic Finance (IF). Our discussion based on the acts and legislation activities related to the infrastructure as well as these three modes of financing to find out the factors needed to be assessed for suggesting the government of Bangladesh. In this case, how to achieve project funding become a vital issue for Government of Bangladesh, and the Government cannot rely on foreign financial aids because these are based on debt. One of the alternatives is using Shariah based financing instrument. This instrument is prioritized by other countries as a financing tool for funding infrastructure.

This paper also explored why Shariah based financing is in fact the best and most suited way of financing the development of infrastructure in Bangladesh. This is because the diversification and flexibility of Shariah based financing allow a diverse range of options that can be used in a variety of infrastructural projects and to suit the diverse requirements of economic players. It reveals that due to the regulatory constraints, many Islamic financial institutions are unable to invest their funds on infrastructure projects in Bangladesh. However, the study has shown that these concerns may be handled through providing a clear legal framework for the Islamic finance in order to contribute in the development of infrastructure in Bangladesh. Finally, for further study, this paper offered a baseline for future research on analyzing the economic infrastructure development on financial structure and market demand in quantitative numbers.