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Desirability of Sukuk as a New Investment Avenue: An Exploratory Study in Bangladesh

Abstract

Sukuk can be a worthwhile device for meeting demand of those willing to invest in Shariah-compliant avenues of investment, which has been largely catered by Islamic banking products in Bangladesh. Using survey data collected from existing market investors, this study aims to explore the factors contributing to their choice of investment in sukuk. The risk-return preference of the investors is crucial for structuring the sukuk for issuance. Major factors contributing to the investment decision of the sukuk of surveyed participants also include confirmation of the use of proceed of the project in a Shariah-compliant way, risk-adjusted return, timely payment of the expected cash flows, tradability in the secondary market, awareness regarding the expertise, and independence of the Shariah advisors in the Shariah supervisory board (SSB). To facilitate the new instrument and utilize it for the development of the country, especially for the infrastructural development and green projects, government and other policymakers can contemplate offering government guarantee as well as tax exemptions demanded by the respondents of this study. The respondents expressed aversion to longer-term investment opportunities; rather sukuk maturity of up to five years was found desirable. Apprehension for upholding a distinct special purpose vehicle (SPV) and trustee for sukuk was revealed in the study. Although sufficient care was taken in selecting the sample, the limitation of the study is that it may not be deemed conclusive due to the lower sample size. A larger scale study may be conducted to reckon the insight of more potential investors in the market.

1.0 Introduction

The notion of Islamic Finance is to ensure justice in financial transactions and hence promote social equity. Maintaining Shariah-compliant transactions goes under a subset of Muamalat, which sets the guidelines regarding how one should act as a part of society and the economic system (Iqbal & Mirakhor, 2011). To eradicate injustice in financial contracts, Islam motivates the sharing of risk as well as giving charity but prohibits dealing with interest (Quran 2:275-278). Interest is considered as an injustice to both the

lender and the borrower depending on the actual outcome of the business as the amount to be charged is predetermined and should be paid regardless of the real profit earned or loss incurred in the venture. This in turn hinders social equity, and this reasoning is nicely explained by Iqbal and Mirakhor (2011).

This restriction on accepting interest in Islam makes conventional bonds a major financial instrument of the capital market, Shariah non-compliant. Therefore, Muslim investors in a conventional market get less opportunity to invest and diversify. Sukuk, a

Shariah-compliant financial instrument, could be a solution to this problem. This instrument has been defined as, "Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct, and services or (in the ownership of) the assets of particular projects or special investment activity" (AAOIFI, 2017). However, as sukuk continues to gain eminence in global financial markets and can contribute to the advancement of more comprehensive and diverse investment opportunities, it creates investment opportunities not only for Muslim investors but also for non-Muslim investors (Afifi, 2024).

Many countries have issued sukuk to obtain funds from investors and used the amount for the development of the country (IIFM 9th Sukuk Report). To meet the existing demand of the market, the Bangladesh government already issued its first sovereign sukuk in December 2020 (Bangladesh Bank, 2020). This sukuk intended to raise funds worth Tk.80 billion to implement the project titled "Safe Water Supply for the Whole Country". First round of auction of the sovereign sukuk took place on 28 December 2020 while the second round of the auction took place on 09 June 2021. This sukuk will mature on 29 December 2025. Sukuk holders of this sovereign sukuk will be paid an annual return of 4.69% on a half-yearly basis. In addition, BEXIMCO becomes the pioneering company to issue the country's first corporate sukuk for a solar power project worth Tk.30 billion (Bangladesh Securities and Exchange Commission, 2021). A sister concern of PRAN issued the second corporate sukuk through private placement (Bangladesh Securities and Exchange Commission, 2023).

In December 30, 2021, the government has issued its 2nd sukuk while raising Tk.50 billion to fund its development of infrastruc-

ture in government primary schools project (Bangladesh Bank, 2021). In the first half of 2022, the government has issued its 3rd sukuk which was based on *istisna'a* (manufacturing) and *ijarah* (lease) contract. From the 3rd sukuk government has raised Tk.50 billion to finance the implementation of the Important Rural Infrastructure Development Project (IRIDP)-3 for social impact (Bangladesh Bank, 2022). Nevertheless, this journey of the Bangladesh government officially started by publishing the "Investment Sukuk" rules in May 2019 by the Bangladesh Securities and Exchange Commission (BSEC). Later, it was supplemented by the 'Bangladesh Government Investment Sukuk Guideline, 2020' in October 2020 published by the Ministry of Finance of the Government of the People's Republic of Bangladesh.

Internationally, three types of sukuk have been issued: asset-backed, asset-based, and asset-light. Among these three, asset-backed is the most Shariah-compliant while the rest two are also permissible. However, the asset-light structure is seen less after 2008 (Haneef, 2009). Based on the underlying contract, sukuk can be of various types: for example, lease based, project-financing-based, and profit-sharing based etc. The risk-return pattern, nature of cash flow, and tradability depend on the nature of the underlying contract and sukuk assets. Sukuk also can be of different maturities. These factors along with the quality of Shariah compliance could be important considerations to look at before investing in sukuk (Safari et. al., 2014).

Given this broad backdrop, the current study is an attempt to comprehend the desirability of potential institutional investors of sukuk in Bangladesh. It takes into cognizance of preference of the potential institutional investors which gives very important insights for the sukuk issuers. Hence, the major contribution of this paper

is the policy direction for different stakeholders of the sukuk market of Bangladesh. It will give a basic idea of sukuk structure preference, risk-return preference, maturity preference, etc. from the perspective of institutional investors. After this brief preamble in this section, the review of the literatures of the paper is presented in Section 2. Section 3 presents the methodology of the study. Section 4 summarizes the major findings of the study, whereas concluding remarks and important policy directions have been made in section 5.

2.0 Literature review

The idea of sukuk was first originated in 7th century CE, when the Umayyad government used tradable certificates of grain permits for paying soldiers. However, the modern model of sukuk, as fund raising instrument, was proposed in 2000 at the 11th Islamic Development Bank Annual Symposium. Consequently, Bahrain broke the ground by issuing Sukuk-al-ijarah in 2001 (Haneef, 2009). In recent years, owing to the solidification of the concept of Shariah compliant long-term market, adoption and issuance of Sukuk has grown phenomenally around the world (Oseni & Hassan, 2014). Sovereigns and corporations of many nations including Malaysia, Indonesia, Bahrain, Ireland, Singapore, United Kingdom, South Africa, Saudi Arabia, Qatar, Nigeria, Oman, and Turkey have been deploying Sukuk as a preferred fund-raising instrument since its insertion by major index providers. In the year 2019, the global sukuk market has witnessed a tremendous growth of 18.32% with the best ever annual issuance of USD 145.70 billion (International Islamic Financial Market, 2020).

Several researches attempted to find out the factors affecting investment decision in sukuk in some nations. In UAE, investors' recognized attributes of the instrument,

Shariah issues, forecasted payoffs and accessibility of information as significant determinants of decision concerning making investment in sukuk (Duqi & Al-Tamimi, 2019). In addition to that, profitability and safety features are also found as important driving features to accomplish desirability of retail sovereign sukuk in Indonesia (Sukmana, 2020). Chowdhury and Salema (2023) identified investor awareness, shariah consciousness, government and third-party guarantee, tradability, and tenor important for sukuk investment decision among Bangladeshi retail investors.

Hidayat, et al., (2020) identified that consciousness of shariah principles is elementary for the ultimate acceptance of those compliant financial instruments. Chowdhury and Salema (2023) found that Shariah consciousness of the investors is crucial for their investment decision. Inequality in the degree of Shariah consciousness has been obvious from various studies. In India, lack of knowledge of basic Islamic Finance terms was observed where exception were the Muslim respondents of the country (Faisal, et al., 2012). Conversely, in Malaysia, a country with resounding success in the field of Islamic Finance, understanding of Shariah rulings is a common phenomenon (Hamid and Nordin, 2001). Cognizance of investors can fetter the dereliction of forgoing shariah requirements done to incentivize some issuers (Azmat et. al., 2014). In UAE, investors focused on conformity with Islamic principles while making perusing sukuk buying decision (Duqi & Al-Tamimi, 2019).

Sukmana (2020) has distinguished security backed by government guarantee as a spurring component of retail sovereign sukuk in Indonesia. However, there are contrasts of view among the Islamic scholars regarding the acceptability of third party

guarantees in various issuance, advocates of guarantees, generally brought by the governments, proclaim the shortfall of any obvious indication hindering such act of providing guarantee in Shariah. Consequently, legal and financial sovereignty of third-party guarantor marks it permissible for a third-party to provide this advantage without receiving any compensation (Alswaidan, et. al., 2017). Issoufou (2017) stated that the application of a third-party guarantee is permissible in the process of Sukuk al-Ijarah provided that it is voluntary without charging a fee.

Sukuk rating can be affected positively by the guarantee. In the similar tone, Borhan and Ahmad (2018) stated that a guaranteed Sukuk Ijarah or a guaranteed Sukuk Musharakah issued by a highly profitable issuer has a higher possibility of receiving better rating. Chazi et al. (2014) stated that the uncertain current global economic climate has made investors risk-averse especially concerning securities issued in emerging markets in Asia and Africa. For the sukuk to secure an investment grade rating, the project company should consider some form of credit enhancement such as a provision of cash collateral or obtaining a guarantee by an insurance company and/or the project sponsor (state or provincial government).

A rating aids investors in evaluating relative safeguard of sukuk. It scrutinizes the strength of an issuer or asset to pay back the principal with profit. In spite of the fact that sukuk is issued along with underlying asset, it still has the chance of default hence this issuance necessitates to go through a similar rating process like other traditional bonds (Zakaria, et. al., 2012). Depending on two major genres of sukuk, two types of ratings are relevant for sukuk. In case of asset backed sukuk, estimation of underlying asset is important while assessment of credit worthiness of the

issuer is pertinent in case of asset based sukuk (Safari et al., 2014).

Usmani (2007) identified that sukuk tradability in the secondary market can offer its investors with the opportunity to achieve liquidity. Same finding is confirmed by the study of Duqi and Al-Tamimi (2019). According to the Shariah standard 17 issued by AAOIFI, Safari et. al. (2014) cited that depending on the nature of sukuk, some are tradable in the secondary market while some are not permissible to be traded. The study of Chowdhury and Salema (2023) also found this significant to have an impact on sukuk buying decision.

Sukuk can be of various maturity, even it can be perpetual (Safari et. al., 2014 and Ellias, et. al. 2016). The rulings regarding sukuk places no bar in case of maturity period of sukuk. Duqi and Al-Tamimi (2019) found five to nine years as the most favorite tenor of sukuk holders of UAE. In this research, the author also attempted to identify the desired tenor of Sukuk in Bangladesh.

An emerging country like Bangladesh necessitates to take various infrastructural development projects while sukuk can be a helpful source for financing these types of ventures (Sukmana, 2020). Smaoui and Nechi (2017) studied the effect of sukuk issued from the period of 1995 to 2015 in all sukuk issuing nations and disclosed that expansion of sukuk market rouses economic growth and financial inclusion. Ledhem (2022) demonstrated that sukuk financing boosts economic growth in South-east Asia, which reflects the significant role of the Islamic financial markets of sukuk as a vital contributor to economic growth. A fundamental principle of Islam promotes to eradicate inequality from society. Thus, government and firms can issue sukuk to supplement this socially responsible financing which will eventually promote social equity and fairness (Guermazi, 2020).

The investigation of the Fadzil (2024) portrayed the arrangement of sukuk with the United Nations' Sustainable Development Goals (SDGs). The author likewise investigated the role of sukuk in backing social endeavors and advancing environmental sustainability through green financing. The study of Razali et al. (2023) found that the issuance of (Socially Responsible Investment) SRI-linked sukuk will draw in more sustainable-focused investors, explicitly institutional investors with sustainable portfolios.

Given the literature, it is obvious that studies covering and investigating the appeal of sukuk among institutional investors in Bangladesh are still lacking. Before finding the causal relationship between the factors affecting the sukuk buying decision, it is equally important to identify the factors relevant for the investors of Bangladesh capital market. To fulfill this research gap, in this study, the author approached the respondents to get insight from their investment perception.

3.0 Research methods

3.1 Population, sampling technique and sample size

Bangladesh Institute of Capital Market (BICM) is a government funded institution that offers education and training for the development of Bangladesh capital market. BICM offered a certificate course on sukuk in January 2021 to bridge the knowledge gap of the investors about this new instrument. To understand the view of potential Bangladeshi investors', this study used a sample of capital market investors, including participants who willingly attended the aforementioned course. Data collection of the study started from that certificate course. However, later, the author also collected data from randomly selected students of the Post Graduate Diploma in Capital Market offered by the same

Institute. Thus, convenience sampling was used for data collection. Despite the possibility of sample bias, this non-probability sampling technique is cost-effective, less time-consuming, and simple in operation. Also, this technique does not prerequisite to set up a rundown of all the population elements (Golzar et al., 2022).

A total of 45 responses from the representative of different institutions were collected at the first phase during the first two months of 2021. The author selected all the samples of this study randomly as the participants who joined the certificate course and/ or diploma program were subject to their willingness and the Institute did not directly influence any particular group or people to join its program. As participants perceived the view of their organization rather than their own, mid to senior level officers of the relevant desk (e.g. treasury division) were taken in the sampling frame. However, among these responses, there were multiple responses from some institutes. To avoid repetition, only one response from one institution was selected. Thus, multiple responses from the same institutions were removed in the second phase. Finally, the author found 26 usable responses for this study.

3.2 Type and source of data

The data used in this study were primary in nature and gathered through online surveys due to the spread of Covid-19. Though collected online, in every case, the basic principles of the Islamic Shariah and the features of the instrument were explained in a class format to the respondents. Then, the questionnaire was shared for the collection of their views in the presence of the author to maintain the reliability of the collected data.

3.3 Questionnaire development and data collection

The adaptation of research questionnaires is a prevalent practice in various fields. Researchers often adapt existing questionnaires to suit their specific study needs, enhancing the study relevance (Sousa, 2017). To understand the attributes and variables that affect sukuk investment decisions, relevant literatures were reviewed and a similar study was found. From the study of Duqi and Al-Tamimi (2019) the initial idea of the questionnaire was taken. Later, based on the literature, the questionnaire was finalized in the perspective of a new market. Thus, this study used an adapted questionnaire for data collection from the potential investors to get the insight of their investment behavior. This structured questionnaire comprised of 2 sections. Section 1 contained six questions about the profile of the respondents, while the second section used 14 statements to be replied on a 5-point Likert scale (Likert, 1972), where 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree.

3.4 Data analysis technique

To achieve the main contribution of the paper, the perception of potential investors of sukuk in Bangladesh has been presented with frequency percentage using Microsoft Excel. For better visibility those analyses have been presented in separate tables and if relevant, bar chart and pie diagrams to reflect the scenario.

4.0 Analysis and Findings

The main contribution of the paper is to accommodate the perception of potential investors of sukuk in Bangladesh. According to the press release issued by the Bangladesh Bank in December 2020 and June 2021, any domestic or foreign investor or

organization will be able to participate as a potential investor to submit bids in the auction. However, some points are presented with a separate pie chart, bar diagram, or frequency table to reflect the views of the respondents. Further study can be conducted on a larger scale based on the observations of this study. The following table presents the summary of the respondent group.

Table 1: Respondent group summary

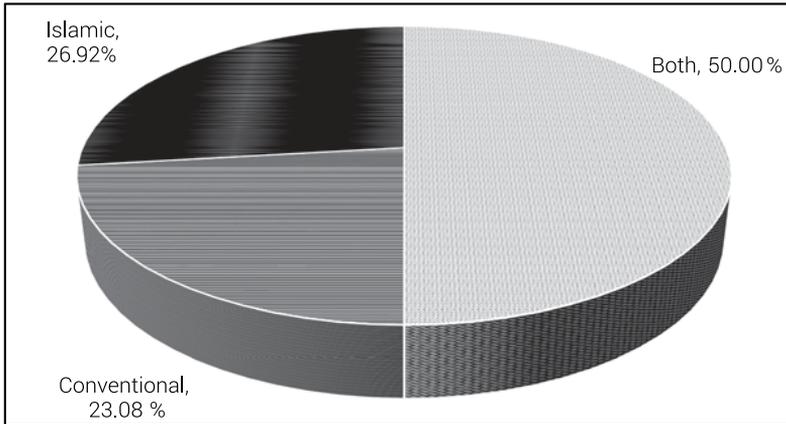
Sl.	Respondent Group	Responses in %
1.	Stock dealer	26.92%
2.	Merchant banker	34.62%
3.	Banks	11.54%
4.	Others	26.92%
Total		100.00%

Source: Author's calculation

4.1 Investment preference of respondents

Knowing the investors' investment preferences is crucial for identifying their preferred investment options or avenues that signal the portion of the portfolio a potential investor is willing to invest in an instrument. This study only portrays the investment preferences of respondents, not the factors that lead to the emergence of these preferences. A separate study can be done for this if required. In this study, the respondents were asked about their choice between Shariah-compliant investment and conventional avenues. Here, 50% of the respondents of the study chose both conventional and Shariah-compliant investment options as their preferred investment mode. Among the surveyed respondents, 26.92% gave their preference that they want to go exclusively for Shariah-compliant investment opportunities while the rest 23.08% chose only conventional avenues of investment.

Figure 1: Investment preference of the respondents



Source: Author's calculation

4.2 Risk preference of respondents

A risk profile is an evaluation of an individual's willingness and ability to take risks. A risk profile is important for determining a proper investment asset allocation for a portfolio. Organizations use a risk profile as a way to mitigate potential risks and threats. During the study period, none of the respondents chose the "high risk-high return" option reflecting their preference for safe investment mode. Almost three-fourth (73.08%) of the respondents chose low-risk for high-return while the rest chose low-risk for low-return. As high yields typically come with high risks, high yield investments are sometimes perceived as a myth. There are some investment avenues like treasury securities, municipal bonds, corporate bonds, certificates of deposit (CDs) that are of this kind. All of these are considered as safe investment instruments and the respondents of the study prefer this kind which also goes with sukuk. Sukuk is considered as a safe avenue due to its underlying asset which safeguards the interest of its investors in case of any default within the project period.

Table 2: Risk preference of the respondents

Risk Preference	Responses in %
High-Risk / High-Return	00.00%
Low-Risk / Low-Return	26.92%
Low-Risk / High-Return	73.08%
Total	100.00%

4.3 Return preference of the respondents

The expected return is the profit that an investor anticipates from an investment. Usually, investors will consider the return aspect of an investment before making any investment decision. The return pattern of sukuk can vary depending on the underlying contract of the sukuk project. The highest portion (38.46%) of the respondents gave their preference for any type of return. Furthermore, the next highest portion (30.77%) of the responses were for variable periodical return and no response (0.00%) for fixed one-time lump sum payment or return. This study also shows only 3.85% response for variable one-time lump sum return. Finally, the rest 26.92% of the respondents of the study gave their preference for fixed periodical return which only can be met with the projects that can give a fixed return. For example, the first

sovereign sukuk of Bangladesh is offering 4.69% fixed return using the Ijarah contract as its underlying contract.

Table 3: Return preference of the respondents

Return Preference	Responses in %
Variable periodical return	30.77%
Fixed periodical return	26.92%
Variable one-time return (lump sum)	03.85%
Fixed one-time return (lump sum)	00.00%
Any type of return will be acceptable	38.46%
Total	100.00%

Source: Author's calculation

4.4 Sukuk structure preference of the respondents

Asset-backed and asset-based are different in terms of the legal nature of the underlying assets involved in the sukuk transactions and its legal implications on the parties to the sukuk transactions. Under an asset-backed structure, the investors or sukuk holders can only expect the returns from the cash flows of the underlying assets and there is no right of recourse to the originator or issuer. Under an asset-based structure, the sukuk holders who are supposed to own the underlying assets do not have any interest in the underlying asset.

According to Moody's definition, asset-backed sukuk are those whose "investors enjoy asset-backing; they benefit over some form of security or lien over the assets, and are therefore in a preferential position over other, unsecured creditors. In other words, in the event the issuer was to default or become insolvent, the noteholders would be able to recover their exposure by taking control of and ultimately realising the value from the asset(s). It also requires the element of securitisations to be present—true sale, bankruptcy remoteness and enforceability of security" (Lotter et al., 2007).

On the other hand, asset-based sukuk are those for which "the originator undertakes to repurchase the assets from the issuer at

maturity of the sukuk, or upon a predefined early termination event, for an amount equal to the principal repayment. In such a repurchase undertaking, the true market value of the underlying asset (or asset portfolio) is irrelevant to the sukuk noteholders, as the amount is defined to be equivalent to the notes. In this case, noteholders have no special rights over the asset(s) and rely wholly on the originator's creditworthiness for repayment, either from internal sources or from its ability to refinance. Thus, if the originator is unable to honour its obligation to repurchase the assets, the noteholders are in no preferential position to any other creditors, or indeed in no weaker position to any other unsecured creditor, stressing the importance that the purchase undertaking ranks *pari passu* with any other of the originator's senior unsecured obligations" (Lotter et al., 2007).

Furthermore, the asset-light structure is mainly dominated by financial assets. Under this structure, the risk and return of the investors or sukuk holders derive from the performance of the guarantor and there is no presence of true sale transaction. In February 2008, the Shariah Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), issued a ruling regarding the use of this structure on the various Shariah issues raised by the structure. That ruling of the AAOIFI ban has played a key role in putting an end to the dramatic growth of asset-light sukuk issuances and shifting the market away from asset-light sukuk (Haneef, 2009). However, this structure is not abrogated yet rather can be used as a mixed structure with asset-backed or asset-based.

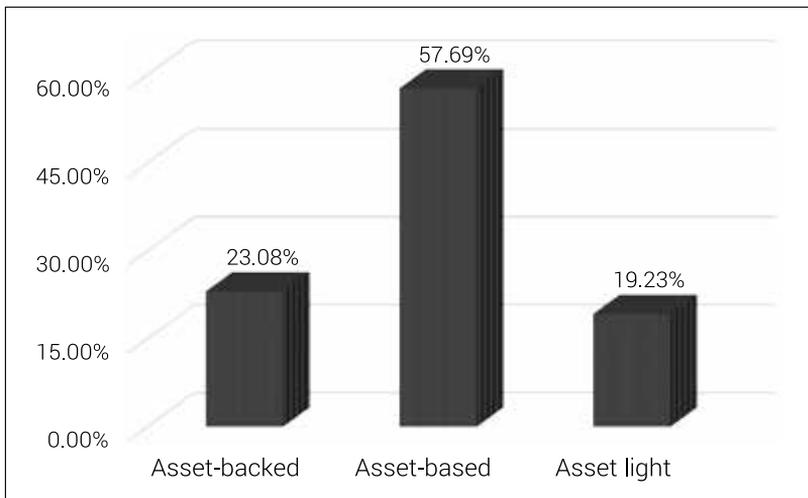
The highest portion (57.69%) of the respondents showed their interest in asset-based sukuk, followed by asset-backed (23.08%) and asset-light (19.23%).

This structure preference will give directions for structuring a sukuk using underlying contracts. Both asset-backed and asset-based can be tradable depending on the underlying contract while asset-light cannot be tradable unless mixed with other tradeable contracts.

Though asset-backed sukuk reflects the principle of asset-backed transactions of Islamic Finance in a better way, due to

asset limitation and considering Maslahah (greater benefit) currently, most of the sukuk offerings are asset-based securities. The sukuk will have Shariah compatible underlying assets, but the sukuk holders will not have any security interest over the assets. The asset-based sukuk are treated as senior unsecured securities similar to conventional unsecured bonds (Haneef, 2009).

Figure 2: Sukuk structure preference of the respondents



Source: Author's calculation

4.5 Tenor preference of the respondents

The maturity date refers to the time when an investment becomes due and will be repaid to the investor. Investors can redeem their investment at that point without any penalty. Deciding investment maturity is significant as the investors need to know for how long their capital will be occupied.

Though more than one-third (34.62%) responses were observed for any tenor acceptance, the responses showed an inverse reaction to long-term projects. Equal responses (26.92%) were observed for the projects of less than or equal to one year and greater than one year but less than

or equal to 5 years. 7.69% responses were observed for projects greater than 5 years but less than or equal to 10 years while only 3.85% were for projects with more than 10 years of maturity.

Table 4: Tenor preference of the respondents

Tenor Preference	Responses in %
Less than or equal to one year	26.92%
Greater than one year but less than or equal to 5 years	26.92%
Greater than 5 years but less than or equal to 10 years	07.69%
Greater than 10 years	03.85%
Any tenor will be acceptable	34.62%
Total	100.00%

Source: Author's calculation

4.6 Preference for separate Trustee and SPV for Sukuk issuance

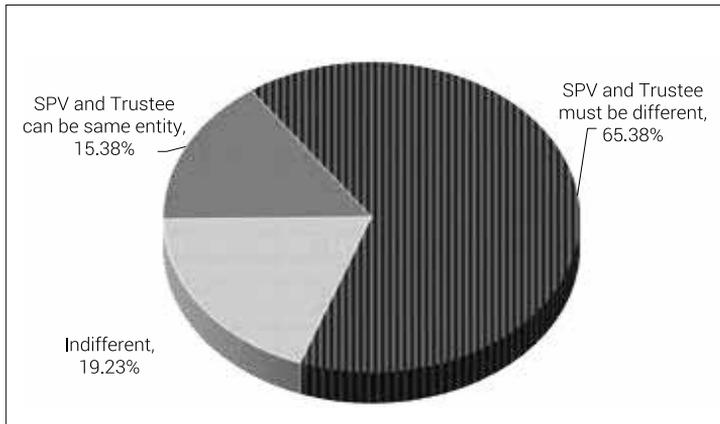
A special purpose vehicle (SPV) is a subsidiary company formed to undertake a specific business purpose or activity. Under rule 2(1)(o) of the Securities and Exchange Commission (Investment Sukuk) Rules, 2019 (dated 22.05.2019; published as a Gazette on 29.05.2019), “special purpose vehicle (SPV)” means a legal entity, created with a special financial objective to issue sukuk, recognized under these rules through an approved deed of trust by the Commission and registered under the Registration Act, 1908 only to function under these rules or any other rules of the Commission”.

On the other hand, trustee is a legal term used for anyone in a position of trust, and it can refer to any person who holds property, authority, or a position of trust or responsibility. Under rule 2(1)(s) of the Securities and Exchange Commission (Private Placement of Debt Securities) Rules, 2012 (dated 29.10.2012; published as a Gazette on 30.01.2013), “trustee” means a company as defined in the Company Act, 1994 (18th Act of 1994) or a corporation or a corporation or a statutory body or any other institution, a bank as defined in the Bank Company Act, 1991 (14th Act of 1991) or a financial institution as defined in the Financial Institutions Act, 1993 (27th Act of 1993) registered under rule 9 of these rules to act as trustee to the issue of debt securities.” Moreover, the trustee is also defined under rule 2(1)(r) of the Securities and Exchange Commission

(Investment Sukuk) Rules, 2019, as “trustee” means the trustee registered under the respective rules of the Commission and appointed under rule 8 of these rules.”

Both parties are a must for sukuk issuance. According to rule 4 of the current “Investment Sukuk” rules of the country, sukuk shall be constituted in the form of a trust as a special purpose vehicle (SPV) under the Trust Act, 1882 (Act. No. II of 1882) and registered under the Registration Act, 1908 (Act No. XVI of 1908). Besides, according to rule 3(1)(d) of the rules, a trustee is appointed by the originator to serve as an intermediary between the originator and the sukuk holders, to hold sukuk assets on behalf of the sukuk holders, and to safeguard the interest of both parties. These two entities necessitate being different entities to avoid the possible conflict of interest.

During the data collection, the respondents were briefed about the practice of separate trustees and SPVs in various countries and the role of separate parties in ensuring transparency. Almost two-thirds (65.38%) of the respondents opined that these two entities must be different, while 15.38% of the respondents think the same entity can play the role of both parties. Moreover, 19.23% of the respondents were neutral regarding this question. However, the response of the majority goes with international best practices and existing investment sukuk rules of the country. This response is presented in the following graph.

Figure 3: Preference for separate SPV & trustee for sukuk issuance

Source: Author's calculation

4.7 Considerable features regarding investment decisions in Sukuk

Investment decisions taken by different investors are of national importance because they affect some major issues including economic activities and economic growth. It relates to how the funds of an organization are to be invested into different assets so that the firm can earn the highest possible return for the investors. Investment decisions can be long-term and short-term. Furthermore, many factors can lead to a particular

investment decision into an instrument, such as basic product nature, individual and social benefits from investing, and so on. Similarly, investing in sukuk can be driven by these issues. Consideration of Shariah scholars is also important in the case of sukuk as it is a product of Islamic Finance. The following table portrays the response of the respondents of the study regarding major issues affecting the investment decision of sukuk in Bangladesh, classified into four factors. For a better visibility, the highest response for each item has been italicized.

Table 5: Considerable features regarding investment decision in Sukuk by the respondents

Label	Items	Responses in %				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Basic features	Institutional concern for ensuring the compliance of Islamic Finance for using the sukuk project proceed	3.85%	15.38%	23.08%	<i>34.61%</i>	23.08%
	Willing to accept loss for Shariah-Compliant products	3.85%	23.08%	<i>34.62%</i>	26.92%	11.54%
	Payment of expected cash flows in a timely nature is important	7.69%	3.85%	7.69%	30.77%	<i>50.00%</i>
	Tradability of the sukuk is important	3.85%	7.69%	19.23%	<i>46.15%</i>	23.08%

Label	Items	Responses in %				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Strength of Shariah advisors/scholars	Number of Shariah advisors in the committee is crucial	7.69%	3.85%	23.08%	23.08%	42.3%
	Reputation of the Shariah advisors is crucial	7.69%	7.69%	15.38%	23.08%	46.16%
	Educational qualification of the Shariah advisors is crucial	7.69%	7.69%	3.85%	15.38%	65.39%
	Relevant experience of the Shariah advisors is crucial	7.69%	3.85%	11.54%	23.08%	53.84%
	Independence of Shariah advisors is important	11.54%	3.85%	15.38%	15.38%	53.85%
	Voting right of Shariah advisors is important	7.69%	7.69%	26.92%	34.62%	23.08%
Added benefit	Tax exemption is a major concern	7.69%	7.69%	7.69%	11.54%	65.39%
	Government guarantee is needed	7.70%	0.00%	15.38%	38.46%	38.46%
Contribution to society	Investment in projects of infrastructural development is preferred	11.54%	3.85%	19.23%	26.92%	38.46%
	Investment in environmentally friendly projects is preferred	7.70%	11.54%	15.38%	26.92%	38.46%

Source: Author's calculation

4.7.1 Basic features

Basic product or service features communicate the competence of a product or service. Though features of any product or service can be considered valuable only when the target audience accepts that as a valuable one, these features, to some extent, express the pros and cons of that product or service. Correspondingly, the basic features of sukuk are important to understand the instrument. Some of the features like risk and return nature, tenor, and structure are already discussed in the earlier part of the section. This table demonstrates the views on four other features, such as, whether the usage of proceed complies with the notion of Islamic Finance; whether the institution is willing to accept some loss if the investment opportunity is Shariah-compliant; whether the payment of expected cash flows in a timely nature is important; and whether the tradability of the sukuk is important to the

investors.

It is depicted in the table that all the statements representing the basic features of the instrument show more affirmative responses except the willingness to accept the loss for Shariah-compliant investment opportunities. It implies that the majority of the investors who participated in this study are not driven by emotion alone; rather risk-adjusted return is a must for them to be attracted in investing.

Firstly, the concern of the majority of the respondents was noticed regarding the proceed; whether it will be acceptable according to Shariah laws. 34.61% of the respondents responded 'agree' and the another 23.08% responded 'strongly agree', a total of 57.69% on the affirmative side, whereas the remaining 42.31% responded 'neutral' and/ or undaunted of the issue.

Secondly, 34.62% of the respondents were neutral in expressing their view to accept

the loss just as a means of finding any Shariah-compliant investment opportunity. This outcome expresses the importance of lucrative return for any investment. However, 26.92% of the respondents agreed and the other 11.54% strongly agreed with this statement implying some investors are interested in investing in the Shariah-compliant instrument. This finding does not indicate that those investors are not concerned about return; instead, their view expressed that some will go for Shariah-compliant opportunities while the return drives the rest.

Thirdly, 50% and 30.77%, a total of four-fifth of the respondents 'strongly agreed' and 'agreed' respectively that timely payment of expected cash flows matters to them. A negligible number of investors did not give importance to timely payment; which implies some findings, such as, sukuk may constitute a smaller portion of their portfolio, or they are only concerned regarding investment in a Shariah-compliant product, or they are long-term investors and so on.

Lastly, almost 70% of the respondents wanted their instrument to be tradable in the secondary market as it facilitates liquidity. At least 30% of sukuk assets must be tangible as a pre-condition to a tradable sukuk. It enables the originator to mix and match different types of assets and effectively utilize those assets to comply with the tangibility criteria (The Sukuk Handbook). However, the current study demonstrates a strong preference for a tradable sukuk which is an important policy suggestion for the sukuk-issuing institutions in Bangladesh.

4.7.2 Strength of Shariah advisors/ scholars

Changes in Islamic Finance practices are noticed in different jurisdictions. For example, while Deutsche Bank would argue that Waad or even double Waad are valid con-

tracts in Islamic Finance, Malaysia would assert that sukuk based on Bai Dayn and Bai Inah are also recognized contracts (Oshodi, 2015). Another study by Ulusoy & Ela (2017) states the importance of Shariah scholars' opinions in addressing diversity and its consequences.

Shariah scholars are someone trained in Islamic laws. Under rule 2(1)(j) of the Bangladesh Securities and Exchange Commission (Investment Sukuk) Rules, 2019, "Shari'ah advisor" means Shari'ah scholar with the appropriate experience and knowledge of Fiqh Al-Muamalat (Islamic Commercial jurisprudence), business, and financial services to opine on the Shari'ah compliance of an Islamic security." Sukuk rules of Bangladesh necessitate the presence of Shariah scholars in the Shariah supervisory board during the entire lifecycle of the sukuk issuance (Rule 3(1)(c) of Investment Sukuk Rules, 2019). Hence, the strength of Shariah advisors/ scholars is very crucial for sukuk issuance. This study also tried to accommodate the perception of the investors whether they also thought it as significant.

To sum up the full scenario of the strength of the Shariah advisors, it can be said that the lion's share of the survey respondents ascertained the importance of the aforementioned factor. All six items of the factor can be explained further to present it at the micro-level.

Present rules necessitate that there must be at least three Shariah scholars in the Shariah supervisory board and at least five members in each board. When it was asked to the respondents whether they would give importance to this part of the rules to be upheld, only 11.54% (3.85% disagree and 7.69% strongly disagree) of the respondents seemed undaunted regarding this compliance. Of the total respondents, 42.3%

and 23.08% responded 'strongly agree' and 'agree' respectively to show their concern, whereas some respondents were found indifferent.

The concern of the majority of the respondents was noticed regarding the reputation and educational qualification of the Shariah advisors on the board. Almost half of the respondents, 46.16%, considered reputation as an important issue, whereas 65.39% of the respondents strongly agreed on the matter of educational qualification of the advisors. The respondents were also asked about the importance of the relevant experience of Shariah advisors but only a negligible number of participants were unconcerned about it.

Rule 6(1) states the independence of the "Shari'ah Supervisory Board (SSB)" for every sukuk issuance but it has not mentioned clearly, the independence of Shariah advisors in the board and their voting right to decide the major verdicts. Of the total respondents, 53.85% and 15.38% 'strongly agreed' and 'agreed' respectively that the independence of Shariah advisors is crucial, implying their concern about the instrument features to be assured by the Shariah pronouncement. However, 23.08% and 34.62% of the respondents 'strongly agreed' and 'agreed' respectively on the need for voting rights of Shariah advisors.

Similarly, Ahmed et al. (2014) depicted that it is important that the role of Shariah committee be played by members with adequate knowledge of the Islamic Capital Market sector. This needs full understanding by experts to be in line with Shariah aspects and all Shariah requirements in issuing sukuk. They also emphasized the obligation of Shariah disclosure in sukuk because sukuk holders need to know all information about the legitimacy of sukuk. In addition, Shariah committees have to

disclose in their report, any non-compliance with Shariah principles.

4.7.2 Added benefit

Getting a return is a prime reason for investment, however, there can be some other reasons, for instance, getting tax exemption. Almost two-thirds (65.39%) of the respondents of the study expressed their view of investing in sukuk as a source of tax exemption which is a major policy direction for the policymakers.

Uddin et al. (2020) showed that tax on profits from ringgit-dominated Islamic securities is exempted for foreign investors. Following Malaysian practice, Bahrain, Kuwait, UAE, Indonesia, and Turkey also embarked on providing fiscal incentives to the issuers of sukuk. These incentives are given to provide tax neutrality to sukuk issuance concerning bond issue. This is because sukuk contracts involve several underlying buying and selling of assets that involve asset transfer fees and taxes that need to be compensated. Similar practices can play a vital role in attracting Bangladeshi sukuk investors.

Besides, investors are more likely to get some security, and for that government guarantee can play an important role. The government guarantees are used to make the project more drivable and financeable to private investors by protecting investors from risks that they have little control over or may not be willing to bear. In this way, a government guarantee can be one of the most critical elements to move a project forward.

Except for a few investors, others expressed a strong view to have a government guarantee in sukuk as a matter of safety of the instrument. An equal portion of the respondents (38.46%) answered 'agree' and 'strongly agree' to this statement.

4.7.4 Contribution to society

Contribution to society through investment has emerged as a vital issue. Different organizations allocate a portion of their income as corporate social responsibility as part of providing positive social values, giving feedback to the community, and so on. The significance of the social contribution part of any business or investment lies in boosting its image.

It is portrayed in the table that more than half of the respondents expressed their interest in investing in sukuk if the fund is used for infrastructural development of the country, and the same was observed for preference in investing in sukuk if the fund is used for environment-friendly projects.

The concern of the majority of the respondents was noticed regarding the use of proceeds of the sukuk for infrastructural development implying the willingness of the investors to contribute to the development of the country. Among the surveyed respondents, 38.46% responded with 'strongly agree' and other 26.92% responded 'agree', a total of two-thirds responded on the affirmative side, whereas other respondents responded as 'neutral' and/ or undaunted of the issue.

The concern of the majority of the respondents was noticed regarding investment preference for environmentally friendly projects. During the study, 26.92% of the respondents responded with 'agree' and the other 38.46% responded 'strongly agree', a total of 65.38% responded on the affirmative side, whereas the response of other respondents did not express their interest in this regard.

5.0 Concluding remarks and policy suggestions

Findings of the study indicate that more than one-fourth (26.92%) of the respondents showed their interest in investing in

Shariah-compliant avenues of investment. This demand is now mostly fulfilled by Islamic banking and can be facilitated by the scope of investing in other avenues, for example, sukuk.

More responses were recorded for the variable return rather than fixed return with the highest preference for any type of return. This is an important policy implication for structuring the sukuk in the coming days. However, some investors were also interested in fixed periodical returns which also can be met with projects with a fixed return, such as ijarah or rental projects. However, further study can be done to identify the factors for choosing any specific return pattern.

During the study period, the highest portion of responses was recorded for asset-based sukuk, followed by asset-backed and asset-light which is a vital issue for sukuk issuance. Since the tradability of the sukuk will depend on the underlying contract of these structures, hence it needs to be considered for ensuring the liquidity of the investment. These investors also showed keen interest in the tradability of sukuk.

The respondents of the study showed aversion to investment opportunities of longer term. Project maturity from less than or equal to one year to five years seemed most popular which can be considered for future references. The respondents expressed their views that SPV and trustee must be different to avoid possible conflicts of interest.

Awareness of the respondents was observed regarding all the aspects of the Shariah supervisory board of the sukuk. The majority of the respondents replied positively for confirming an optimal number of Shariah advisors in the committee as per the existing rules and the same was the case for educational qualification, reputation, and relevant experiences of the Shariah

advisors in the Shariah supervisory board. The investors also expressed their views for ensuring the voting rights and independence of the duly appointed advisors.

A higher number of responses was observed for investment in the projects that consider the infrastructural development of the country and/ or invest in environment-friendly projects. Thus, infrastructural projects can be undertaken using sukuk and green sukuk can be prioritized.

On the overall assessment, it can be inferred that the investment preference of the investors for investing in safe instruments can be met with tradable sukuk. Sukuk maturity of up to five years can be more attractive to potential investors if the proper compliance can be maintained as per the existing Investment Sukuk rules of Bangladesh.

6.0 References

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