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Areas for Investigations:

a. **How do the practices of Islamic banks differ from those of interest-based traditional banks?**
b. **What is the impact of Islamic banks on economic development?**
c. **Do the structure and practices of Islamic banks have any comparative advantages compared with those of traditional banks in the context of mobilizing savings and allocating funds?**

	Islamic Banking	Conventional Banking
As regards Philosophical underpinnings-Ideological differences	a. Islamic Worldview: vision is human welfare both in terms of material and spiritual b. Epistemological foundation: tawhid, risalat, akhirat c. Part of Islamic economic management d. Establishment of Islamic principles: constitution of Duniya and Akhirah e. Concept of sovereign power: khalifah f. Source of knowledge: aqliyat, naqliyat and qalbiyat g. Rational Islamic economic Man **h.** The higher ethical objectives of Islamic finance can be summarized as sustaining and developing the value of human life, the human self, society and the physical environment.	a. Secular Worldview: vision is human welfare only in terms of material affluences b. Positivism and materialism: wealth, bodily gratifications and sensuous pleasures are the objectives of human endeavor. c. Part of capitalism and socialism d. Survival of the fittest e. Social Darwinism f. Only Duniya g. Peoples' sovereignty h. knowledge is based only on aqliyat i. Man-made doctrines **j.** Rational economic man **k.** Breakdown of family and social solidarity
As regards public welfare	a. Islamic Shari'ah: Need fulfillment based on Maqasid al-Shari'ah b. Balance between individual and social interest c. maximization of maslaha and wealth d. intervention in market mechanism e. Establishment of equity and justice: growth or development with equity and justice f. Islamic social finance: zakat and Awqaf-based system g. Real growth in the wealth of the people of the society takes place, due to multiplier effect and real wealth goes into the ownership of lot of hands h. Built-in Transfer mechanism: Zakat, Awqaf, Sadaqah	a. Self-interest maximization policies and behavior b. Invisible hand c. Exploitation and reproduction of capital d. Consumerism **e.** Extreme poverty **f.** Real growth of wealth does not take place, as the money remains in few hands **g.** Ineffective Trickle down approach **h.** Rich becomes more richer through unethical ways and means **i.** Increases inequality in the society, social unrest and ill-competition

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	i. Islamic framework of monetary and fiscal policies	
As regards the Role of Money: Money is a social technology	a. Money is just a medium of exchange. Real Asset is a product. b. The defining feature of money in Islam is that it is nothing but a medium of exchange. It is only that and serves nothing but that. It is not a commodity to trade or rent. It is not an asset like other assets, nor a service like other services. c. Imam Ibn al-Qayyim (d.751 H) states: "Money is never sought for itself; rather, it is used as a means to gain commodities." d. Imam al-Ghazali (d.505 H) states: "Money is like a mirror which reflects everything but is not reflected itself. Another wisdom behind the creation of money is to act as a medium to all other assets for exchange purposes." e. Money is not something that should be traded like a commodity. Imam Ibn al-Qayyim (d.751 H) states: "When money begins to be treated as a commodity and becomes the objective of transactions, the entire (economic) system will become corrupted and in crisis. f. Money should not be monopolized. Money should not be monopolized, as everyone is a stakeholder in money. No one party has a greater right over it than another; and no one party enjoys a privilege to control money at their own whims. This creates an imbalance and an artificial imposition on money. g. Money needs governance. The scholars emphatically state that the Shari'ah does not permit the Imam and the authorities to manipulate the monetary system through debasement, coin clipping and by artificially increasing the supply of money. h. Money should not be a commodity with easy supply. In the time of Umar (R), the idea of issuing currency from the hide of camels was discussed but dismissed the idea. i. Profit on exchange of goods & services is the basis for earning profit j. Balanced budget is the outcome of no expansion of money k. Due to existence of goods & services no expansion of money takes place and thus no	a. Money is a product besides medium of exchange and store of value b. Time value is the basis for charging interest on capital c. The expanded money in the money market without backing the real assets, result deficit financing d. Due to non-existence of goods & services behind the money while disbursing funds, the expansion of money takes place, which creates inflation e. Due to inflation the entrepreneur increases prices of his goods & services, due to incorporating inflationary effect into cost of product

	inflation is created l. Due to control over inflation, no extra price is charged by the entrepreneur	
As regards banking model	a. Value-based intermediation b. Both profit and welfare maximization c. Comprehensive development of man and society d. Socialization of development e. Imam Shatibee doctrine: Prioritization of needs for finance zaruriyyat, hazeeyat and tahsiniyat f. No penal interest but compensation charge which is redirected towards CSR activities g. Islamic inter-bank money market h. Micro-Mudaraba, Micro-Musharaka	a. Non-value based intermediation b. Only goal is profit maximization c. Interest-based banking model d. Rich gets lion share of fund e. Imposition of penal interest f. Interest-based Microfinance g. Call money market and interest-based instruments
As regards Business Framework	a. Islamic Shari'ah is the basis of all functions and decisions b. In Islamic finance, fixed return is prohibited, implying that capital should only gain its share of return from economic activity based on a risk-sharing mechanism. Through this, Islamic finance prioritizes real economic activity or asset-backed financing over a debt-based system. c. Both debt-based and equity-based financing techniques are allowed observing the Shari'ah rulings d. Islamic legal principles are attached to certain ethical and moral principles, which link them to both the Sustainable Development Goals and the environmental, social, and governance (ESG) criteria. e. Loss is shared when the organization suffers loss (equity modes of finance). f. The execution of agreement for the exchange of goods & services is must, while disbursing funds under Murabaha, Salam & Istisna'a contracts g. Musharaka & Diminishing Musharaka or Ijarah (HPSM) agreements are made after making sure the existence of capital goods before disbursing funds for a capital project h. Due to failure of the project, the management of the organization can be taken over to hand over to a better management i. Sharing profits in case of Mudaraba and sharing in the organization of business venture in case of Musharaka, provides extra tax to the	a. Capitalistic economic framework is the guiding principles b. Interest is charged even in case, the organization suffers losses. Thus no concept of sharing loss c. While disbursing cash finance, running finance or working capital finance, no agreement for exchange of goods & services is made d. Bridge financing and long term loans lending is not made on the basis of existence of capital goods e. Due to failure of the projects the loan is written off as it becomes non-performing loan f. Debts financing gets the advantage of leverage for an enterprise, due to interest expense as deductible items form taxable profit **g.** The relation between Bank and Depositors that Borrower and Lenders

	Government. This leads to minimize the tax burden over salaried persons.	
As regards Financial contracts, forms and substances	a. Islamic financial Contract (Aqd al-Muamalah) b. The general principle of the Islamic law of contract is contained in the Quranic verse: "O you who believe, fulfill all obligations". The definition of contract (al-'aqd) in Shari'ah law is similar to that in English common law, but is wider in that it includes dispositions which are gratuitous as well as endowments and trusts. c. Types of Contract in Shari'ah: Al-Tamlikat (acquiring of ownership), Al-Isqatat (releases), Al-Itlaqat (permissions), Al-Taqyidat (restrictions), Al-Tauthiqat (securities), Al-Ishtirak (partnerships), Al-Hifz (safe custody). d. Mode of Financial Accommodations: Uqud al-Ishtiraq: Direct Financial Accommodations and Uqud al-Muawadhat: Indirect Financial Accommodations e. Direct Financial Accommodations: Profit Free Product or Quard -based Product: PFP Quard-e-Hassan, Profit Sharing Product : PSP Mudaraba, Profit and Loss Sharing Product : PLSP Musharaka f. Indirect Financial Accommodations: Trading-based Financial Products, Lease-based Financial Products, Service-based Financial Products and Output Sharing-based Financial Products g. Bank cannot change any terms and conditions of the contract without consultation with the debtor.	a. English Common Law b. Civil Law c. Contracts are drawn to ensure the existence of clearly recognized guidelines for all parties involved. They state the standings of all those involved and the condition(s) of the transaction(s) that are to take place. This occurs in both conventional and Islamic banking. d. Products are basically designed including the rate of interest. e. Bank can change any terms and conditions of the contract at any time at its own discretion. f. Debtor has no right to dictate any terms and conditions of the contract.
As regards Deposit Management	a. Deposit is collected through al-Wadiah, Mudaraba and Musharaka b. Since the bank guarantees their repayment, current accounts are considered loans from their holders to the bank. This is because unlike money extended to others for investment purposes, loaned money is guaranteed by its recipient (the borrower), while the money provided to others to be invested cannot be guaranteed by its recipient. c. The ratio of profit distribution between the bank and the investment account holder must be predetermined. If not determined by the time the account is opened, then the underlying Mudaraba contract is void due to the gharar involved, unless	a. Deposit is collected on the basis of Interest (Sud) b. In conventional banking, fixed rate of interest being given to depositors. c. Interest payment is fixed d. Interest is calculated on the basis of compound rate of interest. e. Depositors are paid at a pre-agreed interest rate. f. Conventional Banks provide guarantee of the capital to their depositors. g. Interest is charged based on the time period for which loan is taken

	there is a customary practice that two parties can be referred to. d. The Bank invests the funds it receives at the depositors' own risk (in case of Savings Account and Term Deposits) but being a trustee, is accountable to the depositors in case of its negligence resulting in loss e. In Islamic banking, profit is distributed out of profit earning by bank for the month as per decided weightages. f. Profit is calculated on the basis of Profit Sharing Ratio fixed ex-ante. Two methods for profit calculation are in vogue: weightage based method and IISR Investment Income Sharing Ratio. g. Profit is shared with the Rabb-ul-Maal at a pre-agreed ratio, that is, the Bank pays a share of the profits it actually earns from its operations to its depositors h. Profit payment to depositors cannot be of fixed nature. Islamic Banks cannot pre-advise rate of return to depositors but may indicate a range based on their past performance with no guarantee of the principal or profit	
As regards Loan or Investment Management	a. Both Equity and Debt-based modes of finance are followed. b. According to Murabaha, Salam and Istisna'a contracts while disbursement of funds the agreement for exchanging the goods and services is mandatory. c. In leasing, ownership remains with bank and risk and reward bear by the bank as owner of asset. d. The relation between the Bank and its customers can vary on the basis of modes of finance (on the asset side) e. The asset is a product and money is just a source of exchange f. The profit earned on trade is the main source of generating income. g. Losses can be shared if an entity incurs a loss under equity based modes of investment h. There is no concept of interest and losses are shared under equity-based Islamic financing. i. There is a presence of goods and services during fund disbursement. Since money is not expanded there is no scope for inflation to be created.	a. Debt-based modes are followed mainly. b. In leasing ownership has been transferred and start and the risk and reward bear by the client c. The relation between the Bank and its customers is also based on lending and borrowing (Creditor-Debtor) d. Money is a product and source of exchange which has a value to trade. e. Loss sharing is not applied in conventional banking f. Interest is charged irrespective of business performance g. There is no agreement for exchanging goods and services during the cash disbursement for operating finance. h. There is no presence of goods and service during the disbursement of funds. Money expansion may create inflation.

As regards price escalation or inflation	a. There is high control over inflation and no extra prices are charged by business entities. b. Prior to disbursement of cash Musharaka and diminishing Musharaka deals are done and it makes sure that capital is available for the project. c. Once the delivery of goods is confirmed to the National Investment fund, the government can get loans from monetary agencies. d. Since real wealth goes into many hands and money circulates in different people there are multiplying effects of real wealth. e. If the project is unsuccessful, the management decides to transfer the ownership to another entity to overcome the losses. f. Profits are shared in Mudaraba and Musharaka and it results in reduced burden over salary individuals and this will increase the savings and also the income of the individuals showing a growth of GDP g. The asset is a product and money is just a source of exchange.	a. The business entity increases the prices of goods and services because of the inflation. The cost of the product includes the inflation aspect in determining the price. b. Long term financing and bridge loans are not processed on the basis of capital goods. c. The regulatory authorities get loans from the central bank and with money market operation and this are done without initiating the capital expenditure. d. Money circulates among few hands and there is no real growth. e. If the loan is not paid then it becomes a non-performing loan and it is written off. f. Debt finance has interest expenses which are part of taxable income and it causes tax burden on salary individuals and because of this savings income is severely affected resulting in a reduction of gross GDP. g. Money is a product and source of exchange which has a value to trade
As regards Instruments for Monetary Policy Management	a. Quantitative Policy Instruments: CRR, SLR, PSR, MARR, Short term Liquidity management tools: GIIB and Sukuk, GMC, CMC. b. Qualitative Policy Instruments: OMO	a. Quantitative Policy Instruments: CRR, SLR, Bank Rate, GTB-I, GTB-II, REPO, REVERSE REPO, BB Bill, Short term Liquidity management tools: Special REPO, NSD certificates, unencumbered approved securities based on interest, etc. b. Qualitative Policy Instruments: OMO
As regards Instruments for Government Deficit Financing	a. Commodity-based financing b. Wakalah-based financing c. Investments in Sukuk and other Islamic financial instruments d. Investment in Sovereign Islamic Sukuk in F/C	a. Lending to Government for domestic procurement b. Lending to Government for international trade c. Use of printed money to finance budget deficit

As regards Social Finance Instruments	a. **Qard Hasan**: Qard Hasan is an interest-free loan. Channeling Qard to beneficiaries who are able to repay loans further acts as an incentive for the individual to maximize the opportunities and earning capabilities they already have. b. **Zakat**: Zakat plays a specific role in safeguarding people from hitting rock-bottom. It is a safety net and barrier against starvation, hunger, and destitution. c. **Awqaf**: Waqf is a very flexible tool that can be structured in multiple ways and for various benefits. Waqf proceeds can be used anywhere in this spectrum, but if we were to consider this particular model, Waqf can play a dual role of being an emergency fund for those struck by sudden financial burden and a protective fund for those falling down the ladder. d. **Sadaqah**: Sadaqah can be used for those who have wealth over and above the Zakat-eligibility threshold but are continuously struggling to get out of the vicious cycle of poverty. e. **Islamic Micro-investment** (micro-Mudaraba and micro-Musharaka): For those who have graduated from the module of Qard and are now entrepreneurs and business owners, the Transformative Program should be focused on empowering and scaling these individuals further. f. **Takaful**: micro-takaful products	a. No such social finance instruments excepting interest-based microfinance and interest-based insurance system
As regards Legal Framework	a. No Islamic Banking Act has been enacted till date in Bangladesh. b. Bangladesh Bank: Guidelines for Islamic Banking 2009 c. Bangladesh Bank: Government Islamic Investment Bond (GIIB) 2004 d. Islamic Bond Fund Market at BB. e. Bangladesh Bank: Guidelines on Internal Control & Compliance in Banks (Updated upto September, 2016. Chapter-8 on Shari'ah Audit) f. Sukuk Guidelines has been issued by BSEC	a. Necessary laws and Acts are there in practice. b. Bangladesh Bank Order 1972 (amended in 2020), Bank Company Act 1991, Company Act 1994, N I Act 1881, Bankers Books of Evidence Act 1872, Evidence Act 1872, Artha Rin Adalat Ain 2010, Limitation Act 1908 etc.

Future of Islamic Banking in Bangladesh

There is a critical need for regulatory support and commitment of the different stakeholders to smoothen the exponential growth of Islamic finance and banking in Bangladesh. The important pressing matters include the need for:

a. an enabling regulatory environment encompassing all sorts of acts, regulations and guidelines for Islamic banking and finance;
b. an appropriate supervisory environment that caters to the unique features of Islamic financial products;
c. a wider understanding of Shari'ah practices and of the differences between the Islamic financial system and the conventional system;
d. the adoption of accounting and auditing standards that recognize the unique features of Islamic finance transactions;
e. the introduction of Shari'ah-compliant financial instruments to manage the excess liquidity of Islamic banks;
f. standardization of products and other-related documents;
g. the drafting of clear rules and practices for dispute settlement in transactions; and
h. development of Islamic human capital or 'Islamic Talent Development' that is well-versed in both Shari'ah matters and the dynamics of the financial industry.