

Scenario of Islamic money market instruments in some selected Muslim countries: A lesson for Bangladesh

Mohammed Jashim Uddin and Md. Nezum Uddin

*Department of Economics & Banking
International Islamic University Chittagong (IIUC), Bangladesh*

Abstract

The main focus of this study is to investigate the incumbent scenario of Islamic money market instruments in and outside of Bangladesh along with the close observation of conventional one. Islamic money market in different jurisdictions has deeply been observed and studied in this paper. From the experiences of global situation, Bangladesh money market has been found at a nascent stage. Some recommendations and proposals have been suggested to set up and formulate a vibrant, robust, healthy and sustainable Islamic money market for effective competition. Having an abundant potentiality of Islamic money market among, especially, in Muslim countries, this paper invokes respective central banks, Islamic financial institutions and non-bank Islamic financial institutions to come forward to operate and practice Shariah based money market in a unique way or along with conventional money market. Bank Negara Negotiable Notes, Islamic Accepted Bills (IAB), Islamic Negotiable Instruments of Deposit (INID), Rahn Agreement are found suitable for Bangladesh money market and two new instruments called Central Bank Mudarabah Sukuk (CMBS) and Government Murabahah Sukuk (GMS) have been proposed for the country.

Key words Shariah, Islamic Money Market, Islamic Financial institutions, Islamic Interbank Money Market

Paper type Review paper

1. Introduction

Money market is a fundamental part of the financial market where buying and selling activities of the temporary financial assets are held. It is defined that the financial assets, for example, stocks and bonds that are altered in these markets will be matured within one year or less. Through Money markets mechanism, short-term funds from lenders to borrowers are transferred that is an integral part of an economy. Financial institutions, corporations, and government with short-term temporary excess funds provide an efficient ways to lend to other corporations, individuals and government who



have an interim need for funds. So Money markets play a central role to accumulate capital whereby fluid funds are efficiently mustered, pooled and funneled through the financial system for financing the production of goods and services in the economy. Money market instruments consist of three common features such as they are customarily sold in a very large denomination where accessibility to household and small business are seldom considered, they are highly liquid and low risk. A predominantly Islamic finance and banking is growing at a very glaring rate in the economy of Bangladesh and according to the views of the experts in this arena Islamic financial sector will dominate in the world economy in near future. Since interest is prohibited in Islam, it is imperative for establishing Islamic money markets to undertake Islamic finance operations more efficiently and effectively in Bangladesh. But Islamic Financial institutions from the very beginning perform here without concentrating on solitary money market (El-Din & Saif, 2007).

2. Objective of the study

This paper will explain the traditional money market and then it will make an attempt to compare it with the newly emerging Islamic money market. The scenario of Islamic money market in Bangladesh is also discussed in this paper.

3. Research methodology

The study will be relying exclusively on secondary sources of qualitative data like annual reports of different central banks home and abroad, reports and working papers of different Islamic financial institutions all over the world, different journals and articles on Islamic and conventional money markets. Face to face conversations and telephone discussion with the prominent bankers (who are researching presently regarding Islamic financial markets) have been made to get the practical information for conducting this research operation. Therefore, this is a descriptive research where unstructured personal interview and telephone interview have been operated.

4. Instruments of conventional money market

Money market is composed of the heterogeneous instruments but each are specialized for a specific short period. The instruments that are traded in money markets may be interest instrument¹ or discount instrument². The significant instruments of money market are as follows (Al-Sayed, 2015; Cook & LaRoche, 2010; Hakim, 2007):

4.1 Treasury bill (T-Bill): The treasury bills are usually replicated as a short-term government debt instrument that mature in a year or less than a year. Central bank issues T-Bill on behalf of the government. Although the purchase price of T-Bill is less than the face value at the beginning, at the maturity the T-Bill holders get full face value. In most cases, the T-Bills are salable, affordable, hassle free and risk free.

4.2 Negotiable certificate of deposit: The certificate of deposit is one kind of certificates that is issued by the commercial banks to businesses and government units at a discount. This deposit is basically time deposits having maturity ranging from three month to five years and pays a fixed percentage of interest and at maturity date it is usually paid to the owner of the instrument along with the invested amount.

4.3 Banker's acceptances: For financing in export goods, import goods and other transaction goods, the banker's acceptance is rigorously used. It provides temporary finance for a party which is to facilitate the trading of specific goods. In this category of instrument, the borrowers borrow a specific amount from the lenders in exchange of a document having the condition that the debt would be usually paid on a specific date in the near future. A bank negotiates the matter between lender and borrower and brings them together to the redemption of the loan that is guaranteed by the bank. For this reason it is called banker's acceptance.

4.4 Commercial paper: Commercial paper basically is a temporary loan that is issued by a corporation and foreign investor at a discounted rate from their face value. Corporation issued commercial papers are used for financing accounts receivable and inventories. Issuers can raise big amounts of funds swiftly without facing any expensive registration process in Securities and Exchange Commission (SEC). The maturity of commercial papers is maximum 270 days. The return on commercial paper is always higher than that of Treasury bill but it is unsecured.

4.5 Repurchase agreements (Repo): In most of the cases, the government security holder uses the repurchase agreement and sells this security to a lender and a promise is made to repurchase it from lender at a later date. By selling securities in this way money market participants acquire immediate funds and agree concurrently to repurchase such securities after a predetermined time. The repurchase price will usually be higher than the original sale price representing interest and sometimes it is called the repo rate. Due to government backing repos are very safe.

4.6 International Eurocurrency deposits: In recent years, some of the short-term international money market instruments are growing faster that allow short-term borrowing and lending to occur in domestic currency. Eurocurrency deposit is an international money market security with a fixed interest rate made in a currency outside the jurisdiction of the issuing central bank. Generally, Eurocurrency market instruments work like other money market instruments. If these instruments are labeled in some other currency, they are usually dignified as 'Euro' and the trading activities can also happen anywhere and anytime.

Some examples:

- i. A deposit labeled in Japanese Yen held in a Singapore bank is a Eurocurrency type deposit.
- ii. One may purchase a certificate of deposit (CD) in U.S dollar and deposit it in a bank of Great Britain.
- iii. U.S dollars deposited in a London bank.

4.7 Mutual funds: The operation of money market mutual funds are done by mutual fund groups and brokerage companies. Mutual funds can be categorized into two ways, such as, taxable funds and tax-exempt funds. Taxable funds are invested in securities which pay interest income subject to government taxation, such as, Treasury bill and commercial papers. And tax-exempt funds are invested basically in securities that are freed from taxation and that are issued by state as well as local governments.

4.8 Call money and notice money: Call money works a crucial part of the money market where banks and non-bank financial institutions primarily participate to remove the temporary mismatch in their assets and liabilities. In call money market borrowing and lending issues are dealt with effectively permitting banks' short-term funds between each other. When some money is borrowed on a day to repay on the next working day (irrespective of the number of intervening holidays) it is defined as call money. On the other hand, when the money is borrowed or lent not for single day, but for more than a day, and reaches maximum 14 days it is defined as notice money.

5. Islamic money market

Money market instruments are short-term instruments having low risk and high liquid. Money market is equally vital for Islamic economics. If money market activities are carried out in such ways that are not conflicting with the conscience of Islam, the money market is called Islamic money market. In a parallel effort with the conventional money market, the governments

of the Muslim countries like Malaysia, Kuwait, Pakistan, Sudan and Iran have introduced laws and frame work for Islamic money market. Malaysia issued Islamic Bond in 1983 which is the first milestone in this regards. Kuwait Central Bank introduced interest free bond which is another milestone in the history of Islamic money market.

6. Islamic money market in the selected Muslim countries

In Shariah³ the moral statement which commands financial transactions and agreements is that here all are allowable if they do not include an interdicted gain, activity or commodity such as Riba⁴, Gharar⁵, and Mysir⁶ (Di Mauro, Caristi, Couderc, Di Maria, Ho, Kaur, ... & Zaheer, 2013). The modern Islamic economist uses two different criteria for developed products and services of money markets. The first criterion is to identify the prevailing conventional products and services of money market that are not conflicting with Islamic Shariah whereas the second one is to facilitate the initiation and innovation of new products and services by harnessing the application of various Shariah principles. The most popular Islamic money market instruments that are mostly used in the Islamic countries are cited below:

Islamic inter-bank money market: Some countries tried to develop regulated Islamic inter-bank market. The Islamic Inter-bank Money Market in Malaysia and the Liquidity Management Centre (LMC) in Bahrain are two notable examples.

(a) *Malaysian Islamic inter-bank money market (MIIMM):* Malaysian Islamic Interbank Money Market (MIIMM) was launched in January 1994 aiming at healthy operations of Islamic banks as well as financial institutions having vibrant liquid money market. The MIIMM is considered to be constructed as a provisional intermediary to deliver a ready fund for the short period of time investment based on Shariah principles that is equivalent to a conventional call money market. Though the MIIMM financial institutions are participating in the Islamic banking system, the trade is being done by Mudarabah⁷ based Al-Wadiah Inter-Bank Acceptance⁸. MIIMM relates to a process where an Islamic banking institution (investee bank) having deficit can gain investment from an Islamic banking institution (investor bank) having surplus that is based on Mudarabah. The investment period ranges from overnight to 12 months. The profit-earnings ratio of the investment is navigable between both parties. When navigating activity is done, the investor bank does not

provide any guarantee of the rate of return that it can be disclosed after expiring the investment period.

Al-Wadiah inter-bank acceptance refers to an inter-bank transaction between BNM⁹ and Islamic banking institutions. Islamic banking institutions put their surplus under the custody of the BNM not having any obligation to pay specific return for that surplus. If any dividend be paid by the BNM, it is considered as a gift (Hakim, 2007; Ismath Bacha, 2008; Wikipedia, 2017).

(b) *Liquidity Management Centre (LMC) in Bahrain*: The Islamic banks of Bahrain use the LMC to improve the allocation of their excess liquidity. Its operations are governed and supervised by Bahrain Central Bank. The LMC is a joint stock company. Its shareholder, each with a 25% stake is the leading Islamic financial institutions in the GCC region¹⁰. The LMC provides primary market services through the issuance of a broad variety of Sukuk¹¹ like Salam Sukuk¹², Murabahah Sukuk¹³, Ijara Sukuk¹⁴ (Abdullah, 2010; Ali, 2004; Al-Sayed, 2015).

Government Investment Issue (GIC): Government bonds, securities, treasury bills and other interest related liquid papers were not advocated by the Islamic banks in Malaysia at the beginning to fulfill their statutory liquidity conditions as well as to mobilize their surplus and idle funds. After realizing their needs, the parliament of Malaysian approved and passed the Government Investment Act in 1983 by giving permission to the Government of Malaysia to issue interest-free certificate that is known as Government Investment certificates (GIC) and it has been substituted by the Government Investment Issues (GII) under the shadow of the concept of Qard Hasan¹⁵ (Arman, 2013; Hakim, 2007).

Cagamas Mudarabah Bonds: Cagamas¹⁶ is a Mudarabah type Bond that was introduced on 1 March 1994 for financing the purchase of Islamic housing debts from financial institutions at a discount and it is structured and shaped by using the notion of Mudarabah. Both the Cagamas and bondholders share the profits or dividends according to predetermined profits-sharing ratios (Arman, 2013; Hakim, 2007).

Islamic Accepted Bills (IAB): It was introduced in 1991 in Malaysian as an order by a bank customer to a bank paying total money at a future date. IAB has become an attractive Islamic financial product to the Malaysian traders providing sound domestic and foreign trade. IAB is traded with the Murabahah¹⁷ and Bai-Al-Dayn concept¹⁸. Islamic Accepted Bills facilitates imports and exports. Import and local purchase are operated by

Murabahah concept where export and local sales are transacted by using the concept of Bai-al-Dayn (Arman, 2013; Hakim, 2007).

CIMB Islamic money market fund: It is an open-end unit trust Shariah-complaint money market fund established in Malaysia. The funds are invested to a highly liquid quality Islamic money market as instruments having a maturity of less than 365 days. The aims of this category of fund are to afford investors with liquidity and repeated earnings and capital pose is maintained by the investment in money market instruments which harmonize with Shariah principles. The investors want to invest the cash portion of an investment portfolio and to accumulate money aside while searching chances to make another investment (Arman, 2013; CIMB, 2015; Hakim, 2007).

Commodity Murabahah: Commodity Murabahah is one kind of derivative products of Murabahah that is used to complete a Murabahah transaction through interbank funds with the proceeds to the bank providing the fund. The Central Bank of Kuwait, Bahrain, Kingdom of Saudi Arabia, Malaysia, Qatar, Pakistan and United Arab Emirates used these instruments. A bank in kingdom of Soudi Arabia buys metals having surplus funds on the international commodity market (i.e. London Metals Exchange) and then sells them to a counterparty on the same day for a deferred payment with lofty prices (Purchase price with Mark-up) (Dusuki, 2007).

Government Musharakah Certificates & Central Bank Musharakah Certificates: GMC and CMC are practiced in Sudan. Both instruments are asset based security and profit-loss sharing contract. Although GMC is issued against a specific percentage of government ownership with more profitability and joint venture enterprise, CMC is issued against central bank along with the Ministry of Finance of equity participation in a commercial bank's assets. Both CMC and GMC's earnings are acquired by the return to be expected over the asset. And the distribution of the income stream of a pro-rata share¹⁹ is made between the partners. Short term maturity of GMC is fixed and medium term maturity of CMC is fixed too (Board, 2008).

Bank Negara Negotiable Notes: BNN works as a short term instruments issued by the central bank of Malaysia following the concept of Bai'al-inah²⁰. In November 2000, these categories of notes were first introduced and had been made marketable in the secondary market. After that these notes are sold on a discount basis for a maximum period of 1 year having default risk free, highly liquid selling with a clear discount value with their specific face value. Central bank can effectively manage liquidity to issue

these notes. Besides, these negotiable notes work as a replacement of treasury bills in some conventional banking (Hakim, 2007).

Islamic Negotiable Instruments of Deposit (INID): INID works like Mudarabah where money is deposited to an Islamic banking institution that will be repayable on a specified future date with the nominal price of INID along with declared dividend (Hakim, 2007).

Negotiable Islamic Debt Certificate (NIDC): NIDC refers to one kind of transactions that includes the sale of a pro-rata share on a cash basis to the customer at a negotiated price in the bank's assets. The pro rata share at an agreed future date is bought back from the customer providing principal amount along with surplus (Hakim, 2007).

Rahn agreement: According to Rahn agreement, the lenders deliver loan to borrowers under the notion of Qard Hasan where the borrower provides securities as a mortgage instead of loan. When borrower becomes unsuccessful to pay back the loan on specific date, the lender will settle the matter and sell the securities. Moreover, the lender will return the surplus monthly to the borrower if the sold price of the securities is higher than the loan. Rahn agreement works as repurchase agreement (Repo) instrument of conventional money market (Hakim, 2007).

7. Money market in Bangladesh

Since liberation, the money market in Bangladesh has been trying to develop its structure. To develop the instruments as well as the constituent parts of the market in Bangladesh, uninterrupted efforts are being made. At present Bangladesh Bank bills having ninety one days and thirty days maturity, treasury bills, certificates of deposits, short-term credit of the banking sector are available in the money market. In the fiscal year 2003 introducing secondary market for government securities was a principal matter in the way of money market history in Bangladesh. Repo and reserve repo and primary dealers system are facilitating the development of money market.

The money market of the country is still divided into formal and informal institutions and they are constituted of thirty domestic private commercial banks, nine foreign private commercial banks, four state owned commercial banks, twenty nine non-bank financial institutions, five specialized banks, and a good number of non-scheduled banks (Report, 2017). Bangladesh Bank sits at the apex in this sector. Informal institutions are mainly consisted of the money lenders as well as co-operative small

organizations are not considered under the supervision of the Bangladesh Bank.

Early history of the money market was restricted to transaction of government treasury bills (3-month maturity). For arranging transaction of Treasury bill, Bangladesh Bank under the leadership of the government was entirely responsible for and commercial banks were obligated to purchase these bills that raise ready money of banks. To settle its budgetary shortfall the government borrows money from the banks. Commercial bills issuing in our market is very narrow and marginalized and these are considered as a marketable papers and at a competitive rate these can be remerchandised in the market. Banks buy these bills at a less price of the face value. Commercial bill pays the holder face value along with interest for the rest of the period of the bill. In December 1990, Bangladesh Bank introduced new category of bill that was to be matured within 91 days was called Bangladesh Bank Bill and Banks, financial institutions, firms, corporate bodies and companies were suitable for investing in this kind of bill. Later 30-days' Bangladesh Bank Bills were introduced. The objective of these bills was to control liquidity of banking system by the open market operations of Bangladesh Bank. Monthly auctions were held off Bangladesh Bank Bills issued at a discount giving the face value of Tk. 100. Since September 1998, however, 28 day, 91 day, 182 day, 364 day, two year as well as five year treasury bills of government were introduced where previous bills are kept suspended. It is understandable that call money market in Bangladesh is one kind of most sensitive constituents of money market. Call money market launched its function as an interbank market at the very early stage of our market in which banks had short-term cash deficit borrowed from other banks where they have surplus funds. During the 1980s, Private Banks formation created new opportunities by developing this money market partition.

In 1985, two investment companies and in 1989 another one leasing company were given permission to take part in the call money market. There is a permission of all banks and non-bank financial institutions at present to be engaged in this category of market. As most of the head offices of all financial institutions are in Dhaka city, call money market related all transactions are basically Dhaka based. Since most of the branches of the banks and financial institutions are outside Dhaka, they send their surplus funds from all over the country to their respective head offices for its investment. After fulfilling their usual liquidity need, they invest the rest of the excess fund in call money market. Call money market transactions primarily occur depending on bilateral negotiations to have security concern.

Inter-bank transaction is an important part of money market. Commercial banks along with nonbank financial institutions participate in the operations of inter-bank by lending each other when they are in demand of provisional funds. Usually branch offices of banks that have excess fund lend fund to other branches which face deficit. Small banks also deposit their funds with large banks for safety reason. In 1983, certificate of deposit (CD) was presented as a money market instrument for invigorating the money market as well as brought idle money (black money and unearned income also included in idle money). The certificate of deposit is issued for the native nations, firms and companies. Banks issued the CD_s with a fixed maturity, which have no fixed interest rate. But the value limit of CD_s is prescribed by Bangladesh Bank (Report, 2017).

8. Islamic money market in Bangladesh

8.1 Islamic Interbank Fund Market (IIFM): Islamic Interbank Fund Market (IIFM) in Bangladesh has been established (Formal transaction started from 03 June 2013) in the light of call money market of the conventional banks to remove the temporary and short term liquidity problem of the Islamic banks. Islami Bank Bangladesh Limited (IBBL) was the pioneer in placing one hundred crore Taka in IIFM spontaneously and declaring the inauguration of the transactions. One account will be used to encourage non-banking financial institutions (NBFIs) and Islamic banks in IIFM to deposit their surplus liquidity with Islamic Bond Fund²¹ (IBF) for taking part in the market as well as another account will be operated to adapt profit within the participating banks, NBFIs and the central bank. The IBF will work as a guardian to the surplus fund of the Islamic banks and NBFIs. If excess liquidity of a bank is found, the bank may deposit its amount with IBF for a single day permitting another cash-emptied Islamic bank to borrow desired amount for some periods. The following features of IIFM are determined by the Bangladesh Bank:

- i. Though IIFM works like call money market, it runs being fully based on Islami Shariah.
- ii. The modes of operation of this market have been designed in such a way that it does not replicate any form of interests at any stages of the transactions which is prohibited by the Islamic Shariah.
- iii. It will be conducted on the basis of Mudarabah.
- iv. BB will act as a custodian of IIFM and no fees/charges will be imposed for this.

- v. Islamic banking branches of the conventional banks, Islamic Shariah based banks & financial institutions can transfer their investible surplus fund into Islamic bond fund on a daily basis.
- vi. From the view of Profit Sharing Ratio (PSR) determined by the Islamic bond fund, the fund will be provided to the recipients (Islamic banking branches of the conventional banks, Islamic Shariah based banks & financial institutions) subject to availability of fund.
- vii. It will be determined as per provisional rate of profit on various term deposits declared by the fund recipient. To determine the rate of profit from time to time, the decision of Islamic bond fund will be the final. If the fund recipient has no term deposits as determined by the Islamic bond fund, the rate of provisional profit will be the rate for the next term deposits.
- viii. At the maturity, the fund recipient has to be paid capital including profit in accordance with the PSR. At the year-end (January-December), profit paid at the repaid provisional rate will be adjusted with the announced final profit rate by the fund recipient (Governor, 2012).

8.2 Government Islamic Investment Bond (GIIB): The operation of 3 month & 6 month GIIB introduced in 2004. GIIB is issued on the principle of Mudarabah. Any private or public companies can buy GIIB, individual, financial institutions along with Islamic banks for at least Taka 1, 00,000 as an investment. When the bond will be matured, the bond holders will get a temporary profit²² on that day. This temporary profit will be adjusted after finalizing the investment accounts that is reexamined on monthly basis. Islamic banks can borrow money from GIIB fund. At the time of profit calculation, borrowers receive their profit on the basis of profit sharing ratio pre-determined by the banks. Bangladeshi Institutional and individual residents as well as non-resident Bangladesh citizens are concurred to receive profit and loss sharing system of Islamic Shariah that will be eligible for purchasing Government Islamic Investment Bond (Governor, 2012).

9. Threats for the Islamic money markets

The current situation of Islamic finance or money market is being dominated by making transaction across the institutions offering only Islamic financial services, and particularly having blueprints with conventional banks (especially in many Muslims countries). The facilities that relate the form of interbank mutual financing is obtained through the profit-sharing framework. Special arrangements are depicted for interbank transaction by conventional and Islamic counterparties rested on commodity Murabahah contract in some countries of the world depending

on compensating noninterest bearing deposits with each other along with most temporary based borrowing facilities from Central Bank are not adopted to come up with Shariah. The reliance on the central bank for the management of liquidity is still low. In most cases, Islamic money market is not well structured and well formed in the overall money markets.

Some innovation of Islamic financial instruments have been forwarded to facilitate interbank transaction and trading institutions by offering solely Islamic financial services and monetary action of the central bank. But these instruments have many shortcomings in exchange of their tradability and applicability constraining their usage in open market operations through central banks. At present, the dominance of, for example, Mudarabah and Murabahah type contracts connected to commodity markets are observed most of the existing Shariah-based money market as well as monetary policy instruments. These kinds of instrument are not both negotiable and suited for actively participation of secondary market trading, thus hindering the improvement of Islamic apparent money market.

Islamic money markets are constrained by the limited improvement of secondary market, inadequate provision of Islamic financial instruments and the lofted market risk related to the usage of instruments for long-term temporary liquidity management.

The various explanations of Shariah-compliant rulings or Fatawa on economic matters in jurisdictions have made various ways of structuring on the packaging of instruments financially, and non-acknowledging covenants in exchange of practicing clear laws. And thus this faction would also influence the improvement of Islamic money markets, especially on a cross edge basis. However, contracts based on revenue sharing, diminishing Musharakah²³ and floating Ijarah²⁴ are accepted as a Shariah accessible in most of the jurisdictions surveyed. The acceleration efforts of forming Islamic financial markets that could easier to make the liquidity management by central banks have been appeared much narrowed success because of having inadequate availability of proper Shariah-compliant instruments and limitations in the associated infrastructure suited for effective Islamic money markets.

There are seven full-fledged Shariah compliant banks in Bangladesh. Islamic principles are followed by these banks and Islamic financial market or money market in short distance oversees the monetary matters. Most of the conventional banks have launched their Islamic banking window along with their conventional banking. These Islamic banks units faced huge difficulties to transact their surplus money with other conventional banks those are operating interest based banking instead of profit-sharing one. Conventional bank can meet every shortage by taking

recourse to expensive fund because of offering a determined high interest rate to the fund providers or depositors during any type of crisis. On the other hand, an Islamic bank cannot do this kind of job to take a fixed rate that can be high or low on the deposit, tantamount to offering interest by conventional one. Interest is absolutely prohibitive under the guidance of Islamic jurisprudence. This phenomenon can dragoon many Islamic wings to cater in dubious deals. To resolve the above crisis Bangladesh Bank has established Islamic Bond Fund (IBF) and all interested parties might put their individual excess money with the IBF on a diurnal basis. This IBF is not allowed in the banking arena adequately by the Bangladesh Bank and not required the good cooperation by all Islamic banks and Islamic bank units of couple of banks. Moreover, the *modus operandi* of interbank Islamic money market is not updated and well-structured that might have remained at the optimum level of provision of money remote from it.

10. Proposed Islamic money market instruments for Bangladesh

By scrutinizing the established money market instruments of different Islamic countries, this study has found the following instruments suitable for Bangladesh money market: Bank Negara Negotiable Notes, Islamic Negotiable Instruments Deposit (INID), Islamic Accepted Bills (IAB), Rahn Agreement. Study also reviewed different thoughts regarding the money market instruments of Bangladesh and found suitable two proposed instruments for Bangladesh named Central Bank Mudarabah Sukuk (CMBS) and Government Murabahah Sukuk (GMS) (Sarker, 2016).

In conventional structure of Bangladesh money market, the treasury bills have been used as a popular instrument since long time. Bank Negara Negotiable Notes are equivalent to the treasury bills. Bankers' acceptances, time deposit and repurchase agreement are widely used as a traditional money market instruments in Bangladesh. From the discussion it is shown that Islamic accepted bills, Islamic negotiable instruments of deposit and Rahn agreements are similar to these instruments respectively. For upholding competitiveness of the Islamic money market in Bangladesh, the authority can introduce these instruments. From the experiences of the survey on the central banks of Malaysia, Sudan, Pakistan, and Bahrain, this study has proposed two instruments- Central Bank Mudarabah Sukuk (CMBS) and Government Murabahah Sukuk (GMS)²⁵. These instruments can play very significant role for Islamic banks as well as Islamic financial institutions operated in the country.

Central Bank Mudarabah Sukuk (CBMS) may be issued by Bangladesh Bank for facilitating open market operation to the Islamic banks as well as non-banks Islamic financial institutions by having 24/7

auction basis. Non-tradable instrument can serve as repo and likewise, the reserve repo instruments will be affected by the short term liquidity management. The duration of CBMS can be varied from three months to one year and the investors who will invest on CBMS will be considered as Rab al-mal²⁶ and central bank will work as a Mudarib²⁷. The earnings from CBMS may be upward and downward long and short tenure trend respectively depending on controlling the money supply in the market. This category of sukuk will make a connection not only for financial sector but also real sector through the aim of micro-financing. So the interest based lending windows or frameworks will be discarded by this process and it will usually facilitate the Muslim Ummah to practice Shariah approved instruments that goes according to their beliefs.

The second non-tradable instrument proposed for Bangladesh is Government Murabahah Sukuk (GMS) and Central bank may issue this non-tradable instrument under the supervision of the government of Bangladesh. GMS operates on competitive bidding auction basis for 1, 2, and 3 months to 1 year under the Murabahah concept. Mark up earnings or profit of GMS may be obtained and varied depending on the targets, overall economic and monetary condition and genuine purchasing and selling of the importable substances. As a vicegerent of the triumphant bidders, Bangladesh Bank sells and buys the commodity in favor of state at a markup value on condition to pay on deferred payment schedule. Moreover, Government Murabahah Sukuk provides an opportunity to invest for the financial institutions of Islamic Banks and nonbanks by aggregating their liquidity surplus for financing state-run imports. As Government Murabahah Sukuk is a fixed-debt kind instrument, it has maintained short-term maturity that assists the investors to account their profits over the capital outlay on GMS.

11. Recommendations

An effective effort can be made to promote harmonious approaches for designing and developing Islamic money market instruments and these should have effective contribution to enhance the locally as well as globally combined Islamic money markets. Domestic Islamic money markets, however, can be given priority to be formed that should be based on making combined general structures and guidelines and it could promote the basis to generate a local and sub-local market for the Islamic money market instruments. After studying the instruments and observing the situation of money markets (both Islamic and conventional) the present study suggests the measures for a sound, healthy and sustainable Islamic money market both at home and abroad.

- a. Utmost priority should be given to the utilization of market based financial operation through Islamic tradable instruments which are opt for not only monetary management by central banks but also for liquidity management by the institutions offering only Islamic financial services. A good market based on monetary operation has the vital role for effective functioning and development of money market.
- b. The adaptations of open market type operations with conventional banks are pressing to accommodate institutions offering only Islamic financial services. Moreover, rigorous concentration should be given by central banks to facilitate the improvement and the design of Shariah compliant tradable elements that allow minimal risk and can put a milestone for other instruments by issuing a sufficient volume on a regular schedule to fulfill the market's need.
- c. On a regular basis issuance program of government finance instruments and public debt financing management framework should be promoted and combined.
- d. Based on government finance instruments, operations using Shariah compliant alternatives to REPOs can be incorporated into the design of existing facilities as well as market-based financial operations for the management of market liquidity and rates of return.
- e. A supplementary part can be played by Interbank Mudarabah and Commodity Murabahah to ease the liquidity management of IIFS.
- f. The interbank Islamic money market's modus operandi should be updated and well-structured. A well-developed interbank Islamic money market could usually be used in foreign exchange as an operational equivalence of a forward market and this can provide good contribution to the profundity and liquidity of money market. Strict supervision and great efforts can be followed and observed by Bangladesh Bank so that anybody cannot play any deceptive game.
- g. Bangladesh Bank can construct a Shariah body like some influential Islamic countries to suggest about the policy operations in Islamic money market.
- h. There can be a crucial role to be played by the central banks and governments to create a well-formed liquidity infrastructure for establishing Islamic money market that can work as a base of expanding the improvement of private sector's innovations and effective financial market.
- i. To implement the above recommendations a Task Force should be established that could assist to elevate and revisit experiences of what advancement is done for the accomplishment of the strategies.

12. Conclusions

The prime objective of this study is to show the scenario of traditional and Islamic money markets across the world and look into the existing Islamic money market scenario in Bangladesh. In addition, this paper emphasizes the present Islamic money markets' formulation threats and suggests some recommendations to correct these threats and show the paves how a robust and sustainable Islamic money market can be formed and sustained in an unparalleled way or along with the conventional money markets. Central banks, Shariah compliant instruments, Shariah based advisory boards may play a crucial role to the formation and the pressing demand of newly growing Islamic money markets phenomenon. The present study also suggests that there is a plenty of opportunities to grow and surpass traditional money market activities by Islamic money market operations.

Notes

1. Interest instruments normally pay interest to the holder of instrument.
2. Discount instrument are used and issued at a discount that has the nominal value in exchange of interest.
3. Islamic laws and rules guided by the Holy Quran and Sunnah are known as Shariah.
4. Riba is the Arabic version of interest which means increase in or addition to anything.
5. Gharar is intrinsic in transactions that include excessive risk and uncertainty or deception.
6. Maysir is an Arabic word refers to betting and wagering.
7. When two parties make a contract for the purpose of involving themselves in a business activity where one party provides capital to other party with the negotiation that any profit will be shared in a mutually agreed upon.
8. Bank Negara Malaysia and the Islamic banking institutions work as a transaction between them.
9. Bank Negara Malaysia is the central bank of Malaysia
10. Gulf Cooperation Council is a regional inter-governmental, political and economic union comprising of Kuwait, Bahrain Oman, Saudi Arabia, Qatar, and the United Arab Emirates. GCC and countries hold almost a third of proven crude-oil reserves and approximately fifth of global gas reserve.
11. One kind of Arabic version of financial certificates is Sukuk commonly referred to as shariah compliant bonds.
12. A salam contract occurs on immediate payment as well as deferred delivery terms purchasing of assets by one party from another party. Sukuk al-Salam refers the certificates of equal value issued for postulating salam capital (purchase price of the capital) to mobilize so that the goods to be transferred on the basis of salam contract to the ownership of the certificate holders.

13. Murabaha Sukuk is certificates of having equal value provided for the object of financing goods through Murabaha so that the certificate holders acquire the ownership of the Murabaha commodity.
14. Ijara Sukuk is securities that represent the ownership of well-structured and well defined assets that are tied up to a lease contract that can be traded in the market the determination of price be made by market forces.
15. Qard Hasan is a loan where no charge is applicable.
16. Cagamas Berhad launched in 1986 for promoting the broader dissemination of house ownership and improvement of the secondary mortgage or pledge market in Malaysia.
17. By this mode the seller buys the goods required by the clients, adds profit on mutual consultation and handover the goods to them. The Clients, according to the agreement, repay the price of the goods either by installments or at a time after certain date.
18. Bai-Al-Dayn refers the sale of a debt rising with trade transaction in the shape of a deferred payment.
19. In pro-rata share every shareholder gets an equal proportion.
20. Seller sells an asset to a purchaser on the basis cash and later purchases it back on a differed payment basis.
21. Bangladesh Bank formed this fund for the Islamic institutions for interbank
22. The temporary condition of profit depending on the accepted profit monthly and perceived on the deposited funds in the Islamic banks or financial institution.
23. In this mode bank participates as a financial associate with a fixed income presage and the bank's portion of the equity is progressively downgraded and the associate ultimately becomes the complete owner when bank draws expected income.
24. No fixed time or fixed-date for the ijarah contract.
25. Mr. Md. Abdul Awwal Sarker, also proposed these two instruments in his research- "An Evaluation of Islamic Monetary Policy Instruments Introduced in Some Selected OIC Member Countries."
26. The capital or fund provider in a contract of Mudarabha.
27. The manager or the entrepreneur in a Mudarabha contract.

References

- Abdullah, D. V. (2010). *Liquidity management in institutions offering Islamic financial services*. Second Islamic Financial Stability Forum.
- Ali, S. S. (2004). Islamic modes of finance and associated liquidity risks paper prepared for conference on monetary sector in Iran: Structure. Performance and Challenging Issues Tehran-February.
- Al-Sayed, O. (2015). Money market instruments in conventional and Islamic banks. *International Journal of Science and Humanities*, 1(3).

- Arman, S. M. (2013). Islamic interbank money market in Bangladesh: A literature review. *Kuwait Chapter of Arabian Journal of Business and Management Review*, 2(9), 13-23.
- Board, I. F. S. (2008). Technical note on issues in strengthening liquidity management of institutions offering Islamic financial services: The development of Islamic money markets. Kuala Lumpur: Islamic Financial Services Board.
- CIMB. (2015, November 30). CIMB Islamic money market fund. Available under the EPF members investment scheme. *Principal asset management berhad*.
- Cook, T. Q., & LaRoche, R. K. (2010). The Money Markets. *Intro to Financial Markets and Institutions*, 239.
- Di Mauro, F., Caristi, P., Couderc, S., Di Maria, A., Ho, L., Kaur Grewal, B., ... & Zaheer, S. (2013). *Islamic finance in Europe*. Occasional paper series no 146/June 2013.
- Dusuki, A. W. (2007). Commodity murabahah programme (CMP): An innovative approach to liquidity management. *Journal of Islamic Economics, Banking and Finance*, 3(1), 1-23.
- El-Din, T., & Saif, I. (2007). Capital and money markets of muslims: the emerging experience in theory and practice. *Kyoto Bulletin of Islamic Area Studies*, (1-2), 54-71.
- Governor, B. B. (2012). *Inauguration of formal transaction of Islami interbank fund market (IIFM)*. available at: <https://www.bb.org.bd/governor/speech/jun032012gse.pdf>
- Hakim, S. R. (2007). *11 Islamic money market instruments*. Handbook of Islamic banking: 161.
- Ismath Bacha, O. (2008). The Islamic inter bank money market and a dual banking system: The Malaysian experience. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(3), 210-226.
- Report, F. S. (2017). Statistics department Bangladesh Bank. *Bangladesh Bank: Financial Stability Department*.
- Sarker, A. A. (2016). An evaluation of islamic monetary policy instruments introduced in some selected OIC member countries. *Islamic Economic Studies*, 24(1), 1-47.
- Wikipedia (2017). *Money market*. Retrieved from http://en.wikipedia.org/wiki/Think_City_Updated, 23.

Corresponding author

Mohammed Jashim Uddin can be contacted at: grejasim@yahoo.com