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### THE SIGNIFICANCE OF ISLAMIC FINANCE AND BANKING FOR THE SOCIO- ECONOMIC DEVELOPMENT IN BANGLADESH

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#### **ABSTRACT:**

Bangladesh has witnessed rapid growth in Islamic banking and finance, as well as the rapid development of Islamic banking and finance in the global banking and finance sector. In Bangladesh, Islamic banking and finance has great potential, but there are several challenges, such as lack of Islamic banking and finance infrastructure, lack of concrete legal foundation, lack of central bank attention, lack of Islamic capital market, lack of shariah legal experts and lack of public awareness. The study also found that research trends in Islamic banking and finance are still weak and need to be improved. This study aims to examine the Islamic finance and banking sector and how it can play a role in the socio-economic development of Bangladesh. The objective of this study is to assess the current status, potential, challenges and identify the best methods that can be adapted to develop and further strengthen the Islamic economy in Bangladesh. To achieve the objectives of the study, extensive literature review methods have been used through secondary data such as articles, journals, books, periodicals, newspaper articles, and websites of Bangladesh central banks and other commercial banks. In light of the findings, a strong legal structure overseen by a central shariah body should be put into place. The long-term growth of Islamic banking and finance in Bangladesh necessitates it.

#### **INTRODUCTION**

Bangladesh has made great progress, particularly in the Islamic banking sector. The Islamic banking system, as opposed to conventional banking, is built on a set of ethical and moral values that have been passed down through the millennia of Islam. Like modern finance, Islamic economics and finance are governed by a set of broad concepts that serve as guiding principles. The most important aspects of Shariah-based Islamic banking are the prohibition of riba

collection (interest or usury). One of the study's main objectives is to determine the significant of Islamic finance and banking to Bangladesh's socio-economic growth. This section of the study's introduction provides a brief overview of the problem, the research objective, and significant of the study.

### **BACKGROUND OF THE STUDY**

Even after all these years, Islamic investment is still a strong, self-sufficient economic structure. As a result, poverty has become a serious problem and burden for emerging nations. If an agreement fits the Shariah standards, it is deemed legitimate in Islam. Financial arrangements based on Islamic law have developed throughout time as a reaction to the requirements of the community they serve. Shariah-compliant Islamic finance is founded on the idea of profit and loss distribution.

Some Islamic nations have formally created a Zakat system, but in other countries, it is a private concern where collection and distribution have been disregarded. However, hardly a single Islamic nation really follows through on implementing Zakat as intended. Hardcore poverty may be eradicated if the system is properly implemented and implemented with heart (Shirazi & Fouad Bin Amin, 2018). People's progress is greatly aided by the practice of Zakat. Its basis is built on socio-economic growth rather than the economic development of other economic systems. In Islamic banking, monies are collected and invested in conformity with Islamic Shariah norms (Harrison & Ibrahim, 2016). (Harrison & Ibrahim, 2016). So-called socio-economic development refers to the well-being of people, which is the primary goal of Islamic financial systems.

Bangladesh is a notable developing nation in South Asia. Despite obtaining independence in 1971, the economy of this nation has yet to develop. An estimated 89 percent of the population is reported to be Muslim in this country. As a result of this, Bangladesh founded the first interest-free Shariah-based bank in South and Southeast Asia, Islami Bank Bangladesh Limited in 1983. For the last few decades, Islamic banking in Bangladesh has thrived due to the country's strong focus on both social and economic well-being (A Sultana & Prodhan 2017).

Islamic banks are those that conform to the profit-sharing principles outlined in the Quran, Sunnah, and Shariah, and as a result are referred to as Islamic financial institutions. Since their inception, Islamic banks have played a critical role in the development of Bangladesh's socio-economic infrastructure. According to the International Islamic Banking Association, Bangladesh presently has eight fully-fledged Islamic banks, 19 Islamic banking branches, and 35 Islamic banking windows in conventional banks (Bangladesh Bank, 2019). More and more Muslim-owned financial institutions are springing up throughout Pakistan, including the likes of Shahjalal and Al-Arafa Islamic banks. Islamic banking services have been offered by a number of interest-bearing institutions in reaction to a rising need.

### ***Problem Statement***

The Islamic Financial System can produce the most efficient banking system with the support of private and public bodies in terms of governance and direction. Several studies have been undertaken to highlight the current situation of Bangladesh's Islamic financial management system, its importance, obstacles, and efforts to overcome such challenges and fulfil its aims, such as the construction of a just, fearless, and developed economic society. In most cases, however, their research focuses on the overall situation of Islamic finance and its significance in Bangladesh. Many Non-Governmental Organizations (NGOs) and microfinance institutions are operating in Bangladesh to promote socio-economic development. It is also widely acknowledged that government and non-governmental organisation initiatives for socio-economic development in Bangladesh have not been completely successful.

Still, approximately 35% of the population lives below the poverty line (Nazim Uddin & Hamdan 2020). Bangladeshi higher education institutions lack professional degrees in Islamic finance or Shariah Governance (SG), making it impossible for them to provide the expected products and services (Abdullah & Rahman 2017). Another issue is a lack of skilled and trained professionals to meet the demands of Bangladesh's rapidly growing Islamic banking industry. Islamic banking faces significant challenges as a result of its customers' lack of knowledge about Islamic banking. According to the study, Islamic finance and banking could play an important role in the country's socio-economic development.

### **RESEARCH OBJECTIVES**

The major objective of this study is to look at the Islamic finance and banking sectors and see how they can play a role in Bangladesh's socio-economic growth. There are also some additional objectives, such as determining the present state, possibilities, and problems of the Islamic economy in Bangladesh, as well as the best techniques for increasing people's understanding of Islamic finance and banking and encouraging them to pay zakat. Finally, for Bangladesh's socio-economic growth, an Islamic financial and banking framework must be established.

### **SIGNIFICANCE OF THE STUDY**

This theory is significant because it is based on empirical research of the feasibility of Islamic financial assets and Islamic banks as possibilities for increasing investment portfolio performance and financial system stability. In this aspect, the research will be helpful. In addition, the study intends to establish a framework for evaluating rural development in Bangladesh via Islamic finance and banking, as well as a platform for future research on the topic. On a practical level, this research aids researchers, bank managers (both governmental and private banks), bank policymakers, and decision makers in recognizing and comprehending the problems and opportunities of Islamic banking services in revenue mobilization.

The outcomes of the research might be utilized as a roadmap for increasing citizen participation. Contributing to the Islamic banking industry, as well as

zakat collecting and distribution in Bangladesh, including some pertinent research. This study is intended to contribute to the current body of research in the subject of Islamic finance and to act as a platform for future research.

The results of this study, in principle, cover a significant vacuum in the current body of literature and serve as a springboard for further research in the field by other interested scholars. Students studying Islamic finance and banking will find this information to be quite useful. The study's results will be valuable for banking students who wish to learn more about the elements that impact Islamic banking and finance acceptance. The outcomes of the research are intended to add to knowledge in Bangladesh's Islamic finance and banking sectors.

## **LITERATURE REVIEW**

### ***Concept of Socio-economic Development***

This broad notion may be used in a number of circumstances, and the term "socio-economic development" is used to refer to it. When it comes to complex creatures, such as systems, system evolution is defined as a continual succession of exact and immutable modifications to the structure of the organism (Grzebyk & Stec, 2014). Furthermore, the word "social improvement" refers to a movement in social structures that improves a society's capacity to attain its desired outcomes. Economic development, on the other hand, is when resources and economic success are used to help people in developing countries live better lives for a long time (Requena, 2016).

As a result, (Malik, 2007; Kupiec, 1993), irreversibility and a positive judgement of ongoing changes by interest groups from a regional or local viewpoint are elements of such specified changes (Malik, 2007; Kupiec, 1993). In a socio-economic system, human activity and behaviour are responsible for the changes that occur (controlling and monitoring). Securing universal access to education, health care, and other social welfare services is the basic objective of socio-economic development. Because of social fairness, humans may be able to reach their full potential.

Achieving improvements in a society's social and economic situations is referred to as socio-economic development, according to Olabanji (2014). Socio-economic development is the term used to describe changes in the social environment, the majority of which are economic in nature (SED). Socioeconomic growth is determined by the interaction of external and internal forces, which affect the course and direction of development. Gross domestic product (GDP), life expectancy, literacy, and employment rates are some of the metrics that may be used to gauge economic progress.

### ***Islamic Finance and Socio-economic Development***

For the achievement of socio-economic equity and the protection of the well-being (Falah) of all people, Islamic economic development places a specific emphasis on Islamic finance. Islam provides Muslims with a plethora of opportunities to express their desire for happiness. It is also necessary to

consider why the Muslim world is now grappling with this idea, when it has previously been able to achieve it successfully. Despite the fact that the Muslim world has grown more needy and has moved away from democracy and transparency, it is still feasible to achieve Islamic economic success.

Due to the fact that it is a sustainable, contemporary, and ethical economy, Islamic banking has made significant contributions to the socioeconomic well-being of the nation. Arshad and Rizvi (2013) and Chowdhury et al. (2016) found no experimental evidence to support the widely held belief that Islamic banks are more likely to be impacted by the socioeconomic opinions of its members than the rest of a Muslim nation's banking system.

### *The Role of Islamic Banks in Economic Development*

In recent years, academics and professionals have focused their attention on the interconnections between the banking system and economic growth in general, citing examples such as the increasing amount of banking services, the financial transactions of financial intermediaries, and so on. Nations' economic growth responsibilities are expanding as a result of their increased reliance on banking. Banking may be split into two types: mainstream banking and Islamic banking. Following two decades of rapid growth in popularity worldwide, the Islamic banking system has gained momentum in Muslim nations as a viable alternative to traditional interest-based banking systems.

A tremendous expansion in the number of Islamic banks has occurred in the previous few years, with more than 60 nations now having such institutions. By the end of the next decade, financial experts expect Islamic banks will hold 50% of all deposits in Islamic nations, according to their predictions. Islamic banks in the Gulf Cooperation Council (GCC) have the fastest asset growth, according to Standard & Poor's. There are two types of Anagreh: Tabash and Anagreh (2017).

Islamic banks provide an appealing choice for non-bankable consumers because of Shariah principles and regulations, which results in a rise in the number of customers for the banks. Persons are increasingly using financial services, as shown by a growth in the number of people who use them (Dahari et al., 2015). Governments all over the globe have shown interest in the Islamic financial instrument Sukuk, which has resulted in the development of a worldwide market (Godlewski et al., 2016). However, despite the fact that the Islamic banking system is becoming more popular and in demand, it is not a full substitute for the traditional financial system.

It may, however, be able to reach a larger part of the population and keep them engaged in the financial system if it provides them with enticing financial choices. According to Arshed, Riaz, and Khan (2017) it is a great technique for boosting financial inclusion and stimulating economic development in developing countries. According to Tabash and Anagreh (2017), Islamic banks are more appealing to non-Muslim nations than conventional banks since they have better potential than traditional banks. According to Imam and Kpodar (2016), Islamic banks have the potential to spur more economic growth and

contribute to economic development in a more favourable manner than conventional banks.

### ***Product of Islamic Finance and Banking***

As a result, profit-and-loss sharing arrangements in lending facilities would be established. Islamic banking supports collaboration between the wealthy and the impoverished. A variety of financing options such as profit-loss sharing, fixed-income financing, and fee-based financing are covered in this model (Hussain et al., 2015; Kammer et al., 2015; Lewis et al., 2001; Obaidullah, 2005; Sundararajan and Errico, 2002). Islamic banking necessitates the existence of true assets in the majority of transactions, while money is used as a commodity in traditional financial transactions, according to the definition. In the next section, we'll provide you a high-level overview of Islamic funding techniques.

### ***Modaraba (Profit & loss sharing)***

Under this structure, an investor (or money source) and a firm owner collaborate on the operation of the business. When it comes to funding a project or starting a firm, investors provide all of the necessary financial resources, whilst entrepreneurs offer their knowledge, skills, time, and management talents to the endeavours. It's similar to forming a hidden organization. At the time of contracting, both parties agree on the percentage of profits to be shared. Profits are only created as a consequence of the item or project in question really being successful in its endeavours. Unless there is evidence of the entrepreneur's wrongdoing, the investor is liable for any losses incurred under unfavourable circumstances. On both the assets and liabilities sides of the balance sheet, Islamic banking reflects this structure (Obaidullah, 2009).

### ***Musharakah (Partnership business)***

It is a joint venture between a company's owner and a financial investor (or a financial institution). The entrepreneur contributes his or her knowledge, work, and management, while the investor gives all of the capital required for the project or firm to be successful. The arrangement is similar to a silent partnership agreement in certain respects. Before signing the contract, all parties agree on a profit-sharing percentage that would be shared equally. The functioning of the underlying business or asset serves as the only source of profit for the enterprise or asset. Unless the entrepreneur's wrongdoings can be demonstrated, investors bear the whole brunt of any losses incurred under unfavourable conditions.

### ***Murabaha (Cost Plus Financing)***

Murabaha structures, such as mark-up sales or ordinary asset-backed loans, are similar in nature. Murabaha allows banks to acquire specific assets (that are requested by clients) and then sell and deliver those assets to those customers on a delayed payment basis. It implies that clients are responsible for paying the asset's true worth as well as its selling markup, but not for paying interest on the asset. Except in the case of wilful failure to comply with the terms of a

Murabaha contract, banks are prohibited from imposing penalties on their customers. The goal of this agreement is to make asset acquisition more convenient (Hussain et al., 2015). (Hussain and colleagues, 2015). Furthermore, this approach may be used to the management of interbank liquidity and international commercial operations.

### ***Ijarah (Leasing)***

Ijarah offers a number of different frameworks. In some aspects, operational leasing and financial leasing are quite similar. It is a well-known method of obtaining financial assistance. It's a contract that grants the buyer the right to use a certain item for a specified length of time after the purchase (Hussain et al., 2015). Typically, a bank will collaborate with a vendor in order to lease an asset to a consumer. As the legal owner of the property, the bank will retain ownership of the property until the lease ends. In spite of the fact that the lease time is set, the payments may vary in response to changes in economic conditions as well as changes in corporate requirements. Upon expiration of the loan term, the asset is sold or transferred to the borrower. In some circumstances, it may also be made available to a new customer. Rent is paid over time in equal monthly instalments, similar to a Murabaha leasing arrangement.

### ***Salam (Type of Sale)***

When a vendor promises to produce a certain product in return for full payment up front from the customer, the transaction is referred to as "Salam." The major purpose of this auction was to aid small farmers who were in need of financial support so that they could continue to raise crops and provide for their family until the end of the harvest season was reached. It is particularly helpful in reducing agricultural sector poverty since it allows banks and farmers to enter into crop-purchase agreements and get financing at the appropriate time rather than relying on interest-bearing loan agreements that are costly to repay. Bai-Salam is an acronym that refers to pre-sale and purchase activities. During the course of the contract, the seller agrees to sell certain goods to the client at a predetermined price in advance, and the goods are paid for when the contract is completed. The goods are then delivered in accordance with the buyer's specifications for size, quality, and quantity at a later time. (Pronounced: rah-man) is a Muslim who lives in the United Arab Emirates (Rahman, 2018). According to the prophet (SM), in order to sell and purchase, both parties must reach to an agreement with each other. There are other instances, including Ibn Hibban, Ibn Majah, and others. A certain dimension or weight should be specified, as well as a defined time period, before payment is made in advance for anything that will be delivered later." (According to Al-Bukhari and Muslim).

### ***Istisna (Ordering to Make)***

An advance contract for construction and industrial projects, similar to Salam, is known as Istisna. Payment and delivery, on the other hand, will take place at a later date as planned. In this transaction, three parties are involved: the

producer (or manufacturer), the client, and the bank, which serves as a middleman between the two. The producer is required to provide a product that satisfies certain specifications specified by the client. The bank assists with the financing of manufacturing projects. In return for the client's regular longer-term payments, the bank offers to supply the producer with short-term payments in the form of cash advances.

### ***Baimuajjal (Deferred Payment)***

Purchasing something now and paying for it later is referred to as a "Bai Muajjal" transaction in Islamic finance. A sale's credits would include any and all postponed payments, regardless of how often they were made. This covers payments made on a regular basis as well as those paid in one lump amount. In accordance with a previously agreed-upon contract, each Murabaha customer is required to be informed of the item's cost. It should be noted that Bai Muajjal does not have this condition. Because it does not need the payment of a riba, Islamic jurists and philosophers regard a credit sale (Bai Muajjal) to be a permissible type of financing (divorce tax). As a result, Islamic jurists have traditionally accepted price rises for the purpose of delaying payment while prohibiting debt increases for the purpose of selling goods. It was in 2005 when Iqbal and Molyneux were able to publish their study. Instead of making a single payment in full, the consumer pays Bai-Muajjal in a series of payments rather than in a single lump sum. Don't be concerned about that since it is a credit transaction. There is no need to be apprehensive about making this transaction at this time. The seller has the option to sell products in line with the order and the identity of the customer, if that is what the buyer wants (Rahman, 2018).

### ***Qard Hasana (Loan Without Any Interest)***

The Islamic Sharia does not prohibit the lending of money. Riba is the only one who is forbidden from participating in these loan transactions. "Qard Hasana," also known as a beneficent loan in Islam, is a kind of loan that is meant to assist the poor and relieve their suffering. In a number of circumstances, money without interest may be loaned to a broad range of recipients for a variety of purposes, including education, marriage, and other social causes. An institution that provides credit to a consumer may levy a service fee only once, in the case of an actual expenditure. Annual interest rates cannot be calculated since interest is not a percentage rate. It will not be necessary for the bank to earn a profit on this loan since interest will be levied on what is left over after the interest has been paid. The year 2018 is a leap year (Baten) The lender's payment is handled as if it were an interest-free loan as of the date of the adjustment. Because there is no interest charged, it is sometimes referred to as an interest-free loan. Despite the fact that beneficial loans have been accessible to Muslims and non-Muslims equally for decades, it has only recently been possible to get them via Islamic banks throughout the globe. As stated in Allah's instruction in the Holy Quran, "and do not cease praying, paying Zakat, or lending a good loan to Allah" (Quran 73:20).



### *Islamic Finance for Sustainable Development*

The Sustainable Development Objectives (SDGs) include not only the goals themselves, but also the strategies that will be used to achieve those goals. Consequently, caution must be used in order to transform zakat into a powerful tool for poverty reduction, food security, improved health-care delivery, and overall well-being in the Muslim community (priority group of zakat on SDGs). Zakat mobilization may aid in the achievement of a wide range of social welfare objectives via a number of efforts. The United Nations may benefit as a consequence of Zakat in order to accomplish its Sustainable Development Goals (SDGs). According to Ahmed et al. (2015), Islamic finance has the potential to make a significant contribution to the achievement of the Sustainable Development Goals (SDGs) through improving financial stability, financial inclusion, prosperity for everyone, and infrastructure development (SDGs).

When it comes to Islamic finance, the Sustainable Development Goals and the Maqasid shariah are linked as a framework. Zakat organizations place a strong focus on achieving the Sustainable Development Goals (SDGs) in their projects. Some examples include fighting poverty and hunger, as well as providing access to great education, clean water, and other basics to people throughout the world. As a consequence, it is reasonable to see zakat as an essential and strategic tool for achieving the Sustainable Development Goals. The year 2017 has finally come (Baznas)

Traditional Islamic instruments based on charitable giving include zakat, sadaqah, and waqf, to name a few. In the third category, classic Islamic instruments based on investment are included, such as Qard al Hasana and kafala, among others. (Abduh 2019, Syed Azman and Engku Ali 2019, Jouti 2019; Syed Azman and Engku Ali 2019; Syed Azman and Engku Ali 2019) (Islamic Social Finance Report, 2015). Furthermore, Islamic microfinance, sukuk, takaful waqf, and Islamic fundraising with a social benefit are all options (Jouti 2019), as is Islamic fundraising with a social benefit (Syed Azman and Engku Ali, 2019).

A number of experts have looked at the Sustainable Development Goals (SDGs) from the viewpoint of Islamic finance, and their findings have been published (Gundogdu, 2018). SDG accomplishment by 2030 may be made achievable by Islamic finance, according to specialists in the field, who feel that this kind of financing is especially suited to assisting the world in reaching its objectives. 2016 is the year of the octopus (Zarrouk). It is possible to achieve SDG number two, "ensure food security," through the use of Islamic social finance, which is an interesting alternative humanitarian fund for bridging the global SDG investment gap. Islamic social finance can help achieve SDG number two, "end hunger," and SDG number two, "ensure food security" (Abduh, 2019).

### *Zakat and Socio-Economic Development*

The Islamic financial industry is primarily reliant on Zakat. In Islam, a monetary contribution known as zakat is made in order to relieve poverty among the people. Zakat plays an important role in the growth of a society's economic

development. It is referred to as "zakat" in Arabic, which means "purity" and "exactness," and it is defined as a yearly contribution to the impoverished of at least 2.5 percent of one's possessions. This is a ceremony for purifying the heart and the pocketbook. The mandatory payment of zakat is one of Islam's five pillars, and every Muslim who has the financial resources is obligated to fulfil this obligation (nisab). Nisab is the yearly monetary sum necessary to fulfil one's or one's family's basic necessities. It is measured in dollars. Each individual and his or her family have a number of fundamental requirements that must be satisfied. Poverty has been a source of concern and misery for emerging nations for a long time.

Zakat is a legal or private system that differs according on where you reside, with the collection and distribution of payments being completely disregarded in other places. Zakat, on the other hand, has not been completely applied in any Muslim nation as of the writing of this article. To put an end to extreme poverty, the approach must be followed exactly and in its whole (Shirazi & Fouad Bin Amin, 2018). It is one of the most essential principles in Islamic economics since it stresses social welfare and equitable income distribution. Zakat is a tenet of Islamic economics that emphasizes social welfare and equitable wealth distribution. Because Muslims constitute the majority of the population in Bangladesh, the collection and distribution of zakat might play a significant role in alleviating poverty and improving socioeconomic circumstances.

Contentment is boosted by taxes like as zakat, which serve the twin purpose of pleasing Allah and fulfilling His command while also redistributing money. Higher contentment leads to increased output and development, which leads to increased contentment and growth. Zakat is a distinguishing feature of Islamic economic justice since it guarantees that money is allocated in a fair and equal manner. As a consequence, the collecting and distribution of zakat benefit people in need while also promoting economic growth. Because it prevents money from being concentrated in a few hands, the zakat system in Islamic finance helps to promote fair income and wealth distribution. (Muhammad and colleagues, 2010).

To secure the collection and distribution of Zakat payments to those in need, it is necessary for countries to establish zakat institutions before the funds may be collected and disbursed. As explained by Norazlina and Abdul Rahim (2011), the zakat system attempts to accomplish a range of economic balance variables, including total consumption, savings, and investment, aggregate labour and capital supply, poverty alleviation (including the elimination of extreme poverty), and economic development.

### ***Islamic Fintech and Socio-Economic Development***

The phrase "Islamic FinTech" refers to a particular field of Islamic finance that has emerged in recent years. A relatively new financial institution, FinTech, is quickly being regarded as a necessary aspect of modern society's requirement to perform financial transactions on a daily basis. This is the assumption of FinTech, which refers to finance as a tool for everyday living. It involves a broad variety of issues, including payments, market infrastructures, distributed

ledgers, deposits and loans, capital raising and investment (as well as authentication), alternative data and artificial intelligence (AI), and many more (AI). Throughout history, finance has progressed through numerous phases of development, beginning with accounting and progressing through central national banks and payment systems, and finally introducing sophisticated asset markets and other financial products (Arthur, 2017). Another key issue to consider is the participation of business partners in the FinTech ecosystem (Lee & Shin, 2018).

Bangladesh, being a Muslim-majority nation, has significant prospects for Islamic FinTech innovation. In Bangladesh, Islamic FinTech has aided both the modernisation of finance and the modernization of conventional finance, and both have profited. The usage of technology in the financial industry of Bangladesh is increasing, and it is becoming more frequent. Mobile phones, in addition to improving communication and human connection, have shown to be a successful instrument for a broad variety of business activities, including: (Ali & Mohamed, 2018). Even if you do not have a bank account, you may still take use of banking services. Bkash and other mobile banking FinTech start-ups like it are currently among Bangladesh's most popular mobile banking services, and they are expected to continue to grow in popularity. In addition to NOGOD, MCash, Tcash, and Ucash, the growth of Bangladesh's macroeconomic structure is assisted by the presence of several other businesses.

### *The Performance of Islamic Banks During the Financial Crisis*

Improvement of social and economic well-being is one of the primary goals of Islamic banking and financial institutions. In addition to contributing to economic prosperity, the Islamic financial system has the potential to improve personal well-being. Poor and inequality reduction are important policy objectives in economic development; risk sharing rather than debt financing is an effective means of achieving these goals.

Because of their Islamic financial design, Islamic financial institutions (IFIs) were able to withstand the global financial crisis, in contrast to the large financial institutions in the United States and Europe that were destroyed as a consequence (Haseeb, 2018). According to Hasan (2015), the global financial crisis of 2007-2008 was brought on by a dependence on an interest-based conventional financial system that was solely reliant on risk transfer. Because it encourages risk sharing and limits interest rates, Islamic banking may be used as a viable alternative to traditional financial practices. As a consequence, a system that is more egalitarian, more secure, and less prone to financial crises than prior systems have been established.

The impact of COVID-19 has been investigated by Islamic scholars, such as (Al Eid & Noutai 2020), who have looked at crisis management in Islam and provided leadership options for crisis management, among other things. When it comes to dealing with crises, the Quran and Sunnah are excellent starting points. Among the Islamic principles for crisis management are management methodologies, crisis management phases, leadership characteristics, and the role of a leader throughout the crisis management process, among other things.

Their findings led to the development of a framework for Islamic economic systems and social finance that includes: 1. distributing cash assistance from zakat, donations, and alms; 2. strengthening benefaction, which includes cash, productive, and infrastructure benefaction; and 3. providing business capital assistance to Micro, Small, and Medium Enterprises (MSME) 4. the implementation of Qard Al-Hasana programs; 5. the promotion of Islamic economic and financial literacy; and 6. the development of Islamic financial technologies (Islamic FinTech).

## **RESEARCH METHODOLOGY**

Researchers in both the public and private sectors often use qualitative methods. In order to achieve the study objectives, secondary data was gathered. Other nations' and economies' writings on Islamic banking may be found in secondary sources such as textbooks, journals, annual reports from commercial banks and the Bangladesh Bank, and so on. Islamic banking practitioners, Shariah officers of Islamic banks and members of the Shariah committees of Islamic financial institutions were interviewed in order to get first-hand knowledge about Shari'ah scholars and individuals who practice Islamic banking and finance (IFIs).

### ***Findings and Results***

Respondents to the poll expressed satisfaction with continuing social initiatives by Islamic banks, indicating that these institutions have a good attitude toward socio-economic activities. The findings of the factor analysis provide support to Islamic banks' CSR activities in the areas of social betterment, education, health, socio-economic well-being, and contemporary arts and culture, among other things. Supporting educational programs and athletic contests, as well as assisting in the development of Bangladeshi art and culture, should be the primary emphasis of bank corporate social responsibility activities. The country's GDP and long-term development gain significantly as a consequence of the country's 25 percent participation in Islamic banks. Bangladesh's ability to capture this untapped market and enhance financial inclusion will be critical in achieving middle-income status by 2021. This chapter is devoted to the study of Bangladesh's economic situation. It is suggested by the results of this research that Islamic financial and banking solutions may be a viable answer to the world's socio-economic challenges.

### ***Limitations Of the Study***

The following are some potential study roadblocks: Because this study was conducted in Bangladesh, its conclusions should be interpreted with caution when applied to countries other than Bangladesh. Because of existing government regulations, the conclusions of this study can only be used as a guide. Thus, the study's primary limitation is that it had a limited amount of time to conduct research. A thorough study was not possible in the limited time available. The absence of precise data hampered our inquiry.

## CONCLUSION AND RECOMMENDATION

To summarise of this study a great number of disciplines are presently available to students' studying economics from which to choose. It would be an understatement to say that this is the beginning of the only potentially viable alternative to current banking and finance systems and practices. Financial services to the general public may be provided more effectively by Islamic banks if the appropriate banking rules and regulations are in place. Using this information, they will be better able to adopt Profit and Loss Sharing (PLS) business models, which have been proved to have a large beneficial impact on economic growth. If Islamic banking were to take over as the major system in an economy, it would be ideal. It is crucial for the development of Islamic banking and finance in Bangladesh that the country's large Muslim population be taken advantage of. To put it another way, the government stands to benefit the most from this opportunity. In the event that legislation is adopted in Parliament and Islamic financing is established, Bangladesh's socioeconomic development may be accelerated.

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