

The Dilemma of Sharia Compliance in Bangladesh: An Empirical Legal Study

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ABSTRACT

Ideally, the Islamic legal system in Bangladesh is expected to serve as both a moral and juridical foundation for the formulation of public policies and the governance of financial institutions. However, in reality, the implementation of Sharia principles continues to face a dilemma between normative idealism and legal practices influenced by secularism, identity politics, and the legacy of the British colonial legal system. This study aims to analyze the level of Sharia compliance in Bangladesh by highlighting the social, political, and institutional factors that influence it. This research is a literature-based study employing a descriptive qualitative approach, using primary sources such as scholarly journals and legal documents related to the implementation of Sharia in financial institutions and the legislative system of Bangladesh, and secondary sources including research reports and international academic publications. The findings reveal that the dilemma of Sharia compliance in Bangladesh stems from the lack of synchronization between the aspirations for legal Islamization and the dominance of a secular legal framework. Nevertheless, constructive efforts have been made through institutional reforms, scholarly fatwas, and Islamic banking policies to bridge this gap.

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INTRODUCTION

In the past two decades, the Islamic financial system in Bangladesh has grown rapidly and become one of the most dynamic sectors in South Asia. As a Muslim-majority country, the aspiration to implement Sharia principles in the economic system has become an integral part of the national development narrative (Hasan, 2019). Islamic financial institutions have expanded significantly, both in the form of full-fledged Islamic banks and Sharia windows of conventional banks. The government, through the Central Bank of Bangladesh (Bangladesh Bank), has also issued several regulations supporting the strengthening of Sharia governance and enhancing transparency in Islamic finance (Alam, 2021). Normatively, all these efforts reflect the state's commitment to establishing a financial system aligned with the principles of justice, balance, and Islamic ethics. However, behind this impressive growth lies a complex reality — a tension between Sharia idealism, economic interests, and the secular national legal framework.

At the practical level, the implementation of Sharia compliance does not always unfold as ideally envisioned. Bangladesh's plural legal structure — combining elements of Islamic law, colonial English law, and modern national legislation — often results in overlapping regulations and authorities (Yusoff & Islam, 2024). Sharia Supervisory Boards within Islamic financial institutions frequently face a dilemma: on one hand, they must preserve the integrity of Sharia principles; on the other, they must comply with market policies and withstand competitive industry pressures. Moreover, the role of fatwas and the authority of religious scholars are often limited to symbolic functions and lack binding juridical power. At the macro level, state regulations tend to emphasize administrative and formal compliance rather than the substantive essence of Sharia values. Consequently, a gap emerges between normative ideals and operational realities — a gap that gives rise to what is known as the “Sharia compliance dilemma.”

Ideally, the Islamic financial system in Bangladesh should maintain a balance between Sharia compliance and economic effectiveness. Sharia principles such as *‘adl* (justice), *maslahah* (public welfare), and *amanah* (moral responsibility) ought to serve as the core foundations of every financial practice. However, in reality, many Islamic financial institutions in Bangladesh continue to operate within a regulatory framework that is largely accommodative, adapting to the pressures of the global capitalist system (Kabir Hassan, 1999). This phenomenon raises a fundamental question: to what extent do these institutions genuinely adhere to Sharia principles, and to what extent do they merely employ Islamic symbols for market legitimacy? It is at this juncture that the central issue of this research emerges — the tension between normative principles, economic practices, and national regulations that together constitute a systemic Sharia compliance dilemma.

This study aims to empirically examine how the Sharia compliance dilemma manifests within the institutional context of Islamic finance in Bangladesh. Through an empirical legal approach, this research seeks to identify forms of

inconsistency between Sharia principles and operational practices, analyze the role of Sharia supervisory bodies, and assess the extent to which the national legal framework supports or hinders substantive Sharia compliance. Theoretically, this study contributes to enriching the literature on Islamic legal pluralism and Sharia financial governance. Practically, the findings are expected to serve as a foundation for policymakers, scholars, and Islamic finance practitioners to formulate a more integrative, ethical, and contextually relevant model of Sharia compliance that responds effectively to the challenges of Bangladesh's modern economy.

LITERATURE REVIEW

The study of the Sharia compliance dilemma in Bangladesh is not a new topic within the discourse of Islamic law and contemporary financial economics. Several previous studies have examined the dynamics of integration between Sharia principles, state regulation, and institutional practices operating within a pluralistic legal system. Alwy Ahmed Mohamed *et al.* in their work; “*Islamic Law in Plural Legal Systems and the SDGs: A Comparative Analysis of Indonesia, Bangladesh, and Kenya*” highlight how Islamic law interacts with national legal systems in Muslim-majority countries with pluralistic legal structures. Their research employs a comparative approach focusing on the synergy between Islamic law and the Sustainable Development Goals (SDGs). The findings reveal that in Bangladesh, Islamic law is not entirely marginalized, yet its implementation remains sectoral and administrative rather than substantive (Mohamed *et al.*, 2025). The similarity with this study lies in its analysis of the position of Islamic law within a pluralistic national legal structure, while the difference is in focus: Alwy's research emphasizes a global development perspective, whereas the present study explores the normative dilemmas and practical aspects of Sharia compliance within financial institutions.

Riazuddin Ahmed and Mohamad Saifullah bin Mohamad, in their article; “*The Practice of Shariah Governance in Islamic Banking and Finance: A Study of Islamic Banks in Bangladesh*,” examine the practice of Sharia governance in Islamic banks in Bangladesh. They found that Sharia boards hold a formally strategic position but, in practice, often face institutional pressures and conflicts of interest with managerial authorities. Their study highlights a persistent gap between normative structures and the implementation of Sharia compliance (Ahmed & Mohamad, 2019). The similarity with this study lies in their shared focus on the gap between principles and practice, while the difference is that this research goes further by analyzing how national regulatory pressures and economic needs deepen the compliance dilemma.

Restu Annisa Ilma *et al.*, in; “*The Concept of Fatwa in the Perspective of Islamic Law*,” explore the position of *fatwa* within the Islamic legal system and the role of religious authority in guiding contemporary legal practice. Their findings show that *fatwa* serves as a balancing instrument between normative texts and

dynamic social realities. In the context of Bangladesh, the *fatwa* mechanism contributes to providing moral legitimacy for Islamic financial decisions, although it does not always carry binding legal authority (Ilma *et al.*, 2025). The similarity with this research lies in their shared focus on the normative aspect of religious authority, while the difference lies in scope: Restu's study is conceptual, whereas this study integrates both empirical and institutional dimensions.

Ashraf Shahriar, in his work; “*Operational Shariah Framework of Islamic Banking: A Research on Bangladesh Perspective*,” presents an operational framework for Sharia compliance in the Islamic banking sector. His research reveals weaknesses in both internal and external monitoring systems, leading to formalistic Sharia compliance. Sharia supervisory boards often play symbolic roles, while economic decision-making remains dominated by commercial logic (Shahriar, 2025). The similarity with this study lies in the shared focus on the operationalization problems of Sharia principles, while this research adds a reflective perspective on the ethical tension between normative idealism and economic pragmatism.

Based on the findings of the above studies, it can be concluded that most previous research has focused on two primary poles: the normativity of Islamic law and the governance practices of Islamic financial institutions. However, what has not been widely explored is the complex interaction between three main dimensions — principles, practices, and regulations — which together create the Sharia compliance dilemma in Bangladesh's empirical context. This study seeks to fill that gap by combining empirical legal analysis and normative reflection to trace how Islamic financial institutions navigate the tension between market demands, national regulatory boundaries, and the Sharia values that should serve as their moral and legal foundation. Thus, this research goes beyond merely assessing the level of compliance — it reveals the epistemic and structural dynamics that shape the Sharia compliance dilemma in Bangladesh in a deeper and more contextual manner.

RESEARCH METHODOLOGY

This article falls under the category of library research with a qualitative-descriptive approach oriented toward empirical legal studies. The methodology employed is normative-sociological analysis, which integrates the examination of Sharia norms and their practical application within the social, political, and legal institutional contexts of Bangladesh. The focus of this research is directed toward understanding the relationship between the principles of Islamic law and their implementation within the plural national legal system, as well as in Islamic financial institutions as one of the instruments for applying Sharia compliance.

The primary sources of this study consist of legal documents, the Constitution of Bangladesh, scholars' fatwas, and major academic works such as those by Alwy Ahmed Mohamed *et al.* (2025), Riazuddin Ahmed & Mohamad Saifullah (2019), Restu Annisa Ilma *et al.* (2025), and Ashraf Shahriar (2025).

Meanwhile, the secondary sources include academic publications, reports of Islamic financial institutions, and literature on contemporary Islamic law and national legal politics. Data analysis was carried out through content analysis and conceptual triangulation to ensure the validity and reliability of the findings. The drafting process of the manuscript was conducted using a thematic and argumentative system, organizing the study results based on the main themes (principles, practices, and regulations) that are logically and coherently interrelated within the framework of empirical Islamic legal studies.

RESULTS & DISCUSSION

The Position of Islamic Law in Bangladesh's National Legal System

Bangladesh, as a Muslim-majority country, faces a crucial task in formulating a legal system capable of accommodating Islamic values while meeting the demands of modernity and pluralism. The colonial legacy from the British and Pakistani eras left behind a strong common law system, while aspirations to uphold Islamic law emerged early after independence. Consequently, Bangladesh's national legal system developed in a pluralistic mode, where Sharia norms and national laws coexist. Understanding the position of Islamic law within this national framework is essential to comprehend how Sharia compliance in Bangladesh is shaped and practiced (Mohamed et al., 2025).

Historically, Sharia institutions in the Bengal region functioned since the Sultanate and colonial periods as local authorities in matters of family law, waqf, and inheritance. After independence in 1971, Bangladesh adopted a new constitution and a national legal system modeled after a secular state, while still recognizing Islam as the state religion (Kabir Hassan, 1999). According to Alwy Ahmed Mohamed et al., Bangladesh is part of a plural legal system where Islamic law, customary law, and national law interact dynamically (Mohamed et al., 2025). Their analysis notes that this pluralism creates opportunities but also poses significant challenges in ensuring effective Sharia compliance.

The Constitution of Bangladesh contains articles that reflect the duality of Islamic law's position. For instance, Article 2A declares Islam as the state religion, yet the state guarantees religious freedom for all citizens. Hence, the relationship between Islamic law and national law is not strictly hierarchical but interactive: national law does not entirely subordinate Sharia, nor does Sharia replace national law. The position of Islamic law within the national framework is thus functionally integrative—especially in personal and moral domains—rather than existing as a fully independent legal system.

In positive legal practice, Bangladesh combines national legislation with the application of Sharia norms, particularly in family, inheritance, and waqf laws. For example, the *Muslim Family Laws Ordinance (1961)* and the *Waqf Act* establish a legal framework that accommodates Sharia norms in personal domains. However, in criminal, commercial, and administrative law, national laws based largely on the common law system remain dominant. This situation creates a dual

legal order, where Sharia compliance in personal matters is relatively strong, while in public and economic sectors it faces greater challenges (Mohamed et al., 2025).

The political context also plays a vital role in determining the position of Islamic law within the national system. During the regimes of Ziaur Rahman and Hussain Muhammad Ershad in the 1980s, there was a wave of symbolic Islamization—for example, the adoption of Islamic symbols in public policies—though substantial transformation of the national legal system did not occur comprehensively. Alwy Ahmed Mohamed et al. describe countries like Bangladesh as practicing “regulated Islamization,” meaning the accommodation of Islam within the framework of a modern state without replacing the entire legal system (Mohamed et al., 2025). Such transformation demonstrates that the position of Islamic law is shaped not only by legislation but also by identity politics and symbolism.

Nevertheless, the influence of Sharia norms in society remains significant, especially in urban areas. Urban communities such as Dhaka and Chittagong frequently refer to *fatwas*, madrasas, and religious institutions to guide their lives, including in family and economic matters. Islamic law continues to function as a moral guide even though the formal legal structure is not entirely Sharia-based. This indicates that the position of Islamic law in Bangladesh operates on two dimensions: formal law and social norms. The social dimension tends to be more flexible and adaptive to change, yet it also creates tension when national norms demand legal uniformity.

A dilemma arises when ideal Sharia norms collide with national regulations or modern economic practices. A concrete example is found in the financial sector: Islamic banks in Bangladesh must operate under the regulatory framework of the Bangladesh Central Bank, following conventional financial industry guidelines while attempting to comply with Sharia principles such as the prohibition of *riba* (interest). This reveals a structural tension between Islamic law as an ideal and national law as a practical regulation. Thus, the position of Islamic law within the national system emerges not as a singular entity but as the outcome of institutional negotiation (Ahmed & Mohamad, 2019).

The concept of legal pluralism, as analyzed by Alwy Ahmed Mohamed et al., suggests that to achieve effective Sharia compliance, a country like Bangladesh must systematically and transparently integrate Sharia norms into the national regulatory framework (Mohamed et al., 2025). They emphasize that Sharia compliance cannot rely solely on the goodwill of institutions or scholars; it requires institutional and regulatory mechanisms. The similarity with this study lies in the focus on integrating Islamic law into the national system; the difference is that this research emphasizes the empirical perspective of compliance in urban Bangladeshi society rather than merely the normative framework.

Global transformation and international pressures also influence the position of Islamic law in Bangladesh. To attract investment and participate in the global Islamic financial system, Bangladesh must align its financial and commercial regulations with international standards such as AAOIFI and IFSB. However, such

adaptation adds layers of complexity: Sharia norms must be translated into a national legal framework oriented toward market efficiency, transparency, and modern governance. This underscores that the position of Islamic law is not static but dynamic and contextual.

From an academic perspective, the study of Islamic law's position in Bangladesh demands an interdisciplinary approach that combines law, sociology, and economics. Islamic law cannot be understood solely through normative *fiqh* texts or national legislation but must be seen as a social practice under constant negotiation (Hazri, 2020). Therefore, empirical studies exploring how institutions and individuals in urban Bangladesh comply with or negotiate Sharia principles are highly relevant to fill the existing gap in the literature.

At present, Bangladesh's primary challenge is how to strengthen the position of Islamic law within the national system without undermining legal pluralism and social cohesion. Institutional reform is essential, including enhancing the capacity of *ulama*, increasing transparency in Sharia supervisory systems, and harmonizing national regulations with Sharia norms. Such transformation would elevate the position of Islamic law from a mere symbol of identity to an operational instrument of social justice.

The Practice of Sharia Compliance in Islamic Financial Institutions

Sharia compliance is the heart of the Islamic financial system, fundamentally distinguishing it from conventional finance. This principle asserts that every financial activity must be based on Islamic law and free from *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling). In global practice, Sharia compliance is not merely a legal requirement but also an ethical and moral dimension that emphasizes transparency, justice, and social welfare. Islamic financial institutions emerged as a response to the need among Muslims for a financial system aligned with divine values. However, this idealism often clashes with regulatory realities and market forces that prioritize economic efficiency over Sharia conformity (Alam et al., 2023).

In contemporary contexts, Islamic financial institutions face major challenges in maintaining consistent Sharia compliance amid globalization and modern regulatory pressures. The emergence of new financial products demands adaptation and innovation, yet it also tests how far Sharia boundaries can be adjusted without compromising their fundamental principles (Ahmad, 2022). For instance, products such as *Murabahah*, *Ijārah*, and *Mushārakah* have been developed to replicate the functionality of conventional financial products while remaining grounded in Sharia contracts. However, research by Rahman and Chowdhury indicates that in countries such as Bangladesh, the formal aspects of Sharia compliance are often stronger than their substantive implementation, leading to the risk of "Shariah-washing," meaning symbolic compliance without fundamental changes in business practices (Rahman, 2020).

Institutionally, Sharia compliance is maintained through the presence of the *Shariah Supervisory Board (SSB)* in every Islamic financial institution. This board functions to assess, supervise, and ensure that all banking operations adhere to Islamic principles. However, the effectiveness of these boards depends heavily on the independence, competence, and integrity of their members. Uddin's study found that in Bangladesh, many Sharia boards face limited authority due to management dominance and the lack of external oversight mechanisms. As a result, Sharia decisions are often made with commercial interests in mind rather than Islamic legal principles (Ahmed & Mohamad, 2019).

Another issue that arises is the lack of uniformity in Sharia compliance standards across countries. Each jurisdiction follows different guidelines and interpretations depending on the authority of local scholars and national supervisory institutions. Organizations such as the *Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)* and the *Islamic Financial Services Board (IFSB)* have attempted to establish global standards, but their implementation remains inconsistent. In Bangladesh, for example, Rahman noted that the absence of a strong centralized Sharia supervisory authority has resulted in significant variations among banks in applying Sharia principles, thereby undermining the credibility of the Islamic finance industry (Rahman, 2020).

Sharia compliance also has a direct impact on public trust. Muslim communities choose Islamic banks because they believe their transactions are consistent with religious teachings. Therefore, any violation of Sharia principles can erode an institution's legitimacy. Empirical studies show that trust in Islamic financial institutions is influenced not only by economic factors such as competitive profit rates but also by perceptions of Sharia integrity. In other words, the success of Islamic financial institutions is measured not only by profitability but also by the level of public confidence and acceptance of their religious authenticity.

From the perspective of national law, Islamic financial institutions operate within regulatory frameworks set by state financial authorities. In Bangladesh, the Central Bank plays a crucial role in regulating Islamic banking activities through guidelines and supervision that must align with national law. However, this often creates dilemmas when national regulations conflict with Sharia principles (Fahim, 2020). For instance, in liquidity management or risk control, some interest-based policies cannot be directly applied to Islamic banks. Consequently, Islamic financial institutions must seek Sharia-compliant alternatives, such as *Sukuk* or *Islamic Money Market Instruments*, approved by both religious scholars and regulatory authorities.

From an economic standpoint, Sharia compliance contributes to financial system stability. The asset-based and partnership-oriented nature of Islamic finance is considered more resilient to global financial crises because it emphasizes fair risk-sharing. However, according to Shahriar, in practice many Islamic financial institutions still rely on short-term, low-risk sales-based models (*murabahah*), while profit-and-loss sharing schemes (*mudharabah* and

musharakah)—which better embody the spirit of Sharia—are rarely implemented (Shahriar, 2025). This reflects a persistent gap between ideal principles and real-world practices.

The social dimension of Sharia compliance also deserves attention. Islam views finance not merely as an economic tool but as an instrument of social justice. Therefore, Islamic financial institutions should not only pursue profit but also focus on wealth distribution, economic empowerment of the ummah, and social responsibility. Programs such as *zakat*, *qard hasan*, and Sharia-based microfinance serve as key instruments in realizing the objectives of *maqasid al-shariah*. However, evidence shows that most Islamic financial institutions remain commercially oriented and have not yet fully optimized their social functions.

Within an empirical legal framework, Sharia compliance in Islamic financial institutions can be understood as the outcome of interactions among religious norms, public policy, and market interests. Islamic law provides the foundational values, but its implementation must go through institutional processes that operate under national law (Mahmud et al., 2024). Hence, Sharia compliance is not solely a matter of *fiqh* but also one of corporate governance and state regulation. When coordination between Sharia authorities and state regulators is weak, the potential for inconsistency and violations increases.

The next challenge lies in developing a credible and transparent Sharia supervision model. Strengthening national supervisory bodies such as the *Central Shariah Board for Islamic Banks of Bangladesh (CSBIB)* is a vital step toward reducing fatwa inconsistencies and enhancing industry credibility. However, such institutions require strong legal backing so that their Sharia recommendations have binding authority rather than remaining merely moral guidance. This is crucial to ensure that Sharia principles are applied not only at the policy level but also in every business decision.

The rise of financial technology (fintech) also presents new challenges for Sharia compliance. Digital transactions, smart contracts, and blockchain-based financial services require the adaptation of Sharia principles to digital contexts. Sharia authorities and regulators now face new questions regarding the validity of electronic contracts, the ownership mechanisms of digital assets, and the legitimacy of crypto-based transactions under Islamic law. This phenomenon demonstrates that Sharia compliance is an evolving concept that requires contemporary *ijtihad* responsive to the changing times.

The Role of Fatwas and Ulama Authority in Sharia Compliance

The role of *fatwas* and *ulama* authority in Sharia compliance holds a highly significant position within the dynamics of contemporary Islamic law, particularly in Muslim-majority countries such as Bangladesh. Within the social and religious system, a *fatwa* is not merely understood as a legal opinion, but also as a moral and social instrument that guides the behavior of Muslims to remain aligned with the principles of Sharia (Yusoff & Islam, 2024). Alongside the development of

Islamic financial institutions, Islamic educational establishments, and Sharia-based regulations, the authoritative role of the *ulama* has gained renewed legitimacy that intersects with public policy and the national legal system. What was once an individual legal opinion has now transformed into a collective institutional instrument used by financial institutions and regulators to determine Sharia compliance standards. This transformation has made the relationship between *fatwas*, *ulama* authority, and state institutional structures increasingly complex and strategic.

Historically, the authority of the *ulama* in Bangladesh grew from the Islamic intellectual tradition of the Indian subcontinent, inherited from the Mughal era and reinforced through networks of *dayahs* and *madrassahs*. They served not only as guardians of religious traditions but also as mediators between Islamic law and social practices (Fahim, 2020). After Bangladesh gained independence in 1971, the role of the *ulama* did not diminish but rather adapted to the structure of a modern state that adopted a secular legal system infused with Islamic values. In this context, *fatwas* became symbols of continuity for Sharia values amidst secular political and economic dynamics. Although *fatwas* do not always hold binding legal power, they continue to exert significant influence in shaping public perceptions regarding the legitimacy of certain practices in the realms of economics, politics, and social life (Ilma et al., 2025).

In the field of Islamic finance, the role of *fatwas* has become increasingly crucial, as the system seeks to avoid *riba*, *gharar*, and *maysir*—all of which require deep legal interpretation. The *Shariah Supervisory Boards* of various Islamic banks and financial institutions in Bangladesh function as interpreters who translate *fiqh* principles into modern economic mechanisms (Fahim, 2020). The *fatwas* issued by the *ulama* on these boards determine whether a financial product complies with Sharia law. For instance, the structure of contracts such as *murabahah*, *ijarah*, and *musharakah* is defined based on the legal guidance derived from the *ulama's* *ijtihad*. In this context, the authority of the *ulama* is not only normative but also plays a constructive role in shaping legal frameworks and practical policies that affect the national economic landscape.

However, dilemmas arise in the application of *fatwas* at the institutional level. On one hand, *fatwas* serve as sources of moral legitimacy that ensure Sharia compliance; on the other hand, diverse interpretations among *ulama* can lead to inconsistencies in practice. Some financial institutions may even market products under the “Sharia-compliant” label without fully adhering to the strict principles of Islamic law. This raises concerns about the extent to which *ulama* independence can be maintained when operating under market and regulatory pressures that are often pragmatic. This dilemma reveals a persistent tension between the idealism of Islamic law and the profit-oriented realities of the financial industry (Ullah, 2014).

Furthermore, the relationship between *fatwas* and the state also becomes a determining factor in Sharia compliance. The Bangladeshi government, through the Central Bank (Bangladesh Bank) and the Financial Services Authority,

recognizes the importance of Sharia supervision but has yet to provide a fully independent legal framework for *ulama* authority. The National Shariah Board does not possess binding legal power as in Malaysia, resulting in Islamic financial institutions operating under varying compliance standards. Under these conditions, *fatwas* serve primarily as ethical and moral guidelines rather than formal legal instruments. Nevertheless, their influence on public trust remains substantial, as people often assess the legitimacy of financial institutions based on the reputation of the *ulama* who issue their *fatwas* (O'Brien, 2021).

In social practice, *ulama* authority also faces challenges in maintaining the authenticity of *fatwas* amid legal modernization. Some academics argue that certain *fatwas* remain overly conservative and insufficiently adaptive to contemporary economic needs, while others caution that excessive modernization could blur the fundamental values of Sharia. This debate reflects the ongoing dialectic between classical *fiqh* and *maqasid al-shariah* within the context of modern economic law. The *ulama* must navigate between textual fidelity (*nass*) and practical necessity (*maslahah*), a balance that demands deep scholarly competence and heightened social sensitivity.

In the context of Sharia compliance, *fatwas* also serve as a mirror of the social legitimacy of the *ulama* in the modern era. As urban Bangladeshi society becomes increasingly exposed to the global economy, there is a growing need for guidance that clarifies the position of Muslims within complex economic activities. *Ulama* issuing *fatwas* on insurance, stock investment, and digital financial products play a crucial role in providing moral direction for the community. A *fatwa* thus functions not only as a legal verdict but also as a tool for education and the transformation of religious consciousness. Consequently, the authority of the *ulama* is not merely normative but also pedagogical and socio-economic (Mahmud et al., 2024).

Nonetheless, *ulama* authority is not immune from criticism. In Bangladesh, debates persist between reformist groups advocating for methodological renewal in *fatwa*-making and traditionalist groups emphasizing classical authority. Reformists argue that many *fatwas* have yet to adequately address developments in financial technology, such as fintech and digital currencies. Meanwhile, traditionalists maintain that overly rapid change could threaten society's moral stability (Hossain & Jamil, 2022). This intellectual debate enlivens contemporary Islamic legal discourse, demonstrating that *ulama* authority remains a critical arena in defining the trajectory of Islamic law.

At the academic level, studies on the role of *fatwas* in Sharia compliance are essential for understanding the interaction between Islamic law, financial institutions, and state regulation. Recent research shows that the effectiveness of Sharia compliance largely depends on the consistency and credibility of *ulama* authority. If a *fatwa* is perceived as influenced by economic or political pressures, public confidence in the Islamic financial system declines. Conversely, when *ulama* demonstrate independence and deep scholarship, *fatwas* become symbols of justice and integrity that strengthen the position of Islamic law in public life.

In empirical practice, the role of *ulama* within Islamic financial institutions in Bangladesh reflects a growing trend toward professionalization. Many *ulama* now receive training in economics and finance to develop a comprehensive understanding of the industries they oversee. Collaboration between *fuqaha* (Islamic jurists) and Muslim economists has become a new trend in ensuring that Islamic law remains relevant to contemporary needs. This innovation demonstrates that Sharia compliance is not merely a legal doctrine but also an ongoing process of social and intellectual adaptation.

The Dilemma of Sharia Compliance: Integrating Principles, Practices, and Regulations

Sharia compliance has become one of the most significant issues in the contemporary Islamic legal and economic system. In the global context, particularly in Muslim-majority countries such as Bangladesh, adherence to Sharia principles is not merely a symbol of religious identity but also serves as a measure of moral integrity and legal legitimacy for institutions that claim to be based on Islamic values (Alfauzi, 2020). However, a dilemma arises when the ideal principles of Sharia—derived from divine revelation—must be integrated with economic practices and regulations rooted in modern legal systems that are often secular in orientation. This tension between divine norms and worldly regulations creates an ongoing debate over how far Islamic law can be adapted without losing its essence.

Historically, the idea of Sharia compliance emerged from efforts to revive ethics and justice within an economic system perceived as overly capitalistic. Principles such as the prohibition of *riba* (usury), the obligation of justice (*‘adl*), transparency, and social responsibility form the core of this system. Ideally, Islamic financial institutions should not only pursue profit but also promote equitable welfare (Alam et al., 2023). In practice, however, many institutions face dilemmas between the moral idealism of Sharia and the demands of a highly competitive market. As Islamic financial products enter the global arena, the question arises: can Sharia compliance be maintained without sacrificing economic efficiency?

In Bangladesh’s empirical practice, the dilemma of Sharia compliance is clearly visible in the structure of Islamic financial institutions operating within a pluralistic national legal system. On one hand, the Central Bank of Bangladesh provides general guidelines for Islamic banking; on the other hand, Sharia compliance supervision is delegated to each institution’s own Sharia Board (Ahmad, 2022). This lack of integration has led to disparities in the application of Sharia principles across banks. Some institutions strictly implement *murabahah* or *mudarabah* contracts according to *fiqh*, while others take a more pragmatic approach to align with fiscal and capital market regulations (Kabir Hassan, 1999). This demonstrates that Sharia compliance is not only a theological issue but also a managerial and institutional one.

Furthermore, the Sharia compliance dilemma reflects an epistemological issue in understanding the relationship between divine law (*Sharia*) and human law (*qanun*). Sharia is absolute and ideal, whereas *qanun* is contextual and dynamic. When these two domains intersect within modern economic practice, challenges arise in determining the limits of Islamic legal flexibility. Should Sharia interpretation be adjusted to contemporary economic contexts, or should it remain faithful to classical formulations? This question lies at the heart of debates between traditional scholars who advocate legal purification and modern Islamic economists who call for contextual adaptation.

This situation is exacerbated by the absence of uniform national regulations on Sharia supervision. The Shariah Supervisory Boards in Bangladesh play an important role but their authority is limited to their respective institutions. Unlike Malaysia, there is no national authoritative body such as a Shariah Advisory Council capable of unifying *fatwas* and regulations. As a result, dual interpretations often emerge, creating confusion in practice. This phenomenon not only undermines the credibility of Islamic financial institutions but also raises a fundamental question: to what extent is Sharia compliance truly a guiding principle, rather than a symbolic label used to attract public trust (Yusoff & Islam, 2024)?

Beyond regulatory factors, the dilemma of Sharia compliance also stems from global economic pressures. Islamic financial institutions are required to compete with conventional institutions in terms of efficiency, liquidity, and profitability (Hazri, 2020). In this situation, some institutions tend to engage in “Sharia engineering” by wrapping conventional products in Islamic terminology such as *mudarabah* or *murabahah*, even though their essence remains largely the same. This phenomenon, known as “form over substance,” preserves the outward form of Sharia while neglecting its ethical substance. Ironically, such practices contradict the spirit of *maqasid al-shariah*, which emphasizes justice, transparency, and societal welfare (Alfauzi, 2020).

At the practical level, many Islamic financial institutions struggle to develop human resource capacity that understands both *fiqh* and modern economics. The shortage of professionals with dual competencies creates a gap between theory and practice. *Ulama* often possess deep knowledge of legal aspects but lack understanding of global economic dynamics, while Muslim economists comprehend market mechanisms but are less sensitive to Sharia principles. This dilemma highlights the need for more integrated education and training to cultivate professionals capable of bridging Islamic legal idealism with modern economic realities.

Beyond institutional aspects, the dilemma of Sharia compliance also carries social dimensions. In Bangladesh’s increasingly plural and modern urban society, perceptions of Sharia compliance are often tied to an institution’s moral image rather than a substantive understanding of *fiqh*-based contracts. For many people, Islamic banks are perceived as more “Islamic” without a real understanding of how Sharia principles are implemented operationally (Bhuiyan,

2017). This lack of awareness allows financial institutions to use religious terminology for commercial purposes. In this context, transparency becomes essential to ensure that Sharia compliance does not remain a symbolic formality but is rooted in the true ethical substance of Islam.

From the perspective of *maqasid al-shariah*, the dilemma of compliance is not merely a matter of legal correctness but also concerns the moral and social objectives of every economic policy. Fundamental principles such as the protection of wealth, social justice, and public welfare should serve as the foundation of every business decision. When Islamic financial institutions pursue profit without considering social impact, the true spirit of Sharia is reduced to an administrative procedure (Ahmed & Mohamad, 2019). Therefore, the integration of principles, practices, and regulations must occur within the *maqasid* framework to preserve the philosophical essence of Sharia compliance.

The next challenge lies in building a regulatory system capable of bridging the gap between Sharia idealism and modern economic practice. This requires synergy among *ulama*, academics, regulators, and industry practitioners to develop comprehensive joint guidelines. In Bangladesh, efforts toward this direction have begun through initiatives to establish a National Sharia Council that coordinates *fatwas* across institutions. However, the success of this initiative depends on the independence of the *ulama* and the government's commitment to granting autonomy in Sharia supervision.

From a global perspective, the integration between Sharia principles and regulatory frameworks represents a transnational challenge. Each jurisdiction adopts a different approach to Sharia compliance. Malaysia emphasizes centralized regulation, while Bangladesh and Pakistan delegate authority to individual institutions (Shahriar, 2025). This results in the fragmentation of international Sharia standards, which in turn hampers the consistency of the Islamic finance industry. Harmonizing standards through organizations such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board) is therefore a strategic step toward resolving this dilemma.

CONCLUSION

The conclusion of this study shows that the dilemma of Sharia compliance in Bangladesh stems from the tension between the ideal principles of Islamic law and the reality of its implementation within a plural national legal system. Although the Constitution of Bangladesh recognizes Islam as the state religion, the application of Sharia in the public and institutional spheres remains heavily influenced by the legacy of British colonial law, secular political agendas, and global economic pressures. As a result, Sharia compliance often remains symbolic and normative, failing to reach a substantive level within both the legal framework and the social practices of urban communities and Islamic financial institutions.

Nevertheless, this study also finds that there are systematic and continuous efforts by various stakeholders—particularly scholars, academics, and Islamic financial institutions—to integrate Sharia values into the governance of national law and the economy. This dynamic demonstrates that Sharia compliance in Bangladesh is not merely a legal issue but also a reflection of the struggle for Islamic identity within a modern nation-state system. Therefore, this study contributes to enriching contemporary Islamic legal discourse by highlighting the need for an empirical and adaptive approach so that Sharia principles can be implemented authentically, relevantly, and contextually within Bangladesh’s national legal framework.

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