

The Reality of Islamic Microfinance in the Bangladesh Islamic Bank

MESSAH Ouafae^{1*}, BESSACHI Houda²

¹ University of Medea, (Algeria), e-mail: ouafae.messah@gmail.com

² University of Medea, (Algeria), e-mail: nadalward72@gmail.com

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Abstract:

This study aims to present the reality of Islamic microfinance in the Bangladeshi Islamic Bank by diagnosing the methodology and policy of working rural and urban development schemes whose goal is to fight poverty and achieve development and social justice. related to Islamic microfinance and finally presenting the reality of providing this financing industry by giving a specialized view of the policy and methodology of the work of development plans.

The study concluded that the bank presented a successful institutional model in providing Islamic microfinance through what was demonstrated by the performance of schemes that succeeded in increasing the number of beneficiaries and providing them with financing and graduating them to self-reliance, which is what is required

Keywords: *Bangladesh Islamic Bank, Islamic Microfinance, Rural, and urban development plans, reality.*

1. INTRODUCTION

Bangladesh is a developing country rich in natural and human resources, and despite the availability of this enormous potential, the majority of the country's population lives in extreme poverty, and a huge group is an active young force, with efficiency and vitality, but they cannot raise the level of their social and economic status due to poverty and lack of financial support.

Hence, microfinance has been recognized as a major contributor to poverty reduction, as this sector has witnessed a tremendous transformation in all aspects. The most important of these changes is the spread of microfinance through a large number of microfinance institutions, as well as international recognition of microfinance in the form of the Nobel Peace Prize for Bank of Grameen and its founder, Professor Muhammad Yunus, in addition to simulating the methodology of the microfinance model in

*Corresponding author

Bangladesh with or without differences in many countries.

In contrast to all of the above, Bangladesh had a long history in the field of Islamic banking services, through which it achieved an important role in mobilizing resources and financing the main sectors of the economy. From here, we tried to address the experience of the Islamic Bank of Bangladesh, which had an exemplary experience in providing this financing industry by adopting development plans that had an impact on the living standard of the poor and turning them into productive elements of benefit rather than being a burden on society and the state. Hence, we raised the problem next:

What is the reality of Islamic microfinance in the Bangladesh Islamic Bank through introducing the methodology of the adopted development plans?

2. ISLAMI BANK BANGLADESH LIMITED

2.1. About the Bank:

Bangladesh Islamic Bank Limited is a leading Islamic bank in Bangladesh that was established on March 13, 1983, as the first Islamic bank in Southeast Asia (Azharuddin, 2015, p. 03), The idea started in 1981 when the President of the Republic of Bangladesh delivered a speech at the Third Islamic Summit Conference held in Makkah Al-Mukarramah, where he suggested in his saying: "Islamic countries should develop their separate banking system to facilitate their trade." Under the Companies Act of 1913, it started its operations on March 30, 1983, with a large share of foreign entrepreneurs (Internship report on human resource management, p. 12), About 63.09% of foreign shareholders own 332 branches all over the world, its authorized capital is 20000 million takas and paid-up capital is 16090.90 million takas with 33,686 shareholders and it has nearly a quarter of the clients of Islamic banks around the world, and it also manages about 50% One of the Islamic microfinance in the world and plays an important role in financing small and medium enterprises and has been ranked among the top 1000 banks in the world (Tarikulislam, 06/03/2018, pp. 16-17). The most important of these elements can be summarized in the following table:

Table N⁰(01): Bank Structure

Name of company	Islamic bank bang laddish limited
Legal Status	Public Limited Company
Bangladesh Bank License	Dated March 13, 1983
Line of Business	Banking
Total Branch	384
Employees	19193
Directors	20
Shareholders	30126

Local Shareholders	57.57%
Foreign Shareholders	42.43%

Source: (annual report, 2021, p. 41)

2.2. Bank Characteristics:

Among the most important special features of Bangladesh Islamic Bank Limited are the following:

- All activities are carried out on an interest-free system in accordance with the principles of Islamic law;
- Investments are made through various methods in accordance with Islamic law;
- The investment income of the Bank is shared with the Modaraba depositors according to an agreed-upon ratio that guarantees a reasonable rate of return on their deposits;
- It aims to provide a social welfare system and also to establish equity and justice in the field of economic operators;
- Inclusion of social, economic, and financial services for individuals of all economic backgrounds, with a commitment to raising the standard of living in rural areas (History of Islami Bank Bangladesh Ltd, 2019).

3. ISLAMIC MICROFINANCE

3.1. The concept:

To understand Islamic microfinance, we need a minimal understanding of the principles on which Islamic finance is based. Four principles derived from the Shariah laws (Islamic jurisprudence) and are seen by most scholars to form the core of modern Islamic finance are important for Islamic microfinance:

- ♣ The prohibition of interest;
- ♣ Risk-sharing: lenders share in the profits and the losses of the business they fund;
- ♣ Calculations of the time value of money shed light on the wisdom behind banning riba;
- ♣ The prohibition of Gharar: gharar means uncertainty or ambiguity created by the lack of information or control in an economic transaction. (Dhaoui, 2015, p. 04).

Before discussing the concept of Islamic microfinance, it is necessary to know the concept of microfinance Parker defines him as “the provision of small amounts of credit to the poor who usually fall outside the formal banking sector...” Microfinance is also defined as “the provision of loans, savings, insurance, and other basic financial services to low-income populations.” Similarly, Asian Development Bank defines it as "...the

provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises." Ledgerwood (1999) defined it as "the provision of financial services to low-income clients, including self-employed, low-income entrepreneurs in both urban and rural areas. "Since our interest here is Islamic microfinance, we will try to define it within an Islamic framework. Therefore, Islamic microfinance can be defined as an investment of capital (in cash or in-kind), based on Islamic modes of finance, to low-income clients and low-income entrepreneurs to help them start or maintain their businesses (edibsmolo, 2012, pp. 9-10).

3.2. Islamic Microfinance Products:

Islamic microfinance is considered an alternative to Islamic banks for vulnerable people who cannot afford banks' fees. Also, it can be a better choice than deleting the informal market, which is an unsecured and risky domain. The effective use of financial products can reduce poverty and enhance income, especially through mudharaba and musharaka. The main products offered by microfinance institutions are micro-Murabaha, micro-saving, micro-takaful, Qard Hassan, and remittances. Islamic microfinance can increase financial inclusion through the products they offer which also can reduce poverty enormously. The products available in Islamic microfinance can be used by Muslims as well as non-Muslims. Only when those products are used effectively in economic activities, then the income level of beneficiaries will increase (Vatimetou & Anwar Hasan, 2021, p. 226).

4. The reality of Islamic microfinance in Bangladesh Islamic Bank:

Bangladesh suffers from high poverty rates, and a huge population density, and the country's economy is built on an agricultural basis, in which the vast majority live in rural areas, which made the Bank adopt microfinance through a program aimed at reducing rural poverty and raising the income of its residents under the name of the Rural Development Scheme RDS (rural development scheme) In addition to launching another program to expand microfinance activities to include the urban poor under the UPDS (urban poor development scheme) development plan.

4.1. rural development scheme:

♣ **rural development scheme:** The Islamic Bank of Bangladesh Limited launched a program called the Rural Development Scheme in 1995, where the main objective of this scheme was to alleviate poverty by providing financing to start small investments and projects based on Islamic law. From poverty and raising the status of women, but it was based on interest, which is completely prohibited in Islam, which made the bank develop

Islamic microfinance through the rural development scheme according to the Grameen Bank model, but the difference between them is that the rural development scheme offers microfinance programs based on full participation and its reliance, especially on Murabaha and deferred sale (Mizanur & m. jafrulah, 2008, pp. 140-141)

♣ **Work strategy in the rural development plan:** The work in the rural development plan simulates the work strategy in Grameen Bank, as it depends on the formation of the group and the centre, as the group is formed first and then the centre, in addition to the presence of a field supervisor who is responsible for supervising 40 groups or 200 members. Appointed a few months before the formation of the group and the start of investment activities, preferably a local person, as the entire activity of the scheme is coordinated and managed from a branch office of the bank by an employee responsible before a committee chaired by the branch manager of the bank, and this official, in turn, supervises the activities of the field supervisors and gives them instructions and suggestions. In the implementation of projects, he attends meetings, organizes the training of group members, ensures through field supervisors that group members attend weekly meetings, and closely monitors the disbursement of funds and payment of weekly instalments and savings deposits in a timely manner as well as the extent of compliance with rules and regulations by members of the group (Saiful Islam, 2016, p. 53).

♣ **Types of investment products:** The Rural Development Scheme provides two types of investments to the beneficiaries represented by micro-investment: unsecured financing with a maximum of 100,000 takas for members of the rural development scheme, or investment in small enterprises with a security guarantee and a maximum of 500,000 takas for small clients and graduates. Newcomers and others who wish to set up small enterprises, provide good loans to the extremely poor, and try to integrate them into social welfare activities with values up to 5,000 takas, and grants up to 10,000 takas for rehabilitation purposes due to natural and social disasters (annual report, 2017, p. 122).

♣ **The basic and organizational steps of the rural development scheme:** The basic principle of the scheme is to rely on the group's approach to all activities, and the most important steps taken within the rural development scheme to grant microfinance can be summarized as follows (thowhidulislam, 2018, p. 62):

- Select villages within a radius of 10 km from the branch;
- Conducting a basic survey to identify the members of the target

group, Forming small groups of 05 members, preferably from the same professions;

- Select group members, their leader, and their deputy to coordinate group activities;
- Official recognition of the group by the branch manager through the issuance of books;

Formation of centres consisting of 02 to 08 groups.

- The group leaders choose the leader of the centre and his deputy to coordinate the activities of the centre;
- The centre held regular weekly meetings;
- All centre meetings are recorded with the signature of members and attendance at the centre meeting is a prerequisite for being a reliable client.

4.2. urban poor development scheme:

♣. **Urban poor development scheme:** Bangladesh Islamic Bank Limited launched a new plan in 2012 under the name Urban Poor Development Scheme to ensure equality and justice in all economic activities (thowhidulislam, 2018, p. 64)

♣. **Its objectives** (History of Islami Bank Bangladesh Ltd, 2019): - Alleviating urban poverty through investment in income-generating activities;

- Improving the standard of living of the urban poor, especially slum dwellers;
- Helping improve the environment of the poor;
- Improving the health and educational status of the urban poor, especially children and women;
- Reducing the level of crime and comprehensive violence to develop moral and religious values.

4.3. A look at Islamic microfinance in the Bank through diagnosing the work of rural and urban development plans:

As one of the first countries to adopt microfinance, Bangladesh was also one of the first countries to introduce Islamic microfinance (allen & overy, 25 February 2009, p. 21), There are also many clients of Islamic microfinance in Bangladesh, and it is usually provided by Islamic banks and microfinance institutions, as well as through programs for Islamic microfinance provided by traditional microfinance institutions, where Islamic banks are subject to the supervision of the Central Bank of Bangladesh, while Islamic financial institutions Microfinance has licenses from Microcredit Regulatory Authority which is the microfinance watchdog body in Bangladesh (Md.

Harun, jashimuddin, & shah asadullahmohd, 2018, p. 73) Accordingly, we will try to provide a specialized view of the reality of this industry in the Islamic Bank of Bangladesh Limited, which is the largest provider of Islamic microfinance in Bangladesh.

♣ **Performance under the Schemes at a glance as on 31.12.2021:**

Table N0(02): The number of branches and members of the schemes until 2021

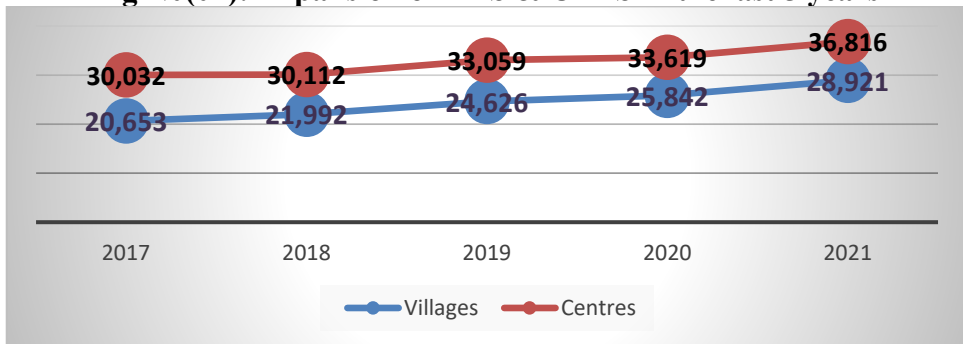
Particulars	2019	2020	Increase/ Decrease	2021	Increase/ Decrease
Designated Branches	295	306	11	319	13
Member	1,253,512	1,323,705	70,193	1,469,362	145,657

Source: (annual report, 2021, p. 103)

Rural and urban development schemes operate with a total of 319 branches, and the number of members involved in these schemes reached 1469,362 members, which indicates the Bank's desire to expand the scope of these schemes to achieve its purpose of contributing to raising the income of the population and reducing poverty rates.

♣ **The extent of the application of development plans through the number of targeted villages:** the following figure explains the development of the number of targeted villages

Fig N0(01): Expansion of RDS & UPDS in the last 5 years

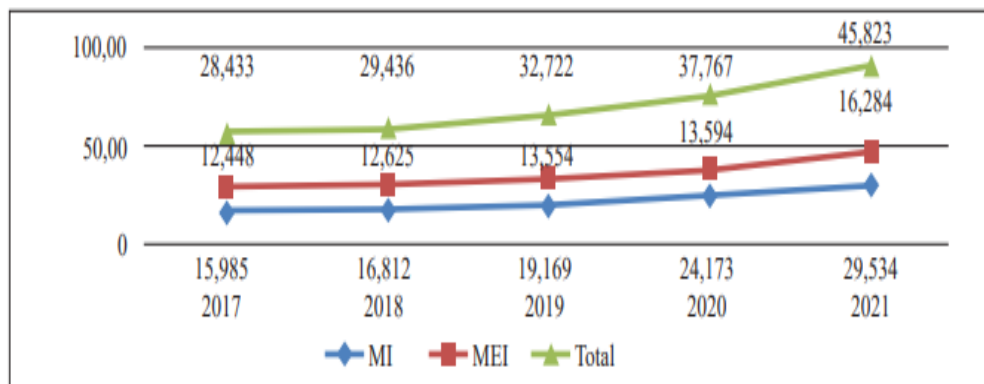


Source: (Prepared by researchers, 2021, p. 103)

Islamic microfinance programs seek to expand the circle of benefit from their services and products through the development of the number of targeted villages, which contributes effectively to fighting poverty and achieving an acceptable spread by reaching the poorest and smallest villages, which is reflected in the number of targeted villages, which reached 28,921 by the end of 2021. As for the increase in the number of centres, it is Linked to the increase in the number of beneficiaries because the centre is formed by a number of groups of beneficiaries and members of the Islamic microfinance program. These elements confirm the bank's desire to achieve the maximum possible spread.

♣ **Amount of financing granted by type of investment:** We have already mentioned that the bank relies on two types of investment: micro-investment (MI) and Micro-Enterprise Investment (MEI), each with its own conditions and financing ceiling:

Fig N (02): The amount of prohibited financing according to the type of investment (Amount in million Taka)



Source: (Prepared by researchers, 2021, p. 104)

The volume of Islamic microfinance granted for the year 2021 amounted to 45,823 million takas, including 16,284 million takas in the form of micro-investments and 29,534 million takas in the form of investment in small enterprises to achieve the bank's policy of supporting small enterprises by accompanying the beneficiaries and graduating them from small investments to establishing institutions they are own small.

♣ **Evolution of the number of beneficiaries:** We will try to address the evolution of the number of beneficiaries according to the type of investment by presenting the following data:

Table N0(03): Evolution of the number of beneficiaries according to the type of investment

Particulars	2017	2018	2019	2020	2021
MI Clients	573,076	537,824	593,235	618,102	705,912
MEI Clients	84,309	87,708	93,999	89,388	92,534
Total Clients	657,385	625,532	687,234	707,490	798,446
% Of recovery	/	/	99,36	98,81	98,93

Source: (annual report, 2021, p. 104)

The previous table explains the evolution of the number of beneficiaries of Islamic microfinance, as their number reached 798,446 beneficiaries at the end of 2021, where the category of beneficiaries is largely concentrated in small investments compared to the second type of investment, and this is due to the nature of the category beneficiary of this type of financing which is mostly made up of the poor and limited income, With high

recovery rates of more than 90%, which confirms the eligibility of the poor to obtain financial services, but they only need accompaniment and support.

5. Conclusion:

Bangladesh, like other countries, seeks to combat poverty and unemployment, which made it include microfinance in its policies and strategies, this interest, which was reflected in the success achieved by Grameen Bank when it introduced this financing industry, this experience that won international recognition from various bodies, this recognition that culminated in the Nobel Prize in 2005.

On the other hand, there are many Islamic finance clients in Bangladesh. This category has not been targeted by this type of financing due to its reliance on interest. In the face of the increasing demand, the thought was to provide microfinance with an Islamic character that relies on the principles of Islamic Sharia, especially in light of the compatibility between the principles of financing. Miniature and the principles of Islamic law

And when the Islamic Bank of Bangladesh was considered the largest provider of Islamic microfinance, we tried to diagnose the reality of this experience and explain the policy and methodology of the bank's work in this field, which reached the following results:

- Bangladesh Islamic Bank Limited is the first Islamic bank in Southeast Asia and manages 50% of the world's Islamic microfinance and has been ranked among the top 1000 banks in the world.

- The concept of Islamic microfinance refers to providing in-kind or cash financing to the poor or providing them with other financial services such as insurance, savings, and transferring money in formats that are in accordance with Islamic Sharia

- The Bank's adoption of Islamic microfinance through a program aimed at reducing poverty in the countryside and raising the income of its residents under the name of the rural development scheme, as well as expanding its activity to include the urban poor under the development plan for the urban poor UPDS.

- Increasing the number of branches and the number of members participating in the development plans programs, which confirms the bank's desire to expand the scope of this activity to increase the contribution to income and reduce poverty rates

- These schemes seek to expand the scope of benefiting from their services by increasing the number of targeted villages and achieving an acceptable spread by reaching the poorest and smallest villages.

- The bank's reliance on two types of investment micro-investments and investments in small enterprises
- The volume of Islamic microfinance granted at the end of 2021 reached 45,823 million takas on two types of investment in an attempt to lift the poor out of the cycle of poverty and graduating them to the cycle of production and self-reliance.
- Recording high recovery rates exceeding 90% confirm the eradication of the prevailing belief that the poor are not entitled to benefit from financial services.

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