

Poverty Alleviation Scheme of IBBL through RDS in Relation with Brac: A Comprehensive Analysis.

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Abstract

Banking plays an important role in the economy of any country. In Bangladesh many banking and non-banking organization trying to alleviate poverty by their own strategy. The aim of the study was to observe the way IBBL is conducting poverty alleviation scheme through Rural Development Scheme (RDS) operation under Islamic framework in relation with conventional organization BRAC. In this attempt I tried to know how Islamic banking RDS activities differ from that of a conventional organization BRAC and also to see how Islami Bank contribute to render financial services to the poor efficiently. By discussing specifically the RDS operations of IBBL, the researcher tried to discover how the bank provides banking services in interest-free and Sharia approved method and holds the first position in terms of social welfare business. This paper discusses and makes recommendations on the more pertinent of these issues.

Key Words: Poverty Alleviation, RDS, Scheme, IBBL, BRAC.

1. Introduction

Bangladesh with its 38% people living below poverty line and 18% living in absolute poverty is suffering from acute rural-urban economic disparity coupled with illiteracy, lack of proper health and agro facilities. The country's economy is basically an agrarian one with vast majority living in rural areas. The agriculture sector is unable to provide any further scope for employment resulting in influx of rural population towards urban areas. Rural areas are characterized by stagnant agriculture and scanty industries. Underemployment and unemployment is a regular phenomenon particularly in rural areas. The vast human resources

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have remained unutilized due to lack of education, proper training and concerted efforts to help grow the rural economy. It results in uneven distribution of income which causes serious setback in balanced geographical growth as well as growth of GDP. This paper presents a comparative review of Microfinance and Rural Development operations, of Islamic Bank Bangladesh Limited (IBBL), Sharia based banking organization and BRAC, financial & social services offered by traditional microfinance institution in Bangladesh. The review was undertaken in October 2016. The major topics discussed in this paper are: evolution and structure of poverty status of Bangladesh, outreach of microfinance services, market segments and products of MFIs and RDS, comparison of RDS performance of IBBL and BRAC and their impacts on poverty alleviation.

2. Objectives of the Study

The specific objectives of this study are:

- i. To evaluate poverty status of Bangladesh and reasons behind there.
- ii. To comparison between Islamic and Conventional RDS.
- iii. To examine RDS performance of IBBL & BRAC.
- iv. To investigate reasons for discouragement of Interest on RDS even overall economic systems.
- v. To provide some suggestions to enhance RDS for both organizations.

3. Methodology and Limitations of the study

The study is conducted only based of secondary data and these data are collected from annual report of IBBL and BRAC (2012-'15), company's corporate profile, daily newspapers, different journals & articles, bank's websites and Asian development Bank's websites. The data are analyzed in aspect of practices and performance of RDS. Actually I did interview only two executives for conducting the study. The findings of the study are reliable as the authentic sources of data. The major limitation of the study is that not much primary data is involved in the study.

4. Poverty Alleviation Scheme of Bangladesh

4.1 Poverty Status

Since gaining independence in 1971, Bangladesh has increased its real per capita income by more than 130 per cent and cut poverty by more than half. It is now well positioned to achieve most of its Millennium Development Goals, but it remains a low-income country with substantial poverty, inequality and deprivation.

Table-1: Poverty Statistics of Bangladesh

Poverty statistics of Bangladesh	
Number of Population	157.90 million
Population lives bellow national poverty line	31.5%
Employed population aged 15 years and above	56.6%
Number of rural population	1.10 million
Below poverty line	35%
Moderately poor	29%

Source: Basic Statistics 2016, Asian Development Bank

One of the main causes of rural poverty is due the country's geographical and demographic characteristics. A large proportion of the country is low-lying, and thus is at a high risk to flooding. Many of the rural poor live in areas that are prone to extreme annual flooding which cause huge damage to their crops, homes and livelihoods. In order to rebuild their homes, they often have to resort to moneylenders, and that causes them much poorer. In addition, these natural disasters also cause outbreaks of waterborne and diarrheal diseases which will affect them physically and lower their productivity levels.

Another cause of rural poverty is due to the fast-growing population rate .The other causes of urban poverty are due to the limited employment opportunities, degraded environment, and bad housing and sanitation and endemic corruption and an incompetent government that does little to build infrastructure and good law.

4.2 Rural Development and Microfinance

4.2.1 Rural development means improvement in the wellbeing of the people living in rural space. If the livelihood improvement brings into its fold, people who lack capabilities to meet the basic needs, rural development would encompass poverty reduction. Both agriculture and non-farm activities are the means to achieving rural development.

4.2.2 Microfinance is a type of banking service that is provided to unemployed or low-income individuals, or groups who otherwise have no other access to financial services. Ultimately, the goal of microfinance is to give low-income people an opportunity to become self-sufficient by providing a way to save money, borrow money and get insurance. But in conventional way interest rate of loan is very high that sometime causes them to fall deeper poverty. Our main focus is in to some ways that will make easier the paths of poverty alleviation.

4.3 Islamic Microfinance versus Conventional Microfinance

Islamic microfinance represents “the confluence of two rapidly growing sectors: microfinance and Islamic finance” (CGAP, 2013). As Islamic finance sector, refers to financial system based on Sharia’. The strict prohibition of paying or receiving any fixed interest (riba) is the most widely known feature of this financial system. Therefore, Islamic microfinance institutions should operate on the basis of profit. In the vein of Islamic banks, these institutions can earn profits in three areas:

- Trading
- Leasing
- Direct financing in Profit Loss Sharing (PLS) contacts

Supporters of Islamic alternatives to conventional microfinance argue that the provision of equity financing via products which are conform to Islamic religious law (Sharia’), will promote the social condition of local Muslim communities. Using a sample of Islamic MFIs operating in Bangladesh, it has founded that Islamic MFIs have performed better than a well-established conventional microfinance institution. **Zakah** and **Sadaqah** as instruments of charity occupy a central position in the Islamic scheme of poverty alleviation. (IBBL, RDS Model)

Table 2 Comparison between Conventional and Islamic Microfinance Institutions

Items	Conventional MFI	Islamic MFI
Liabilities (Source of Fund)	External Funds, Saving of client	External Funds, Saving of Clients, Islamic Charitable Sources (Zakat, Waqf)
Asset (Mode of Financing)	Interest-Based	Islamic Financial Instrument
Funds Transfer	Cash Given	Goods Transferred
Deduction at Inception of Contract	Part of Funds deducted as Inception	No deduction at Inception
Target Group	Women	Family
Work incentive of employees	Monetary	Monetary and Religious
Dealing with default	Group/center pressure and threat	Group center, Spouse Guarantee and Islamic Ethic
Social Development Program	Secular, behavioral, ethical and social development	Religious (includes behavior, ethics and social norms)

At present time there are two banking systems are running in Bangladesh (Islamic and conventional). Islamic banking system still is a new concept. Most of the people know a little about Islamic banking system. We had an intention to analysis the activities in association with a comparison between two banking systems operating in Bangladesh for poverty alleviation.

Table-3: Comparative figures of RDS of IBBL and Conventional RDS

RDS of IBBL	Conventional RDS
IBBL's does not do the business on items harmful for societies through there are possibilities to earn more profit there against	There is no justification as to whether the business is good or bad in conventional system. Earning interest is the only motive of this system.
Low rate of return, which is only 12.5% (flat)	High rate of return, which is 27%.
Gestation period is 21 days.	Gestation period is only 7 days.
Rebate of 2.5% is allowed for timely payment.	Rebate is not allowed.
Other charges are not impose to the client such as-supervisory, risk fund, pass book etc.	Other charges are impose to the client such as-supervisory, risk fund, pass book etc.

Sources: brac.net & IBBL annual Report

4.4 Performance of Rural Development Scheme up to 31 October, 2016

Islami Bank Bangladesh Limited launched its Rural Development Scheme (RDS) in 1995. In the meantime, 252 Branches of the Bank have been operating the activities of the Scheme in their respective areas. These Branches are working among the poor in 19,182 villages of 64 districts of the country. Present number of members is 972,102 since beginning the scheme. The members are provided investment facilities an amount of BDT 154,727.21 million against which the outstanding was 22,086.91 million. Rate of recovery of the Scheme is more than 99.21%. (IBBL, RDS program, 2016)

Table-4: Performance "Rural Development Scheme of IBBL" from the year 2012 to 2015 Figure in million /Taka

Particulars	2012	2013	2014	2015
Cumulative amount of disbursement from RDS	13,969.01	18,768	24,239.00	42,285.00
Outstanding Investment of RDS	2,885.00	3,012	3,752.00	7,072.00
RDS no. of A / C holder	350,278	321,484	492,475.00	608.703.00

This table shows the cumulative amount of disbursement from RDS, outstanding investment of RDS and RDS no, of account holder was increasing from 2012 to 2015. As a result the bank makes a profit and no. of account holder.

4.4.1 Savings Plan

MSA-RDS

The members of the Group have to open Mudaraba Savings Account (MSA-RDS) in their individual names with the Branch from the very inception of the Group activity. The weekly compulsory savings is minimum Tk.20.00 only.

MSS-RDS

Able members can open Mudaraba Special Savings (MSS-RDS) by depositing minimum Tk.100/- only per month.

4.4.2 Investment Mechanism

Bai-Muajjal: Investment under RDS in Bai-Muajjal mode, where actual cost, quality or suppliers of the goods cannot be determined earlier, proposed goods are purchased to the debit of Suspense A/c (Purchase A/c). After purchase of the goods and handing over the same to the clients, investment is made by adjusting Purchase A/c. In all the cases, Branch must ensure strict adherence to the banking and Sharia norms.

Musharaka: Here both parties take part in investment and all of them or particular personnel take part in management. They distribute their profit in accordance with contract. And bear losses in proportion with their investment (RDS home, 2016).

4.5 Performance of BRAC

4.5.1 Micro financings: BRAC, an international development organization based in Bangladesh, is the largest non-governmental development organization in the world. Established by Sir Fazle Hasan Abed in 1972 after the independence of Bangladesh, BRAC is present in all 64 districts of Bangladesh as well as 13 other countries. BRAC employs over 100,000 people, roughly 70 percent of who are women, reaching more than 126 million people. The organization is 70–80% self-funded through a number of social enterprises that include a dairy and food project, a chain of retail handicraft stores called *Aarong*, seed and Agro, and chicken.

BRAC's microfinance activities work through-

- A unique 'credit-plus' approach, addressing the special needs of rural women and small entrepreneurs.
- They recognize the poor and carefully customized financial products and services that best meet their varying needs.

- BRAC’s microfinance clients use financial services for a range of reasons, from funding various income-generating activities, to investing in small assets, ensuring stable cash flows for consumption, building up resilience against financial shocks, to simply saving for the future.

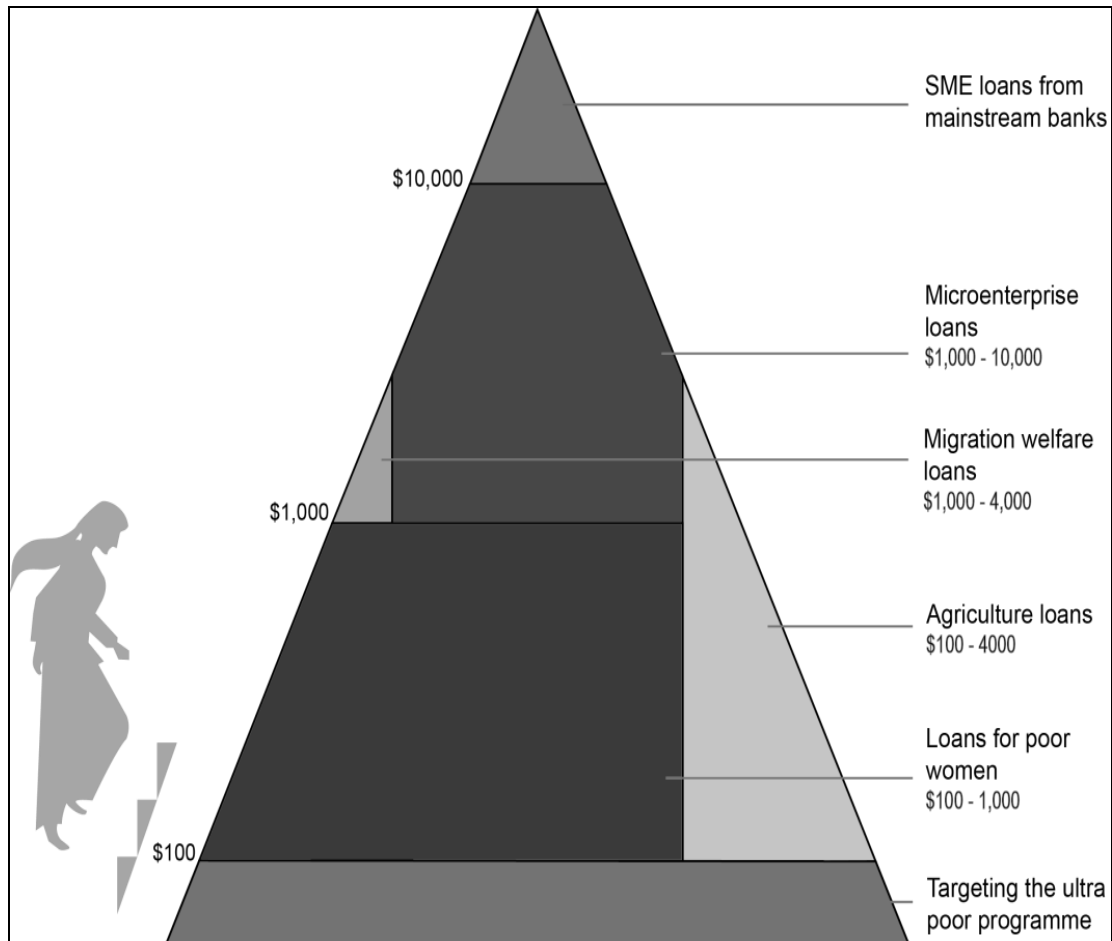


Diagram shows products available at different loan amounts and not proportions of clients reached

5. Comprehensive Analysis of RDS between IBBL and BRAC

Given these differences between Islamic and conventional MFIs regarding the sources of funds and the instruments of financing, we examine if there is difference on performance, particularly in terms of technical efficiency.

Table-5:

Topics	IBBL	BRAC
Target market or client groups	Hardcore and moderately poor, Microenterprise Marginal & small farmers Along with poor families	Not all four segments. Specially women get microfinance opportunity.
Group Management	Same	Same
Savings products and policies	Legally collect savings and offer different types of savings products.	Have mandatory an voluntary savings but generally not developed to facilitate poor
Effective rate and rebate	12% rebate 2% for timely repayment.	26% and No rebate is allowed.
Collateral Requirement	Not require except personal investment	Required

5.1 Microfinance

	IBBL	BRAC
	28,824	2,84,412
Total members	947,305	54,78,037
Total borrowers	569,820	5,165,754
Outstanding loan	20798.82 MT	USD 1.6 billion
Savings deposits	USD 86.59 million	USD 0.5 billion
Rate of Recovery	99.47%	

Table-6: Source: Annual reports 2015

5.2 RDS Investment:

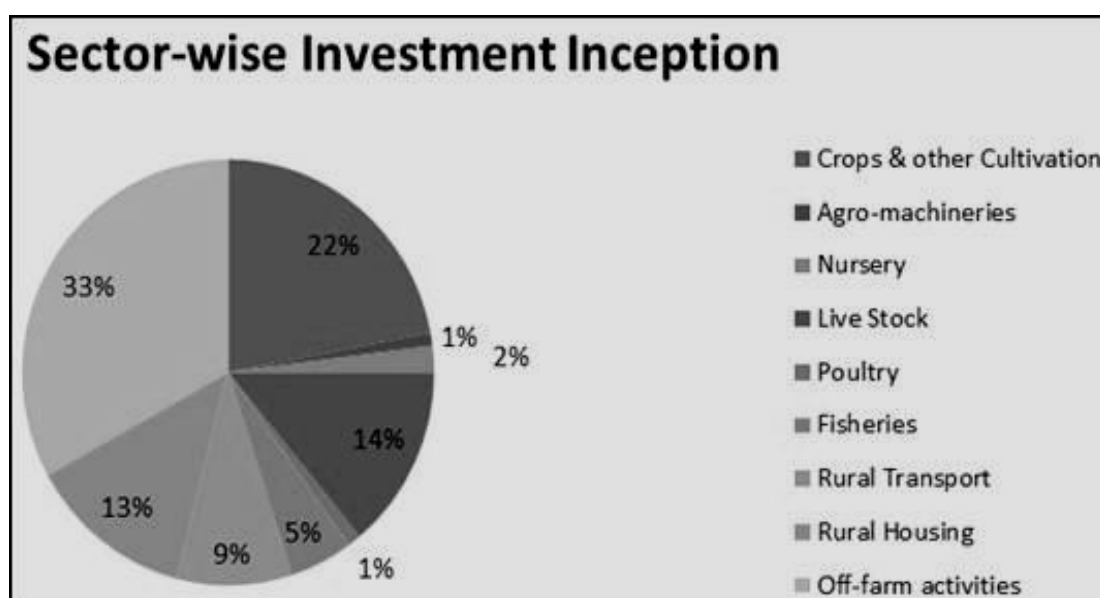
	2015(USD million)	2014(USD million)
IBBL	266.65	222.82
BRAC	1389	1098

Source: Annual reports 2015

5.3 Integrated Development approach

The purpose of the Scheme is not only providing Micro Investment facilities to the stakeholder but also ensure various types of facilities & services to the downtrodden people as a part of IDA as well as CSR. The following areas have been covered under the Scheme:

- Humanitarian Assistance Program.
- Education Program.
- Capacity building or Training Program.
- Health & Medicare Program.
- Environment protection Program etc.

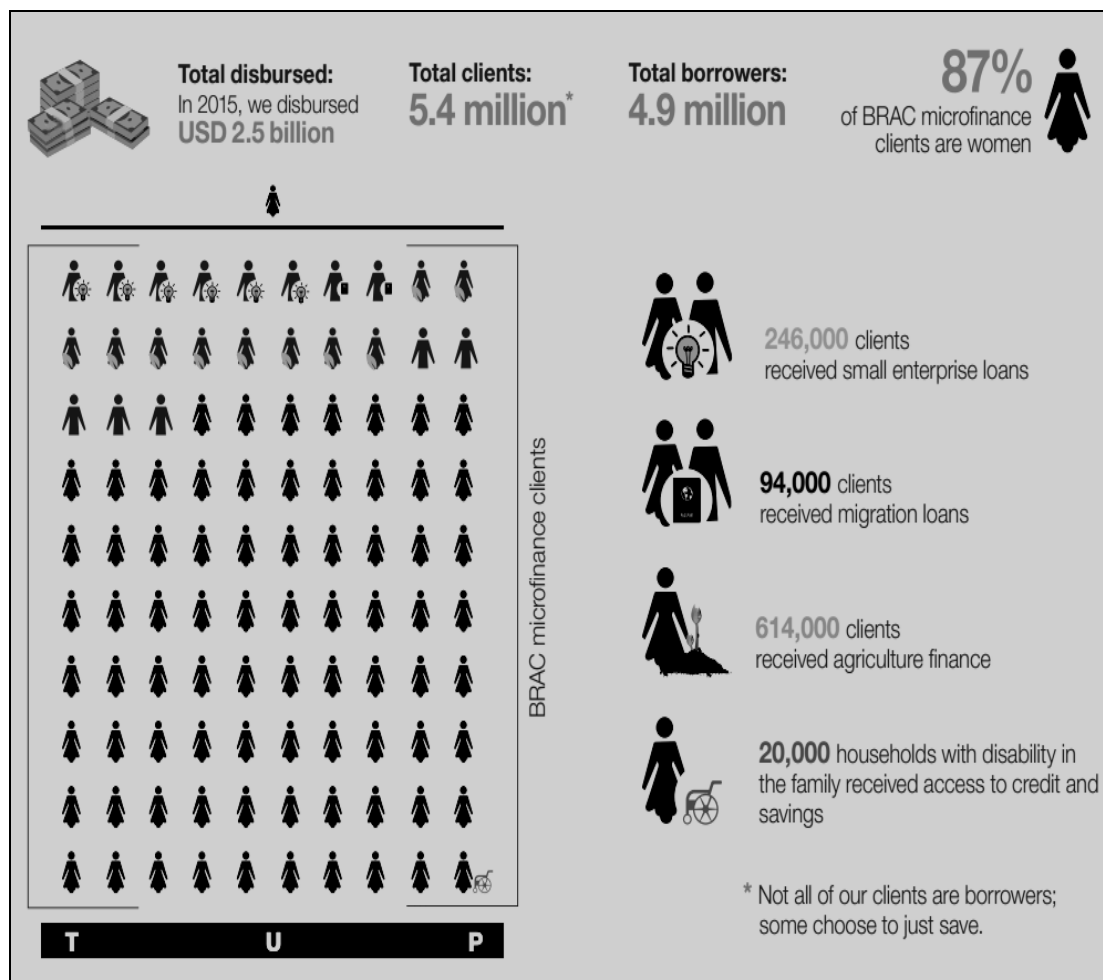


Source: Annual Report, IBBL, 2015.

Table-8: Sector wise Investment Growth: IBBL (USD million)

	2012	2013	Growth %	2014	Growth %	2015	Growth %
Education	0.35	0.61	74.29	0.65	6.56	0.73	12.31
Health	0.32	0.37	15.63	0.70	89.19	0.84	20
Agriculture	147.24	157	6.63	166	5.73	122.24	(26.36)

Source: Annual Report 2012-15



Source: Annual Report Brac-2016.

Table-9: Sector wise Investment Growth: BRAC (USD million)

	2012	2013	Growth %	2014	Growth %	2015	Growth %
Education	54.83	90.7	65	64.99	(28.35)	71.40	9.86
Health	47.58	57.16	20.13	61.82	(8.12)	58.7	(5.05)
Agriculture	3.39	6.75	99.12	6.68	1.04	4.28	(35.93)

Source: Annual Report 2012-15

5.4 Interest Rate

IBBL, naturally don't charge specific interest from RDS investment and returns are always not same. But they charge 12.5% from agriculture investment and allow 2.5% rebate for timely repayment. IBBL bear their operating and RDS welfare cost from CSR's fund.

BRAC, Microfinance providers charge 27% compound interest rates that are significantly higher than commercial banks. That high interest rate is for covering operating costs, lending. They said that they work with poor, rural communities that borrow small amounts which take longer to process. Last year BRAC's microfinance program experienced its best financial year ever. As a result, we reduced our interest rate by one per cent from 27 per cent – the industry capped rate set by the MRA.

Why we are emphasizing on Interest free financing:

Interest rate had been considered an important factor for determining the saving and investment by classical, neo-classical and contemporary economists. Interest rate creates asset demand of money leading to saving. However with the increase in interest rate cost of capital will increase, hence results reduction in investment within the economy. If we look at the matter deeply, the first harm we notice behind interest is its economic harm. Its types may be as follows:

Firstly People who earn money by interest without any effort loses their motivation to earn money through labor and lose their interest in agriculture, industry, trading and construction, etc. which influence and hamper the total economic welfare of a society.

Secondly, Interest based economy encourage social slavery. Normally, poor and needy borrow from the rich, the rich get scope to have extra money in the name of interest. In consequence, the rich become richer and the poor become poorer. The class distinction therefore grows and takes the shape of class conflict and the poorer become slave in course of time.

Thirdly Interest is a moral harm. If the interest system exists in the society, the interest-free loan giving and taking is being collapsed. Nobody wants to lend money without personal benefit. As a consequence, the kindness, affection, love, fellow-feeling, amity, sense of brotherhood and the mentality of helping others gradually disappear from the society.

6. Findings

On the basis of above analysis the following specific observations have been established:

- Except IBBL all other state-owned and private banks have abandoned or less involvement with the poor.

- The group-based microcredit management system developed by BRAC has been successfully replicated by IBBL.
- IBBL has been successfully applying Islamic modes of investments for small investments in Banking rate which is almost one third of NGO rate.

7. Recommendation

RDS can be differentiated from any traditional micro-credit programs with respect to target group, selection criteria, profit sharing basis, value generation, low charge, monitoring mechanism, mode of investment, size of loan etc.

- BRAC should make shorten their investment rate for poverty alleviation involvement.
- IBBL should enlarge their investment size as they can influence socio economic factors.
- RDS with its differentiated features can lock more market share in the country.
- Repayment system should start at least after one month of taking loan, and based on the nature of cash flow generation.
- IBBL should increase their branches and appoint a sufficient number of women employees to deal with women entrepreneurs and professionals to understand their needs and thus create demand for investment.
- They should take aggressive advertising policy to inform the people about Shari'ah based investment
- The authority of IBBL should manage pressure on Government bodies to run proper and sufficient application of Islamic banking law in Bangladesh.

8. Conclusion

Microcredit is now a well-established poverty alleviating program which is being implemented across the world. Rural Development Scheme of IBBL is a scientific and Sharia based micro credit system. It has observed from the study that interest free RDS helps to improve member's economic level. Financial benefits enjoyed by RDS members were better than before joining RDS. The income levels have gone up. This has led to higher food, health and education security for the poor. The higher level of income has again been translated into higher expenditure for livelihood.

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