

Contribution of Privatized Commercial Banks in Agricultural Investment – A Case of Islami Bank Bangladesh Limited

Syeda Tanjila Shahnewaz¹

Md. Shariful Haque²

Abstract

The aim of this paper is to identify the contributions of Privatized Commercial Banks (PCBs) in Agricultural Investment (AI) of Bangladesh, particularly the case of Islami Bank Bangladesh Limited (IBBL). As a part of methodology interview of concerned officials have been taken to explore the actual scenario of AI done by IBBL. And the Action plan of IBBL for Agricultural Investment (2011-2015) has been thoroughly reviewed for secondary data analysis. Findings show that AI has got three major sectors where the investment may be or has been made. They are Crops, Fisheries and Livestock. IBBL has planned to invest at least 3.20% of investable fund in the agriculture sector (3.00% in agriculture and 0.20% in fishing, forestry and logging). As a part of plan IBBL has set a target of 9500 Million BDT to invest in agriculture where 50% will be for Crops only. Trend analysis shows that IBBL has got steadily rising market share in this sector investment in comparison to the National Target. In 2006-2007 the market share of IBBL was 3.24% and in 2010-2011 it climbed at 7.53%. It's a remarkable achievement of IBBL in agriculture sector. It's an original research work which may furnish food for thought to the Bangladeshi PCBs particularly for Islamic Banks so they can feel inspiration to come up with investments in this sector.

Key Words: Agriculture Investment, Privatized Commercial Banks, Islami Bank Bangladesh Limited

1. Introduction

Agriculture sector have an important role in the economy of Bangladesh. The contribution of this sector in GDP reached at 19.29 percent in FY 2011-12 (BBS provisional Estimate).

¹ Lecturer in Finance, Southeast University, Bangladesh, syeda.tanjila@yahoo.com, +8801912700558

² Associate Professor, International Islamic University Chittagong, iucmba@gmail.com, +8801712 262 949

A large number of people in rural areas are living below the poverty line. Many of them are jobless due to lack of sufficient employment opportunities. Unemployment and poverty are main problems of the rural areas. Besides, economic activities of rural areas are stagnant & dull due to lack of inequality of income & equitable distribution of wealth between urban and rural areas.

Islami Bank Bangladesh Limited (IBBL) was founded with the major objective of setting up an Islamic economy for balanced economic growth by ensuring reduction of rural-urban disparity and equitable distribution of income. It's a high performance Bank in terms of deposits and number of accounts (Chowdhury & Ahmed, 2009).

A scheme in the name of Rural Development Scheme (RDS) has been introduced in 1995 to cater to the investment needs of the agriculture/rural sector to create opportunity for generation of employment and raising income of the rural people with a view to alleviate poverty.

This research has been conducted with a view to: i. Present an overview of Agriculture Investment of Islami Bank Bangladesh Limited, ii. Appraise the principal activities of Agriculture Investment of Islami Bank Bangladesh Limited, iii. Examine the performance of Agriculture Investment of Islamic Bank Bangladesh Limited, and iv. Recommend remedial measures for the development of the Agriculture Investment activities of Islami Bank Bangladesh Limited.

2. Methodology of the Study

The present study has been carried out to evaluate the Contribution of Islami Bank Bangladesh Limited in Agricultural Investment of Bangladesh. This study has been based mainly on the data from secondary sources. The relevant data and information were collected from annual reports of the bank, Bangladesh Bank, Securities and Exchange Commission and websites of relevant agricultural banks in Bangladesh. Relevant articles and literature in this context have also been reviewed. In this article we have analyzed the different data of IBBL during the period 2008-2013.

3. Literature Review

Breakingnewsbd.net – an online news portal reported that the disbursement of agricultural loan is increased by 25 percent. In the first quarter of current financial year (2013-14) the Commercial Banks disbursed 2,861 Crore 58 Lacs BDT as agricultural loan which is BDT 569 Crore more than that of 2012-13 financial years. So it has been an increase of 24.82 percent. In the upcoming financial year the targeted loan in this sector is 14,595 Crore BDT. Bangladesh Bank – The Central Bank of Bangladesh is paying special attention to this sector. So, all other banks have increased their cares for this sector. State owned commercial and

specialized banks together contributed 1,699 Crore BDT and the remaining domestic and foreign banks together contributed 1,162 Crore and 15 Lacs as loan in the said sector. Among the state owned specialized bank Bangladesh Krishi Bank (BKB) disbursed maximum portion BDT 1,110 Crore 24 Lacs. Rajshahi Krishi Unyon Bank (RKUB) disbursed 237 Crore 79 Lacs BDT. Sonali Bank Limited disbursed 113 Crore and 12 Lacs BDT.

Among the Privatized Banks Islami Bank Bangladesh Limited (IBBL) distributed BDT 342 Crore 79 Lacs which is the highest. Not only is the disbursement the collection rate is also very satisfactory.

Not much works have been done on the selected field of research. Chowdhury & Chowdhury (2011) worked on the performance of agricultural banks in Bangladesh and observed the insignificant contributions of Agricultural Banks (mostly state owned) in the concerned sector.

The establishment of first Islamic bank in Bangladesh was made possible when Bangladesh signed the Charter of Islamic Development Bank in 1974 in which it committed itself to reorganize its economic and financial system as per Islamic *Sharia*. In January 1981, the then president Ziaur Rahman addressed in the Third Islamic Summit Conference that Islamic countries should develop a separate banking system of their own in order to facilitate their trade and commerce. This statement indicated favorable attitude by the Government toward establishing Islamic banks and financial institutions in the country. In this regard, on 13 March 1983, the first Islamic Bank in Bangladesh, called Islami Bank Bangladesh Limited (IBBL) was incorporated as a public Limited Company under the companies Act of 1913. IBBL, with an authorized capital of Tk. 500 million (USD 12.5 million), started as a joint venture multinational bank with 63.92 percent of equity contributed by the Islamic Development Bank and the rest by other financial institutions. IBBL was founded with the major objective of establishing an Islamic economy for balanced economic growth by ensuring reduction of rural- urban disparity and equitable distribution of income. IBBL was not only the first interest free bank in Bangladesh but in South Asia as well.

The opening of IBBL brought a new era in the history of the country's financial market. The long cherished desire of many Muslims in the country was realized. To date, IBBL is considered the largest bank in Bangladesh with a total clientele at around 6 million operating in 266 branches throughout Bangladesh, mainly situated in rural areas. IBBL saw its vast successful expansion in the commercial market as an incentive to help many of the rural poor. Taking into consideration that the majority of the population lives below the poverty line in rural Bangladesh, the Bank devised the "Rural Development Scheme" (RDS) with a view to create employment opportunities for them and to reduce their poverty through income generation activities.

Since the government of Bangladesh has placed many policies encouraging the private sector's involvement in the country's development plan in alleviating poverty, IBBL

introduced RDS in 1995 as part of its corporate social responsibility (it is considered now one of its main financing channels) to support the government in addressing the high rates of rural poverty, and to tackle the gaps associated with government programmers that failed to target the poor. The main goal of RDS is to create employment opportunities (by providing small and micro investments) for the poor and to alleviate poverty through income generating activities

According to a World Bank study, there are more than one million small businesses in Bangladesh as potential borrowers, but only 7 percent of them have access to formal financial institutions. IBBL created this program in order to capture this market and to address the gap that the government, conventional MFIs and NGOs failed to address. The microfinance products extended through the scheme do not charge interest and do not require collateral, making the scheme more accessible to the poor. Since IBBL was already providing Islamic products through its commercial means, it had the resources, knowledge and expertise in managing Islamic microfinance products. This made RDS the first Islamic microfinance model to be introduced in the country and abroad without needing financial support from the government or external donors. IBBL was able and currently is funding RDS through its general investment fund. The main objectives of the scheme are:

1. To extend investment facilities to agricultural, other farming and off-farming activities in the rural areas.
2. To finance self-employment and income generating activities of the rural poor, particularly the unemployed youth and women.

The RDS program is styled in accordance to Grameen Bank concept except the scheme uses Islamic modes of investment based on the profit and loss sharing methodology. Under this model, the bank does not issue the agreed upon loan amounts to customers in cash, but rather delivers goods to the customers ensuring that lending is invested in income generating activities. The RDS has been working towards this objective, in creating income generating activities and productive self-employment opportunities through extension of investments for the development of the rural areas and the rural poor.

As regards agriculture development with maximum impact on reducing poverty and improving food security, the document highlighted a broad based operational program with focus on the following areas, within the framework of the PRSP: • Strengthened agricultural governance for efficient policy implementation and provision of public goods and services; • Enhanced conservation and sustainability of the natural resource base, including water resource management, and preparedness for disaster management; • Improved bio-security, including improved food safety standards and nutrition; and • Diversified production opportunities and better technology for higher value added, processing and reduction of post-harvest losses for higher farm income.

Farmers and individual persons related to agriculture can avail investment to purchase power Tiller, Power pump, Deep Shallow tube well, Thresher machine, Combined harvester, Tractor, Rice transplanted, USG machine, Drum Seeder, Agro processing machinery and equipments etc.

Bangladesh is an agrarian country. Agriculture is the single largest producing sector of the country's economy. It contributes about 20.16% of the country's GDP and employs around 44% of the labor force. The performance of the sector has an overwhelming impact on major microeconomic objectives, like employment generation, poverty alleviation, human resources utilization and food security. Over and above, agriculture is the source of many small industrial sectors raw materials, such as jute which earns substantial foreign exchanges now-a-days. In short agriculture is the driving force behind economic development of Bangladesh and so, agricultural development becomes the major concerns of the country.

4. Analysis and Findings

In this part of our study we have shown the contributions, achievements and successes of Islami Bank Bangladesh Limited (IBBL) in case of Investments in the agriculture sector. To present the latest only last five years data have been presented. In the years 2010, 2011 and 2012 IBBL's achievements are more than the National Achievements. It's no doubt a tremendous success.

4.1 Performance of IBBL in Agriculture Investment

Table 1: A comparative view of agri-investment through banking channel in Bangladesh and IBBL (as on 30.06.2013)

(Tk. In million)

Sl. No.	Particular	National	IBBL	Market shar of IBBL
1	Disbursement target for the FY 2012-13	141,300.00	12,000.00	8%
2	Achievement	146,675.00	13,074.00	9%
3	% of Achievement	104%	109%	-
4	Disbursement growth	12%	12%	-
5	No. of agri-investment clients	3,310,024.00	342,217.00	10%
6	No. of women clients	444,546.00	280,806.00	63%
7	Disbursement under 4% subsidized rate	749.00	9.00	1.2%
8	Target for the current Financial Year (2013-2014)	145,950.00	14,350.00	9.83%

Source: Research Wing, IBBL

Above table shows that IBBL is significantly contributing in the agricultural sector with its investment. It has a target more than those of other privatized commercial banks. Achievement is more than the target. It's incredible.

Table 2: Comparative Figures between National Performance Vs IBBL's Performances for the last Five Financial Years

Fiscal Year	Target		Achievement		% of Achievement		% of Growth Over the Previous Year	
	National	IBBL	National	IBBL	National	IBBL	National	IBBL
2008-2009	93790	6600	92850	6240	99%	95%	8%	21%
2009-2010	115000	8800	111170	8410	97%	96%	20%	35%
2010-2011	126174	9500	121844	10210	97%	107%	10%	21%
2011-2012	138000	10000	131320	11703	95%	117%	15%	15%
2012-2013	141300	7250	146670	13074	104%	180%	12%	12%

Source: Research Wing, IBBL

The mentioned table indicates that IBBL's performance of agriculture investment is increasing gradually. It appears from the said table in 2008-09 the growth over the previous year contribution of agri-investment of IBBL in agriculture investment was 21%. It has increased at 12% in the last (5) years which is a remarkable achievement of IBBL in agriculture sector.

Table 3: IBBL Agricultural Investment for FY 2012-13 (Position as on 30.06.2013)

Sl no.	Particulars	Tk. in million
1	IBBL target for FY 2012-13	12,000.00
2	Achievement	13,074.00
3	% of achievement against total target	109%
4	Total outstanding as on 30.06.2013	11,214.00
5	Market share of IBBL to national disbursement	8.91%
6	Growth over the previous year (Based on Disbursement)	12%
7	Growth over the previous year (Based on Outstanding)	41%
8	No. of Clients under agricultural Investment (July' 12 – June' 13)	342,217
9	Investment Target under subsidized rate	10.00
10	Disbursement under subsidized rate (FY 2012-13)	8.79

Source: Research Wing, IBBL

IBBL has set a new target for the year 2013-14 which is 7100 million taka more than that of 2012-13 FY. Sector-wise breakdown of Investment target has also been shown in the Figure- 1.

Table 4: Target for the FY 2013-14

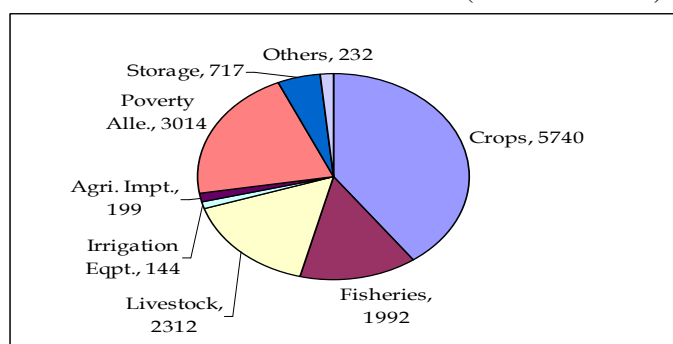
(BDT in millions)

National target for The FY 2013-14	IBBL target for the FY 2013-14	IBBL contribution to national target	IBBL target fixed by Bangladesh Bank
145950	14350	9.83%	7550

Source: Research Wing, IBBL

Figure 1: Sector wise target allocation

(BDT in millions)



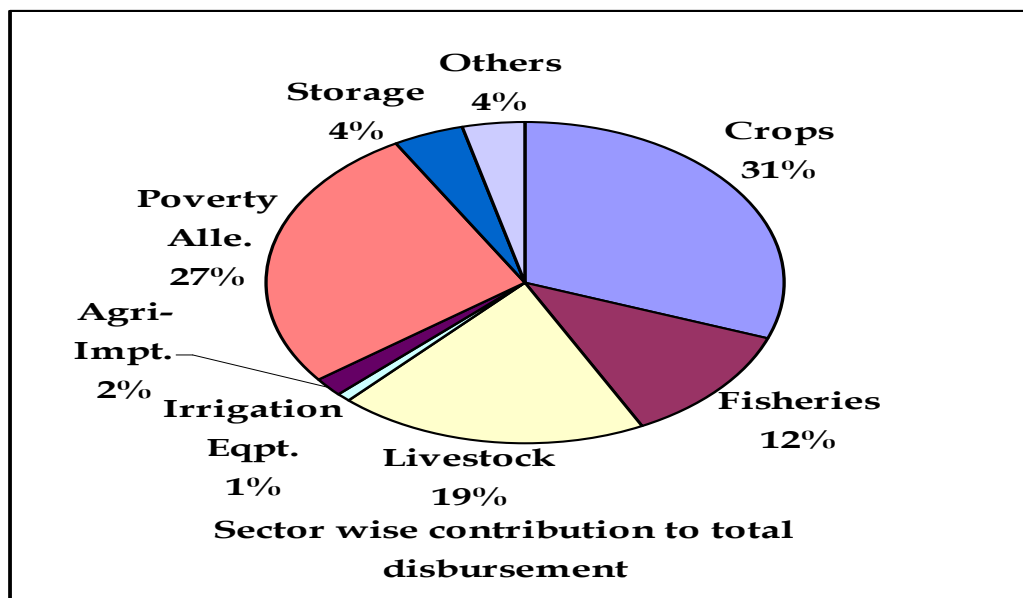
Source: Research Wing, IBBL

Table 5: Overall Sector wise performance in the FY 2012-13

(TK. in Millions)

Sl no.	Sector	No of Clients	Disbursement		% of achievement against Target	% of total disbursement
			Target	Achievement		
1	Crops	106,608	6000	3,982.00	66	31
2	Fisheries	38,028	840	1,560.00	186	12
3	Livestock	63,852	1440	2,540.00	176	19
4	Irrigation Equipment	4,527	120	125.00	104	1
5	Agricultural Implement	7,309	120	243.00	203	2
6	Storage	9,683	1200	567.00	47	4
7	Poverty Alleviation	95,754	2040	3,542.00	174	27
8	Others	16,456	240	515.00	215	4
Total		342,217	12,000	13,074	109	100

Source: Research Wing, IBBL

Figure 2: Sector wise disbursement

Source: Research Wing, IBBL

IBBL is even found in setting Target of Investment (disbursement) in Agriculture Sector from 2013-14 to 2017-18. It's a long term projection which enables it to be more strategic.

Table 6: Target of Investment (disbursement) in Agriculture Sector from 2013-14 to 2017-18

(Taka in millions)

Particulars	2012-13	2013-14	Growth	2014-15	Growth	2015-16	Growth	2016-17	Growth	2017-18	Growth
Target under RDS	9,900	12,200	23%	15,000	23%	18,330	22%	22,140	21%	26,550	20%
Target under mainstream operation	2,100	2,150	2%	2,200	2%	2,270	3%	2,360	4%	2,450	4%
Total Investment Target	12,000	14,350	20%	17,200	20%	20,600	20%	24,500	19%	29,000	18%
Investment in import substitute items at subsidized rate (4%)		15		20		30		40		50	

It is to be noted that target under RDS includes RDS investment excluding housing plus MEIS investment only in agriculture items. Investment under UPDS and investment under MEIS in non-agriculture activities are not included.

5. Recommendations and Conclusion

From the above discussion it has been observed that IBBL is a significant contributor with 9% market share in terms of achievements in the field of agriculture investment. Among the women clients of agricultural loan IBBL has 63% market share. So this part of IBBL is remarkably successful. Women are underprivileged in many other instances. In these other fields IBBL should come up with more targets and achievements. Bangladesh is a Muslim majority country and IBBL's Lion share of investments tags with Muslim partners. But it has been observed that people from other community particularly Hindus have accounts with IBBL. In this case IBBL should not ignore and deprive partners from other communities in case of agricultural investments.

Bangladesh is an agro based and densely populated country. Here labor force is available in cheaper rate. To utilize the densely population and cheap labor force IBBL should come forward to invest in labor intensive sectors. For effective agro-financing IBBL should place one agriculturist officer to each of the zonal offices for intensive monitoring and supervision of agriculture investment. For Skill Development & Building awareness IBBL may organize various training programs for both the beneficiaries and the employees by the arrangement of HRD.

Now a day the farmers need to know modern technology and knowledge for effective and optimum utilization of their resources at a minimum cost. Moreover, diversification of investment in line with the national priority is needed to be identified. Therefore, a Consultative Forum with the agriculture specialists and an agriculture information cell in the Head Office are needed to be formed. To make the investment effective and client-friendly IBBL may conduct Prize giving ceremony for the successful farmers, Observing Agri-investment fortnight, Award giving to the renowned agriculturists and so on.

In FY 2011-12, Bangladesh earned USD 402.70 million by exporting agricultural products which was 1.46 percent of total export earning of USD 24301.90 million. In addition to the exports of main agricultural commodities such as raw jute, jute goods, tea, frozen foods, the Government has taken steps to increase exports of non-traditional agricultural commodities. So, there is a huge potential of investments. If IBBL can come up with more investments in these fields it will be able to ensure its commands and leadership in Bangladeshi Banking industry.

Bibliography

- Asaduzzaman, M, Ringler, C, Thurlow, J, & Alam, S 2010, '*Investing in Crop Agriculture in Bangladesh for Higher Growth and Productivity, and Adaptation to Climate Change*' Bangladesh Food Security Investment Forum, Dhaka, Bangladesh, pp.26–27 May.
- Chowdhury, TA & Ahmed, K 2009, '*Performance Evaluation of Selected Private Commercial Banks in Bangladesh*', International Journal of Business and Management, vol. 4, no. 4, pp. 86-97.
- Chowdhury, TA & Chowdhury, SS 2011, '*Performance Evaluation of Agricultural Banks in Bangladesh*', International Journal of Business and Management, vol. 6, no. 4, pp.75-89.
- Rahman, MM, Jafrullah, M, & Islam, T 2008, '*Rural Development Scheme of Islami Bank Bangladesh Limited (IBBL): Assessment and Challenges*', *IJUM Journal of Economic and Management*, vol. 16, no. 2, pp. 139–163.
- Rahman, A 1999, '*Microcredit Initiatives for Equitable and Sustainable Development: Who Pay?*', *The Bangladesh Development Studies*, vol. 22, no. 2, pp 49–92.
- Seibel, HD & Wahyu, DA 2006, '*Islamic Microfinance in Indonesia*', Working paper no. 2, University of Cologne, Development Research Center.
- World Bank (2012), *World Development Indicators 2012*. World Bank: Washington D.C.