

The Role of Islami Bank Bangladesh Limited in Economic Development of Bangladesh

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Abstract

The main objective of the study is to analyze the role of IBBL in economic development of Bangladesh and to give some suggestions to overcome the challenges Islami Bank Bangladesh Ltd. (IBBL) is the pioneer of Islamic banking in Bangladesh. IBBL is performing a significant role in the development of the country. The Bank is working in the export sector from the very beginning resulting in maximizing export earnings as well as creating employment opportunities in Bangladesh. The Bank has already emerged as the top export-import bank in Bangladesh. IBBL satisfies most of the efficiency conditions if they can operate as a sole system in an economy. Conventional banking, on the other hand, does not satisfy any of the efficiency conditions analyzed in the present study. However, when Islamic banks start operation within the conventional banking framework, their efficiency goes on decreasing in a number of dimensions.

1. Introduction

In a modern economy, banks are the fundamental financial intermediary. Recently they are engaged in value generating activities by assuring uninterrupted supply of financial resources and also help accelerate the pace of development process. In terms of deposit collection, investment, and foreign exchange business the Islami Bank Bangladesh Limited (IBBL) place the position of being the leading other banks, IBBL has been continuously operating their banking activities and to provide efficient banking service with a view to accelerate

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socio-economic development of the country in Shariah complied manner from the incorporation in 1983.

2. Objectives of the Study

This study is conducted to investigate and explain the roles and contributions of IBBL in the economic development of Bangladesh. More specifically, this study will identify and elucidate the sectors where IBBL contributes significantly.

3. Methodology of the Study

This is a descriptive study which has used mostly the secondary data. Annual reports of the said bank and supporting published and unpublished materials have been studied to extract the information related to the contribution of the bank to economy of Bangladesh.

4. Literature Review

IBBL is the pioneer of banking system which has operated based on Islamic shariah, and it's all activities are controlled by Islamic economics. There are mainly two basic principles of IBBL. First one is sharing of profit & losses; Secondly, the prohibition of receiving or payment of interest on its transactions. IBBL avoid not only interest based transactions but also economic activities that are involved in oppression (zulum) and speculation (gharar). IBBL also discourage the production of commodity and services which are contradicted the Islamic value.

Islami Bank Bangladesh Limited is the pioneer of Islamic banking in Bangladesh. It became incorporated on March 13, 1983 as a public limited company under the company act 1913. It has 36.91% local & 63.09% foreign shareholders. Up to December 2015, IBBL has 304 branches including 57 AD branches & 03 offshore banking units as well as 13,229 staffs. In addition to that IBBL maintains its own 497 ATM Booths, 33 IDM (IBBL Deposit Machine) along with 6000 shared ATM network across the country. As such IBBL is the largest banking network in Bangladesh. When this bank was established, it was the 1st bank in South-East Asia to provide banking services according to Islamic Shariah. The bank is listed both Dhaka Stock Exchange Ltd & Chittagong Stock Exchange Ltd. Recently IBBL & Ria has signed agreement and launch remittance services for their valued customers. Ria is USA-based 3rd largest money transfer company in the world.

The first branch of the Bank was local office in Motijheel, Dhaka started functioning on 30th March 1983. The Bank was formally inaugurated on 12th August 1983. Authorized Capital of the Bank is Taka 10,000 million and Paid-up capital is Taka 6,178 million. Foreign and Local shareholder's holdings are of 57.36% and 42.64% of the Paid-up capital respectively. The

Bank's corporate Headquarter is situated in its own 18-storied modern building at 40, Dilkusha, Dhaka.

Financial performance of IBBL

Deposits:

Year	2010	2011	2012	2013	2014
Deposit(Tk)	291936.6	341854	417844	473141	560696

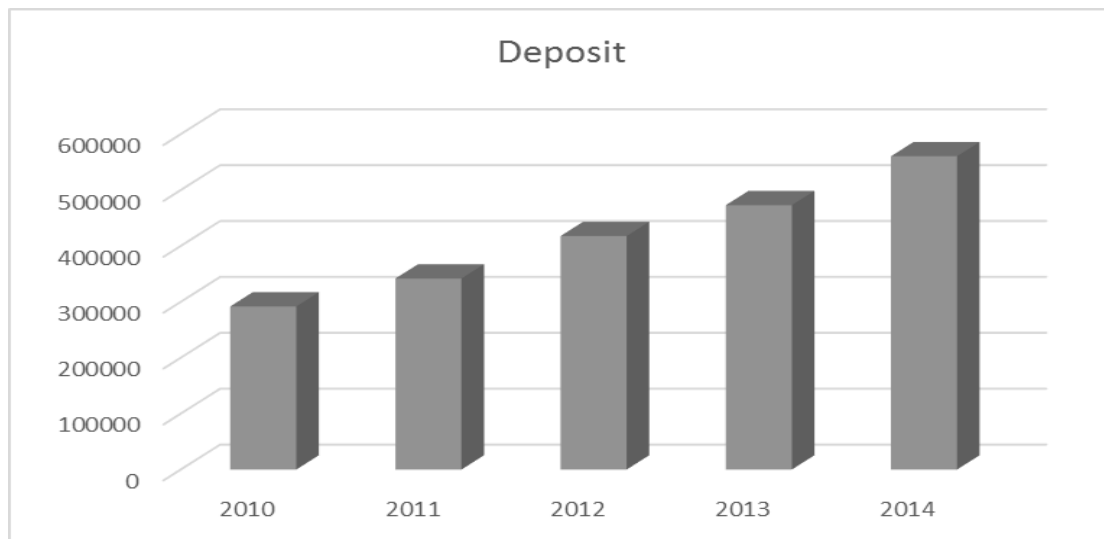


Figure 1: Deposit of IBBL

Investment

Year	2010	2011	2012	2013	2014
Investment(Tk)	275494	322772	399931	474016	564332

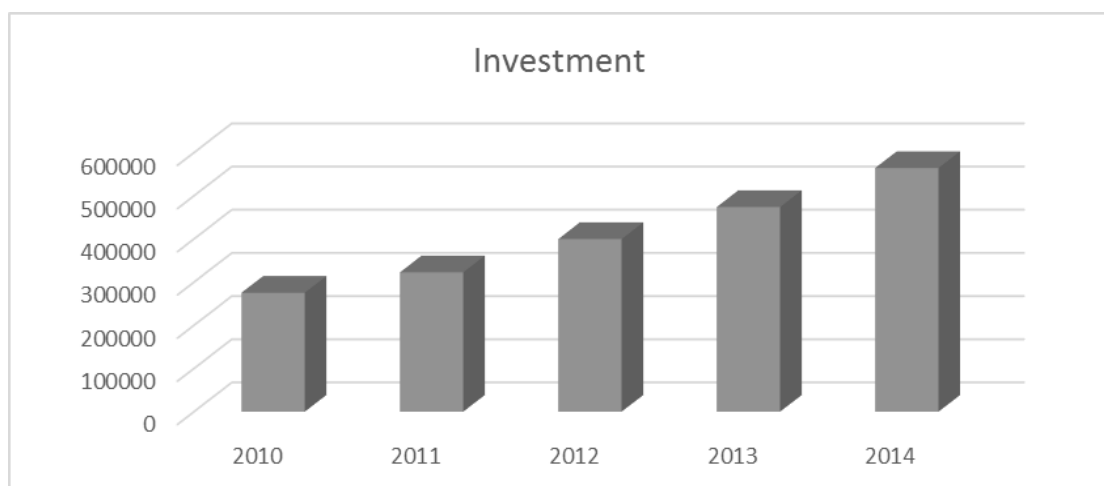


Figure 2: Investment of IBBL

Foreign Exchange

Year	2010	2011	2012	2013	2014
Export	148421	178244	197095	205269	222753
Import	246281	301207	284588	285890	316971
Remittance	214629	236607	300915	286956	308722
Total	397714	482622	485600	494860	543534

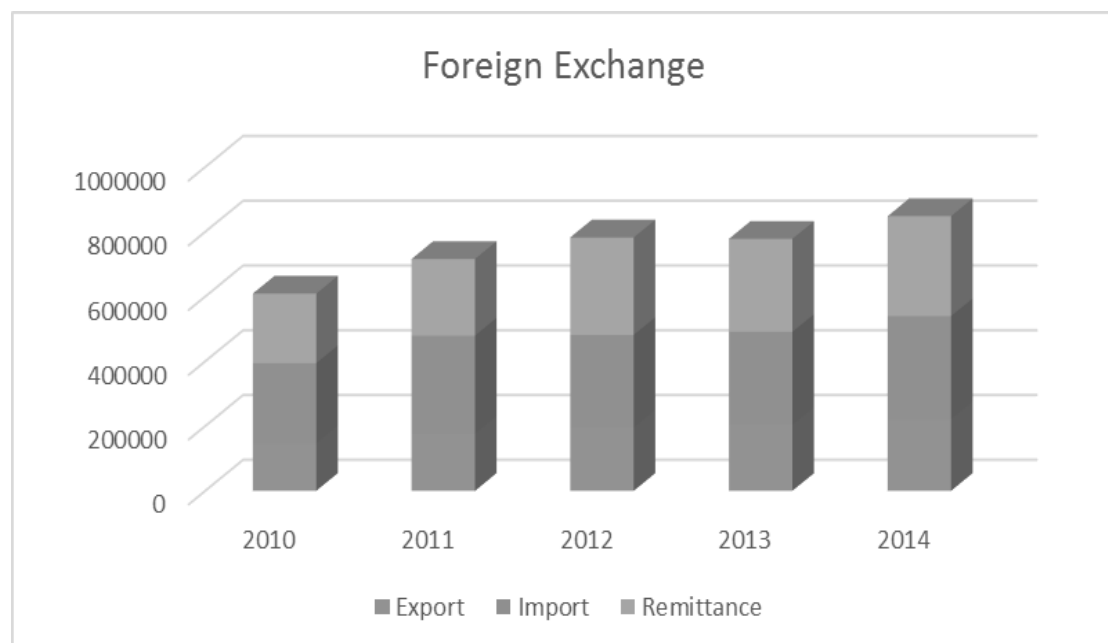


Figure 3: Foreign Exchange of IBBL

Profit

Year	2010	2011	2012	2013	2014
Total income	30128.90	38401.29	50017.79	56093.75	58047.03
Total Expenditure	25665.43	33559,84	44678.88	51145.17	54050.97

Net Income	4463.47	4841.45	5338.91	4948.58	3999.06
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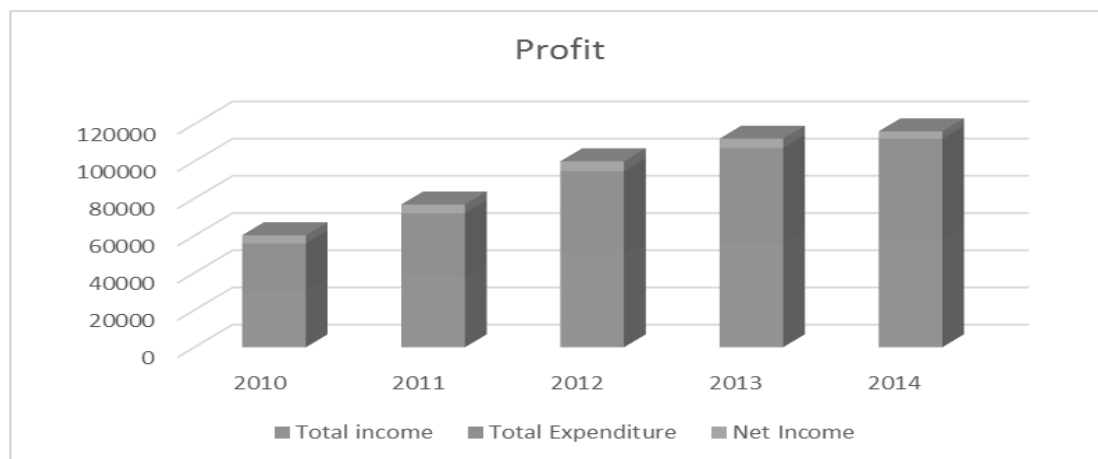


Figure 4: Profit of IBBL

Equity

As per Capital Adequacy Policy prescribed by Bangladesh Bank, the Central Bank of the Country, banks has maintained 10.81% Capital on its Risk-Weighted Assets against which total equity of the Bank as on 31-12-2014 stood at Tk. 48570 Million. This was:

Date	Amount of TAKA
31-12-2014	48570 million
31-12-2013	45487 million
31-12-2012	42053 million
31-12-2011	33717 million
31-12-2010	28400 million

5. Findings of the Study: The Role of IBBL

5.1 Role towards employment creation:

IBBL plays vital role in the employment creation in Bangladesh. There are 13,229 employees who are directly engaged and a good number of stakeholders are indirectly involved through financing in various types of business, such as Import, Export, industrialization, SME financing and rural development project. As a result large numbers of families directly & indirectly benefited from Islami Bank and they are also contributing in the economy as a part of the whole economic system of Bangladesh. According to Rashid, Hassan and Ahmad, Islami Banks along with IBBL is creating job opportunity as well as assuring services through consistency.

5.2 Role in earning foreign remittance

Earning of migrant workers is known as remittances play a vital contribution in the economy of Bangladesh. Remittances also assist in macroeconomic development of domestic country through providing foreign currency that increases national income, improves the balance of payment and finance imports. In Bangladesh, demand for remittances of migrant workers has now been enhanced tremendously. Over the last 10 years (2005-2014), remittance inflow of IBBL has increased by around 37 percent. When we compare with 2012, the amount of remittance slightly slowed down in 2013 which has been recovered in 2014. Despite slow growth, IBBL could manage to maintain its leadership in foreign remittance performance.

5.3 Role in strengthening rural economy

IBBL is playing vital role to help the people self-reliant. To ensure self-reliant IBBL has taken upright endeavor for the development of backward or rural areas. As a result the rural poor people taking RDS scheme. Under RDS scheme their activities have already been expanded over 21000 center and it also covering 16000 villages. There are 500000 member are getting different sorts of cooperation from them throughout the countries. It should be indicated or mentionable that IBBL is trying to achieve their target to expand its scheme as soon as possible all over the country. A study on RDS system by a group of scholars analyzed many facets of the RDS and they conclude that IBBL, s RDS is successful project (Rahman et al, 2008)

5.4 Role in promoting ecology and green banking:

Green Banking is an emerging issue in the present banking area. It is one kind of welfare banking for the society. IBBL being a Shariah compliant welfare bank, emphasizes on human rights, green investment & trade, social involvement, ecological impact and animal welfare etc. and takes various initiatives and steps for performing green banking activities. IBBL has taken initiative to migrate to full-fledged green banking operation within December 2015. They have started the reengineering process in their system and mode of operation to achieve the milestone of green banking. IBBL ranked among top ten banks in Bangladesh for Green Banking Activities as a published in the annual report on green banking 2012 by Bangladesh bank. IBBL was also ranked as 1st in Climate Risk Fund Utilization activities among all banks. A truly green bank will reduce its carbon footprint by building more efficient premises, branches, implementing more efficient operational procedures promoting sustainable banking and increasing their investments in environment-sensitive industries.

IBBL Green Banking practices are connected with both internal operation and product ecology. Product ecology is concerned with the impacts of the bank on the environment used by the clients. Green banking engaged in creating socially responsible investment funds and sustainable project finance activities.

5.5 Industrialization

IBBL has been giving emphasis on the industrial development of the country based on their current policy. The Bank's Investment portfolio is gradually being increased towards

industrial finance along with commercial investment. IBBL's investment in industrial sector is substantially higher compared with those of other commercial Banks. IBBL has invested at a wide range of businesses including in textile & garments, Steel & Engineering, agro based industries, food & beverage, Poultry & hatchery, chemical & petroleum, printing & packaging, plastics & ceramics, hotel & restaurants. A study conducted by Alam observes that the growth rate of investment in the industrial sector is very much significant than many other sectors (Alam, 2000, BMoF, 2010).

5.6 Development of small and medium enterprises

Now SME has become a familiar slogan around the world including Bangladesh. The SME play vital role in socio-economic development of the country, increasing employment and creating entrepreneurs. This sector is labor intensive and productive with short gestation period. At this moment the present govt. has given importance for improving SMEs for reduction of poverty and employment generation and also introduced a separate department in Bangladesh Bank named SME & Special Programs Department. Islami bank has disbursed Tk. 24981 core to the SMEs in the year 2014 which is 106% of annual target of Tk. 23500 core. SME investment outstanding as on 31 December, 2014 is Tk. 20112 core which is 42% of banks total general investment. Islami bank is holding first position in financing SMEs among the bank or financial institutions in the country having 15% market share (on the basis of outstanding position). At present SME investment of IBBL created about eight lac employments in the country. Mentionable that IBBL has got Small Entrepreneur Friendly Bank of the year, in the year, 2014 award jointly awarded by SME Foundation and Bangladesh Bank over the performance of the year 2011, 2012 & 2013. Besides the above, SMEs are considered as the driving force for industrialization.

5.7 International trade (import/export)

IBBL plays vital role in the Bangladesh's international trading business. IBBL is helping the economy by providing assistance in importing raw materials on one hand. On the other hand helping the export business and earning foreign currency for Bangladesh.

Import: During the year 2014, the bank handled Tk. 316,971 million imports with 11% growth over previous year. During 2014, the bank opened 67,237 letter of credit as against 61,471 of the previous year showing 9% growth. Major items of import consist of raw cotton, yarn, fabrics, capital machinery, fertilizer, metal, motor vehicle, chemicals, edible oil, rice, scrap ship etc.

Export: Export business of IBBL during 2014 stood Tk. 222753 million against tk. 205269 million in 2013 registering 95 growth over the previous year. During 2014, the bank handled 69784 export bills against 65415 export bills in 2013 showing 7% growth. Major export financed items are readymade garments, frozen foods & vegetables, jute & jute goods etc.

5.8 Role in housing investment scheme

IBBL has taken massive initiative to invest under the Housing Investment Scheme for the eligible citizen's major metropolitan cities. With limited income, upper middle class and

middle class can take the advantage of this program. This program is popularly known as Hire Purchase under Shirkatul Melk. Investment through this mode is solving accommodation problems in the major cities at the same time contributing to the economy through a wide range of backyard linkage industries including rod, cement, wood, tiles & fittings, equipment (like lifts and generators) as well as employs a large number of construction related staff.

5.9 Contribution to the national exchequer

IBBL regularly pay their income tax in due time. The bank paying excise duty, withholding tax and vat to government exchequer on time deducting from employees salary as well as customers and vendors invoice. The bank is the highest Corporate taxpayer in the banking sector and is the second highest among all the taxpayers including foreign taxpayers in Bangladesh.

Sl. No	Particulars	During 2014	Total up to 2014
1	Corporate Tax	4,414	37,086
2	AIT on PPD	3,774	18,370
3	Tax Deducted at Sources	1,323	5,766
4	Value Added Tax (VAT)	639	3,066
5	Excise Duty	1,193	6,891
6	Income Tax Payment by the Employees	122	471
7	Total	11,465	71,650

5.10 Corporate social responsibility to the society

A study by Rahman, Jahan and McDonald observe that it is a general belief in Bangladesh community that the contribution of Islami Bank Bangladeshi Limited in CSR is very significant among the financial institutions [32]. Islami Bank Bangladesh Ltd. (IBBL) being one of the best corporate citizen of the country, has been discharging its responsibilities to the society in general directly through its banking activities and through its fully owned subsidiary, Islami Bank Foundation, since its inception. The theme of such responsibility has been envisaged in the mission of the Bank since the day of establishment. IBBL renders responsibility towards Shareholders, Employees, Customers, Suppliers, Community and the environment. IBBL's CSR towards the society briefed below:

5.11 Healthcare program

Health care is a fundamentals need of all societies. But people are facing here dangerous situation due to some hazardous Medicare systems of the country. Considering this, IBBL takes several initiatives in individual and organizational level for developing health sector of Bangladesh. IBBL spent an amount of taka 1164.23 million for 7144761 beneficiaries from 1983-2014 for this purpose.

Apart from these IBBL takes some sustainable initiatives for developing Medicare system of the country. Such as: IBBL established health care through eight fully owned hospitals, 7 community hospitals consisting of 1,077 beds, creating employment of 880 doctors, 610 nurses and 1707 other employees. A number of charitable dispensaries, Arsenic mitigation program, mobile eye camp and midwifery training program also are operated by IBBL for developing health sector of the country.

5.12 Education program

Islami bank foundation runs 6 institutes of technology of which two are in Dhaka, one each in Bogra, Sylhet, Khulna and Chittagong. The institutes are engaged in training of unemployed youths to make them self-reliant for technological advancement of the country. In the meantime, IBIT Dhaka (2 units), Chittagong, Shylet, Bogra and Khulna have got the affiliation of Bangladesh technical education board. In 2014 a total number of 2471 students have been enrolled with IBITs. 189 students completed their diploma courses from the institutes so far.

IBBL established 01 (one) Medical College, 01 (one) Health Technology Institute and 01 (one) Nursing Training Institute in Rajshahi. IBBL has been operating 06 (six) Technical Institutes- two in Dhaka,. This bank has been operating 01 (one) English medium school, 01 (one) Bangla medium school and 01 (one) girl's madrasa in Dhaka with a total number of 2,521 students employing 106 teachers and 49 staffs.

5.13 Scholarship program

IBBL runs Scholarship programs to facilitate the disadvantaged meritorious students. Under this program scholarship is being provided to the students of college, madrasahs and universities. In 2014, a total number of 24 poor meritorious students (who secured outstanding result in SSC examination) received scholarship from the Islami bank foundation.

5.14 Sports, arts & cultural program

Sports, Arts, & cultural programs make a nation physically and mentally sound and healthy. Engaging with this type of works young people could be able to avoid many bad things, as like taking drugs, hijacking money from innocent people etc. This is why IBBL sponsors various sports and cultural activities of its employees. IBBL sponsors various sports & cultural events every year. An amount of taka 558.79 million was spent by IBBL from 1983-2014 for this purposes. During the year 2010, Tk. 10.00 million was donated to Bangladesh Olympic Association for organizing South Asian Olympiad in Dhaka. The Bank contributed Tk. 2.00 million to Bangladesh Association of Banks (BAB) for taking initiatives to encourage the members of Bangladesh National Cricket Team for winning against New Zealand.

5.15 Humanitarian assistance program

IBBL always stands beside the distressed humanity and comes forward to help the victims of natural or social disasters. By devising special deposit products, extending financial inclusion and also providing financial assistance, the bank discharges its responsibilities towards the poor and less fortunate segments of the society. Disaster relief program includes winter cloth distribution, donation to prime minister relief fund, distribution of Tohfa-e-Ramadan, sacrificial meat distribution, rehabilitation program etc. An amount of TK. 721.65 million for 1994691 vulnerable persons was spent by IBBL from 1983-2014.

IBBL contributing to balance economic growth in Bangladesh Dhaka, Bangladesh (MLB)- The Islami Bank Bangladesh Limited (IBBL) has emerged as a symbol of trust of the masses of people by introducing unique deposit products and diversified investments in large industries to small and medium enterprises (SME) along with microfinance activities, reports

6. Summary of Findings

The IBBL has been working to ensure equity and justice in all economic activities for achieving a sustainable and balanced growth and equitable socio-economic development since its inception on March 30, 1983.

As the country's leading private commercial bank (PCB), the IBBL is contributing to the balanced economic growth in Bangladesh through diversification of its investment portfolios by size, sector and geographical area for achieving its ultimate institutional vision. Its goal is to ensure soundness and development of the financial system based on Islamic principles and values.

- The Shariah-based Islami bank is continuously upgrading its customer services, corporate governance and corporate social responsibility (CSR) activities with an innovative and caring professional attitude. It is the only bank in Bangladesh which found its place on the Top 1000 World Banks list in July 2012.
- The IBBL is playing a significant role in industrial development of the country, in addition to its other investments including microfinance activities in the rural areas of Bangladesh.
- The Bank is working in the export sector from the very beginning resulting in maximizing export earnings as well as creating employment opportunities in Bangladesh. It is also helping develop different backward and forward linkage industries in the apparel and clothing sectors across the country.
- The Islamic bank is the bank of 8.0 million clients, 12.5 per cent of the total banking industry in Bangladesh. The Bank's aggregate deposits have reached the level of BDT 420,000 million which is 7.7 per cent of the country's total deposits. It holds an investment portfolio of BDT 395000 million which amounts to 8.7 per cent of the country's total investment by its banking sector both in loans and advances.

- The readymade garment (RMG) industry is considered as the country's largest foreign currency earner, contributing more than 16 per cent of its gross domestic product (GDP), accounting for nearly 80 per cent of its total export receipts, and providing direct employment to around 4.0 million people, among whom 80 per cent are women.
- The Bank has already emerged as the top export-import bank in Bangladesh. The Bank is collecting 28 per cent of total inward remittance through 116 exchange houses across the world. It collected remittance equivalent to BDT 3,03,722 million in 2014.
- The IBBL's workforce is increasing steadily and proportionately with the expansion of its branches and activities. Total workforce of the Bank rose to 13229 in 2014 from 12188 in the previous calendar year. The Bank is running its businesses through 304 branches across the country.
- The Islami Bank is the bank of all people, regardless of party-ideology-religion-caste-creed-class-profession. The IBBL is the property of the country and its people.

7. Recommendations

Islamic banking system Bangladesh, as a new paradigm of banking, has been able to establish its own presence with a continued expansion geared by increasing acceptance by the people. To continue this dynamic expansion, the first action that deserves immediate attention is the promotion of the image of Islamic banks as PLS banks. Strategies have to be carefully devised so that the image of Islamic character and solvency as a bank is simultaneously promoted. The following policy actions are suggested for immediate application:

- ❖ *The Islamic banks can* improve their allocative efficiency by satisfying social welfare conditions in the following manner. First, they should allocate a reasonable portion of their investible funds to social priority sectors such as agriculture (including poultry and fishery), MSME (micro, small and medium enterprises) sector, and export-led industries like garments, shrimp cultivation etc. Secondly, when the percentage shares of allocation of investible funds are determined among the sectors of investment financing, profitability of projects should be the criterion for allocating investment funds. The criterion would be best satisfied if more and more projects were financed under PLS modes.
- ❖ Islamic ethics supports a poverty-alleviation strategy that is based on the principle of promoting economic growth with productive equity. Islamic banks should act as 'Banks for Enriching the Poor' (or as Rural Poor Bank and Urban Poor Bank), because the current collateral-based system for efficiently financing business/projects kicks the poor out of participation in economic activities. Banning interest should have the

illuminating effect of allowing greater access by population to finance, and hence lead to a better income distribution, the ultimate objective of the glorious Shariah.

8. Conclusion

Islamic banks can satisfy most of the efficiency conditions if they can operate as a sole system in an economy. Conventional banking, on the other hand, does not satisfy any of the efficiency conditions analyzed in the present study. However, when Islamic banks start operation within the conventional banking framework, their efficiency goes on decreasing in a number of dimensions. The deterioration is not because of Islamic bank's own mechanical deficiencies, rather it is the efficiency-blunt operation of the conventional banking system that puts a negative impact on the efficient operation of Islamic banks. This does not mean that the survival of Islamic banks operating within the conventional banking framework is altogether threatened. Evidence from Bangladesh indicates that Islamic banks can survive within the conventional banking framework by switching over from PLS to trade related modes of financing.

Even under the conventional banking framework Islamic banks can operate with certain level of efficiency by applying in a reasonable percentage the PLS-modes - the distinguishing features of Islamic banking. This has been possible in some countries of the Muslim world where the management of Islamic banks was cautious about possible impacts of every policy measure. Particularly, the management of these banks was judicious in selecting sectors or areas as major of their operations. Sudan Islamic Bank is a typical example in this respect. Islamic banks in Bangladesh have much to learn from experience of this successful bank. Having been considered the pro-efficiency character of Islamic banking and its beneficial impacts on the economy, government policy in Muslim countries should be in favor of transforming conventional banking system into Islamic banking.

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