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The Performance of Rural Development Scheme (RDS) in Islami Bank Bangladesh: An Evaluation from an Islamic Perspective

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Abstract

Islami Bank Bangladesh Limited is one of the leading and efficient financial institutions in the globe. The "Rural Development Scheme" has become an exclusive domain to play a significant role in increasing the performance of development in nation building. As a result of that, IBBL is playing a vital role in the rural area in applying the scheme namely (RDS) in poverty alleviation. The aim of this study is to analyze the performance of the RDS scheme of IBBL in the rural area. This paper will also discuss the achievements of this scheme in the present context to evaluate its performance. Finally, the researcher will come up with some suggestions and recommendations for further improvement.

Keywords: Rural Development Scheme (RDS), IBBL, Performance.

Background of the Study:

Islami Bank Bangladesh Limited (IBBL) provides an economic system based Islamic *Shari'ah*. In Bangladesh, the majority of the population below poverty lives in rural area. The IBBL has devised a "Rural Development Scheme" (RDS) with a view to creating employment opportunity for the rural people to reduce poverty through income generation activities. Obaidullah (2008:23) argues that the performance of RDS (Rural Development Scheme) of IBBL was better in terms of growth (12.5%), dropout rate (5%), and operational efficiency as compared to three conventional leaders in microfinance; Grameen Bank, ASA (Association for Social Advancement), BRAC (Bangladesh Rural Advancement Committee). So, it is clear that RDS works to create income generating and productive self-employment opportunities through extension of investment for the development of rural area and thereby contribute in alleviation of rural poverty. The modes of Investment for the purpose of production of crops, off-farm income activities like service, trading, processing and manufacturing, shop keeping, peddling and rural transport like rickshaw, Rickshaw-van, cart etc., irrigation equipment, hand tube well, housing materials along with various types of economic activities. As Chowdhury (2007) states that 'the micro credit program of IBBL's RDS Model is the largest and remarkable one'.

The purpose of this paper is to demonstrate the potential of Islamic Microfinance namely Rural Development Scheme (RDS) of Islami Bank Bangladesh limited as an alternative tool for poverty alleviation. So it is the timely needs to critically analyze the performance of RDS to find out the way of solution in the present context as well as remark the strength point positively to make it effective tools for poverty alleviation from the findings of existing literature to justify the impact of Islami Bank microcredit on poverty alleviation & socio-economic development. Accordingly to Uddin (2008), this

scheme in the name and style of 'Rural Development Scheme' has been introduced to cater to the investment needs of the agriculture and rural sector to create opportunity for generation of employment and raising income of the rural people with a view to alleviate poverty. In this study, the researcher will discuss the performance of RDS and its contribution to eradicate the poverty among the rural people in Bangladesh from the Islamic view point.

Objective of the Study:

Islami Bank Bangladesh is playing an important role in the economic development of the country through micro credit programs. That is, here just try to reflect the present performance of RDS activities. The RDS has been working for the realization of that objective to create income generating activities and productive self-employment opportunities through extension of investment for the development of rural area and thereby contribute to the alleviation of poverty among rural people. So therefore, this study has focused on which is related to Islami Bank microcredit namely "Rural Development Scheme" for its poverty alleviation and socio economic development in rural area of Bangladesh. But here the specific objective of this study is to analyze the performance of Rural Development Schemes (RDS) in poverty alleviation from an Islamic perspective.

Methodology:

This study was made mainly on the basis of secondary data and information. The major sources of data were the literature of management, journals and different relevant research studies. After reading through most of the articles were found that this study will be conducted based on qualitative analysis of research.

Literature Review:

A significant level of development had been observed in Islamic banking research since the last decade. The Rural Development Scheme (RDS) of Islamic Bank Bangladesh Limited (IBBL) has been discussed and analyzed widely among the practitioners, researchers and policy makers as an important development indicator of clients. This study reveals that RDS of IBBL has been treated as a sustainable tool in the rural development and poverty alleviation of Bangladesh with a short span of time of its establishment. Therefore, Islami Bank Bangladesh Limited was founded with the major objective of establishing Islamic economy for balanced economic growth by ensuring reduction of rural-urban disparity and equitable distribution of income on the basis of Islamic rules and regulations. It is one of the largest private banks in the country most influential financial institutions in the globe. Moreover, Ahmed (2002) has mentioned that Islamic banking is most effective banking system because of its theoretical basis, operational framework, and empirical support for the establishment of Islamic MFIs. After critically evaluating the conventional MFIs, an Islamic alternative is presented. Besides that Habib et.al (2003) has been done good study to examine the effectiveness of RDS credit provided by the Islami Bank Bangladesh Limited through interviewing a few randomly selected program beneficiaries. In this regard, Mannan (2006) has been done an analytical review of an innovation in Islamic Micro-finance in terms of Family Empowerment Micro-Credit as operation by Social Investment Bank, Dhaka, Bangladesh in contrast to 20,000 or so non-Governmental organization (NGOs) operating mainly in the rural area. Moreover, Dusuki (2006) has been examined the potential of group-based lending scheme of microfinance. It is argued that group-based lending approach is not a subject alien to Islam, as it is deeply inscribed in Ibn Khaldun's concept of 'Asabiyyah' or social solidarity. By adopting group-based lending approach, Islamic bank may offer various Islamic financial products and services without compromising on the issue of institutional viability and sustainability. So, the main goals of RDS to provide the financial access for creating opportunity of income generation of the rural people with a view to alleviate poverty (Cited at IBBL, 2006; Mizanur Rahman, 2008). Based on the above study it argued that there is need to further study to see the current performance of Rural Development Scheme of Islami Bank Bangladesh.

Rural Development Scheme (RDS) at a Glance:

Islami Bank Bangladesh Limited (IBBL) has been introduced an Islamic *Shar'Ēñah* based microcredit model "Rural Development Scheme (RDS)" in 1995 with committed promise to eliminate rural poverty. The RDS microcredit model is the largest one among the various Islamic MFIs in Bangladesh (Chowdhury, 2001). Currently, 244 Branches of the Bank have been operating the activities of the Scheme in their respective areas. These Branches are working among the poor in 18,086 villages of 64 districts of the country. Present number of members is 911,470 since beginning the scheme. The members are provided investment facilities an amount of BDT 100,521.08 million against which the outstanding was 17,379.97 million. Rate of recovery of the Scheme is more than 99.50% (IBBL, 2014). Islamic Bank has taken up a scheme to reactive the rural economy and develops model villages through integrated approach. The objective of the scheme is to create income generating and productive self-employment opportunities for Muslim youths through of investment for the development of rural areas and thereby contribute in alleviating rural poverty. It covered different types of income generating activities like goat rearing, beef fattening, dairy farming etc. Bank provides credit facilities without collateral plus support services such as skill training, environment awareness and entrepreneurship development etc. The performance of the bank appears to be excellent as management of the program is very satisfactory. But the youth entrepreneurship development approach of the bank seems to suffer from several problems like lack of scientific approach in selection of target group, absence of need based training course contents, inadequate motivation of the trainees and the likes. The analyses evidence that the Islamic Bank Bangladesh Limited through its innovative programs is contributing towards the poverty alleviation process as well as Muslim Youth entrepreneurship development program of Bangladesh. But, it appeared that the success of failure of these programs depends upon a number of factors such as need based strategic supports, absence of realistic decisions and lack of comprehensive training programs etc. However, the bank has made some progress in financing projects as well as youth entrepreneurship development under this scheme. Overall, more than 90% of the investment made in these youth entrepreneurship development schemes have been recovered, some of which have welfare orientation. Further, the very objective of the shariah is to promote the welfare of the people, which lies in safeguarding their faith, their life, their intellect and their wealth (Chapra 1985).

Key Objectives of RDS:

The followings are the important objectives of IBBL's Rural Development Scheme objectives:

- a. To extend bank investment to agricultural and non-agricultural sectors in the rural areas;
- b. To bring the poorer population within an organizational framework by setting up certain rules and regulations with a view to free them from the curse of poverty and make them self-reliant thereby converting RDS into a self-reliant sustainable program;
- c. To invest on employment and income generation activities of the rural population;
- d. To provide self-employment for the distressed people;
Socio-economic development of the poor and distressed by group/centre formation;
- e. To continue to support the self-reliance drive of the poor in their endeavour to capital formation from savings they make out of their increased income;
- f. To bring both male and female to provide employment under income generation activities and help them to attain self-reliance step by step;
- g. To help reduce and eventually stop, through enhancement of their income, the lending on high and exorbitant rate of interest by the village money-lenders, the advance sale of crops, land and mortgage of land by the poor during their acute needs.

Formation and Management of the Scheme:

In order to formalize group formation and formation of the centre and that of the election of the group leader, deputy group leader, centre leader and deputy centre leader all members of the centre are required to promise themselves, through adopting resolutions that they will abide by the rules and regulations of the group/centre. They sit for a weekly centre meeting the date, time and place of which are determined by themselves according to their convenience. Group formation and subsequently emergence of a centre are the result of constant effort and intensive supervision of a field supervisor. Generally a field supervisor is responsible to supervise 40 groups or 200 members. Field supervisor is

recruited few months ahead of the group formation and initiation of investment activities. Soon after the appointment a supervisor is required to motivate people, mobilize supports, conduct base-line surveys, form groups and conscientise the group members. Preferably a field supervisor should be a local person with a minimum graduation degree. The entire activity of RDS is co-ordinated and managed from a branch office of IBBL by a project officer who is responsible to a committee headed by the bank's branch manager. The project officer supervises the activities of the field supervisors in the entire command area of its operation. He provides instructions and suggestion to the field supervisors in implementing the project. While forming groups the project officer attends the meetings. He organizes training for the group members and ensures, through the field supervisors, the attendance of the group members in weekly meetings. He keeps a constant eye on the investment disbursement, timely repayment of weekly installments and savings deposits and adherence of other rules and regulations by the group members. Investment vouchers preparation, filing of documents and production of monthly investment balance sheets are among the few other regular activities of a project officer.

Investment Avenues, Higher Limits and Duration:

RDS started as a pilot operation in the rural areas of several districts under the direct supervision of the nearby Branches of the Bank. At present, it is extended to all the 61 districts out of 64 districts of the country through 139 Branches of the Bank. The metropolitan areas and three Chittagong Hill Districts are kept outside of RDS. Each designated Branch selects villages within a radius of 16 km of the Branch. Following criteria are followed to select a village: 1. Ease communication so that staff members can easily attend weekly meetings; 2. Availability of agriculture and other off-farm activities; and 3. Abundance of low-income people.

Categories and the Number of Activities under RDS:

IBBL is one of the fastest growing and best performing banks in Bangladesh. Because of its excellent teamwork among the top management, staff and clients as well as outstanding banking performance, this bank achieved a secured position in Bangladesh banking sector. IBBL has invested in a wide range of areas that not only reduced the risk of investment, but also providing services to a large number of citizens in the country as well as its citizens working abroad. The above study has portrayed a picture of IBBL's role in the socio-economic development of Bangladesh.

<i>Broad-Head (non-agriculture)</i>	<i>Activities financed under RDS</i>
1. Manufacturing and processing (126)	Bamboo works, cane works, pottery, muri making, snacks making, tailoring, sugarcane crushing, mending works, tin production, rickshaw making and mending, sweeping materials, sweet meat, furniture making, medicine production, umbrella mending, cake preparation, plastic works, net making, thread purchase, drum purchase, house mending, wool works, wheel mending, box mending, nut processing, kantha making, rickshaw-hood making, iron materials making, cap making, thread works, pickle preparation, printing works, tin purchase, radio mending, misri making, sawing, laundry works, procurement of machinery, candle making, sanitary works, welding, embroidery, dry sweats making, etc.
2. Service activities:(33)	Rickshaw, barber shop, hiring of irri pump, sale of news papers, curt, bullock curt, mike hiring, feri boat, livestock treatment, horse curt, buffalo curt, dentist, boating, decorator service, baby taxi, construction works, sewing machine, rice machine, etc.
3. Trading (82)	Different kinds.
4. Shops (74)	Different kinds
5. Hacking (5)	Bamboo basket, old cloths, peanuts grocery
6. Nursery: (10)	Vegetables, water melon cultivation, ginger cultivation, brinjal cultivation, turmeric cultivation, bamboo production, papaya production, chilli production and onion production
7. Livestock raising 13)	Milking cow, bullocks, cow fattening, poultry raising, sheep raising, duck raising, buffalo rearing, bees raising, pigeon raising etc

RDS and Poverty Alleviation from Islamic View point:

IBBL, a leading private Islamic commercial bank, was founded with the major objective of establishing Islamic economy for balanced economic growth by ensuring reduction of rural-urban disparity and equitable distribution of income. Branches of the Bank have been encouraged to invest their deposits in their respective areas and in particular for the economic uplift of the rural people. In addition to its commercial banking operations, IBBL introduced its own version of microfinance called 'Rural Development Scheme' (RDS) in 1995 by practicing Islamic modes of finance to cater to the investment needs of agriculture sector and rural poor to generate employment opportunities, enhance income to alleviate poverty. As we will explain in details in this paper that RDS, a division of IBBL, is offering an Islamic alternative to microfinance services offered by traditional MFIs in rural Bangladesh. Now a day's poverty alleviation is a very important issue in all over the world. It was come in the front when the failure of the past macro-economic development strategies in eradicating poverty in a sustainable manner pave the way for changes in the development strategy to specifically for the targeted poverty.

Defining poverty in an Islamic Perspective:

There is no unanimously agreed definition of poverty in Islam and various schools of jurisprudence have offered diverging bases for poverty conceptualizations and indicators. Interestingly, the Qur'an mentions two categories of poverty: the 'poor' (*fakir*) and the 'needy' (*miskin*) and there is considerable debate amongst Islamic jurists about the nature of the difference, whilst for example the orientalist Schacht held the opinion that the difference is arbitrary (c.f. Qardawi 1999). Whether and how much of the Zakat should be allocated to these first two group mentioned in the Qur'an is also debated:

"That there were significant consequences resulting from favoring one of the definitions over the other becomes obvious when we see how jurists decided the amount of charity that the poor were to be given. In general, those who defined poverty as need did not place a monetary limit on this amount, since needs vary among individuals. On the other hand, jurists who defined poverty in absolute financial terms generally allowed no more than a specified amount of Zakat to be given to one individual. The majority of Sunni schools – the Malikis, the Shafi'is, and Hanbalis – took the former position while the Hanafis took the later position." (Mattson, 2003: 33)

But, the *Maqasid a- Shar'ĤĤah* approach (The Objective of *Shar'ĤĤah*), conceptualized and defines poverty in broader socio-economic sense. Needs are defined as religion (*deen*), life (*nafs*), the mind (*aql*), progeny (*nasl*), and property (*maal*) (Al-habshi, n.d.). The *Maqasid al-ShariĤĤah* concept has been derived from the Qur'an and the Sunnah or inferred from these by a number of scholars (Chapra, 2008).

The Performance of RDS in Poverty Alleviation: at IBBL:

The contribution of the banking sector is playing significant role in the development of this country. However, the emergence of Islamic banking in Bangladesh has added a new height in the banking sector. The role of IBBL seems to be magnificently surpassed among all the Banks in Bangladesh during last three decades. So, the RDS is considered as a new paradigm in poverty alleviation and bring about development (H. Ahmed, 2003). RDS has large positive impact, which is observed in the case of food intake, housing, education, clothing, taking medical treatment, use of toilet, use of clear pure water, income, expenditure and as such economic, socio-economic, health and physiochemical environment (Uddin, 2008). Parveen (2009) argues that RDS of IBBL has been treated as a sustainable MFI in the rural development and poverty alleviation of Bangladesh with a short span of time of its establishment. Another study has found that MFIs are based on the implicit assumptions of social class conflict, so they tend to empower women, whereas Islamic MFIs' intend to empower family by ensuring joint liability of husband and wife in case of lending to family or groups of families, which ensures a mutual liability sharing and cooperation in the family. (Mannan, 2006). In the era of high-growth Islamic banking, the best-fit alternative to conventional Microcredit is Islamic Microcredit, which promises the same benefits based on *Shar'ĤĤah*. As Islam provides the complete code of life, the religion covers poverty reduction as one of the premier agendas. Islam considers that poverty induces other indecent acts; therefore, poverty should be treated with much care. Among more than three

thousand MFIs' at present working in Bangladesh, Rural Development Scheme (*hereafter referred to as RDS*) is the largest Islamic Microcredit program (M. Ahmed, 2006). Despite of the increasing religious sympathy and higher interest rate with the counterparts, RDS could not able to achieve significant progress in terms of outreach and socio-economic development. Therefore, it is imperative to critically analyze the performance of RDS to examine the way forward for better success in future. Applying performance analysis techniques, this study analyzes the current status of Rural Development Schemes (RDS) offered by Islamic Bank Bangladesh Limited.

Table 1: (Purpose, Period and Ceiling investment)

Sl.	Sector of Investment	Duration	Ceiling of Investment(BDT)
1	Crop Production	1 year	25,000/-
2	Nursery and commercial production of Flowers & Fruits	1 year	50,000/-
3	Agriculture Implements	1 to 3 years	50,000/-
4	Live stocks	1 to 2 years	50,000/-
5	Poultry & Duckery	1 year	35,000/-
6	Fisheries	1 to 2 years	50,000/-
7	Rural Transport	1 year	20,000/-
8	Rural Housing	1 to 5 years	50,000/-
9	Off-firm activities	1 year	50,000/-

Source: IBBL Website: <http://www.islamibankbd.com> (2014)

The above study is shown that, it is a general belief in Bangladesh community that the contribution of Islami Bank Bangladeshi Limited in development is very significant among the financial institutions (Rahman, Jahan & McDonald 2010).

Table 2: (RDS Performance)

Sl.	Area Coverage	Figure in Million TK.
1	No. of Branches handling the Scheme	244
2	No. of Villages (no. of total village in the country is about 87,000)	18,086
3	No. of Districts (no. of total district in the country is 64)	64
4	No. of Centers	27,874
5	No. of Groups	176,388
6	No. of Members (existing)	911,470
7	% of Women members in the Scheme	80%
8	Average no. of members per Centre (expected no. 40)	33
9	No. of Clients (Who availed investment)	585,919

Source: IBBL Website: <http://www.islamibankbd.com> (2014)

To make the rural poor people self-reliant, IBBL has initiated Rural Development Scheme. During FY 2010, RDS performance got better than ever, which is operating in around 12,000 villages among more than 5, 00,000 members of around 21,000 centers of the country and will expand this business to all over the Bangladesh in the coming years (IBBL 2010). A study on RDS system by a group of scholars analyzed many facets of the RDS and they conclude that IBBL's RDS is a successful project (Rahman, Jafrullah & Islam 2008).

Table 3: (Financial Statement of RDS)

Sl.	Areas	Figure in Million TK.
1	Cumulative disbursement (since inception)	100,521.08
2	Present outstanding	17,379.97
3	Overdue	89.13
4	Percentage of Recovery	99.50%
5	Balance of Members' Savings (including Centre Fund)	5,524.04

Source: IBBL Website: <http://www.islamibankbd.com> (2014)

It is highly encourageable to other banking system to adopt and implement IBBL rural development scheme in the rural area.

Table 4: (Position of Manpower at IBBL)

Sl.	Manpower Position	Figure in Million TK.
1	No. of Field Officers	2,499
2	No. of Project Officers	219
3	No. of Zone Officers	13

Source: IBBL Website: <http://www.islamibankbd.com> (2014)

IBBL has significantly contributed it the employment generation in Bangladesh. This bank has employed over 10,000 people directly and a few million indirectly through financing in businesses including import-export, industrialization, SME financing and Rural development projects. So, it can be apprehended that a few million families are directly and indirectly benefited from IBBL and they are also contributing in the economy Bangladesh. According to Rashid, Hasan and Ahmad (2009), Islami Banks along with IBBL is providing satisfactory community service through job creation and ensuring consistency in service provisions.

Problems of RDS:

There are a few problems are faced by IBBL. First of all, IBBL cannot settle RDS in *Shar'Ēñah* prohibited sector, so its RDS scope is narrow in Bangladesh. Secondly, Entrepreneurs have no clear concept about *Shar'Ēñah* and RDS mode. As a result they not want to take investment easily. Thirdly, IBBL lead their RDS operation within limited number of investment mode. Fourthly, Lack of Islamic Banking Rule in our country, the authority of IBBL faces various problems in their RDS operation as a result it cannot run smoothly.

Recommendations of RDS:

Based on the study, we may recommend some aspect which can be implemented for further development of RDS system in IBBL. These are follows:

- IBBL should encourage potential customer, so that they be engaged in bring forth Halal Products by dint of Halal device, thus they can inspire their RDS investment scope.
- By arranging various seminar & symposium, it can possible to understand the people about Halal, Haram & *Shar'Ēñah* and influence them to increase RDS investment.-
- IBBL can create new investment mode to increase their RDS investment mode by huge research & study.
- As welfare oriented bank, IBBL should increase their operation to remove poverty alleviation specially Rural Area in establishing their Branches.
- By increasing RDS investment scope, IBBL can proper utilize their idle money through *Shar'Ēñah*.
- IBBL can develop the stillness of the manpower by increasing their varieties kinds of training facility such as computer courses, English & Arabic language courses, and business ethics, morality, organizational behavior, etc.

Concluding Remarks:

In the end of the study, it is clear to us that Islamic microfinance is a potential field of study. We have seen there is overall literature scarcity in this field Islamic principles & theories in the microcredit field. On the other hand, in the area of impact Assessment of RDS microcredit in Bangladesh we found lack of study has been done for analyzing the real impact of RDS to know poverty alleviation, socio-economic development, women empowerment and sustainable livelihood. Finally we suggest to reduce the literature by doing future study in the above the field of Islamic Microfinance in Bangladesh. The study results have proved that the overall performance of the sample RDS under study is quite satisfactory. As stated earlier, rural development initiatives under the interest -free framework in Bangladesh, is of recent origin (1995). The growth performance measured in this research shows remarkable success of RDS (see Table 2) program. However, the findings of the study reveal that though RDS has very strong avenues in case of micro investment assistance, it is yet to develop in many aspects of its program and beneficiaries in this regard, some just policy implications have been

suggested below so that this type of program can spread its mission and vision not only in Bangladesh but also in any region of the world.

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