

Socio-economic Development of Bangladesh: The Role of Islami Bank Bangladesh Limited

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This article presents the role of Islami Bank Bangladesh Limited (IBBL) towards the socio-economic development of Bangladesh. The study analyses various published texts, articles, websites and recent annual report of IBBL through a content analysis. Key findings of this study manifest the different areas of socio-economic development in Bangladesh by IBBL like generating employment, earning foreign remittance, strengthening rural economy, promoting ecology and green banking, boosting industrialization, developing the SMEs, assisting in foreign trade (import-export), developing the housing sector, contributing to the national exchequer and performing corporate social responsibility (CSR). This study also identifies IBBL's contribution to Corporate Social Responsibility in Bangladesh as well as its significant contribution to the national exchequer.

Keywords: Socio-Economic Development, Islami Bank Bangladesh Limited (IBBL)

1. Introduction

A bank is a financial institution, where people secure their money and use this institution as a source of possible finance. Banking in the form in which it exists nowadays is comparatively of recent origin (Ahmad and Hasan 2001). Before the advent of modern banking, direct finance, where the owner of capital deals directly with the user of capital,

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was the customary mode of transference of funds from savers to investors. Nowadays, banks are organizations engaged in any or various functions i.e., receiving, collecting, transferring, paying, lending, investing, dealing, exchanging, servicing money and claims to money both locally and internationally (Woelfel 1993).

Bangladesh is a country suffering from immense social, political, economic and environmental issues and these issues need to be addressed for the overall development of this country. However, the economic development is one of the prime factors, which can resolve many of its current problems. The growth of businesses the market economies have created great opportunities for Bangladesh for further development. Economic Development refers to changes that affect a local economy's capacity to create wealth for local residents (Kane & Sand 1988). Socio-economic development for a country means simultaneous development in both social and economic aspects of that country. Socio - economic development for Bangladesh can be identified through number social and economic indicators, including GDP growth, poverty issues, employment, healthcare, environment, education, trade and commerce etc. 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 one decade. This study clearly identifies that during last 28 years, IBBL has contributed in improving Bangladesh economy through making positive changes to all its social and economic indicators.

The core question addressed by this study was: What role is IBBL playing towards the socio-economic development in Bangladesh? This study contains a few steps below. First, the introduction of this paper has been placed; second, the relevant literature has been reviewed; third, the research context, Bangladesh has been presented; fourth, the origin and development of Islamic banking and the commencement of IBBL's journey has been briefed; fifth, key information of IBBL has been included; sixth, the theoretical framework, under which IBBL operates has been narrated; seventh, methodological framework of this study and its relevance has been explained; eighth, the role of IBBL in different business sectors of Bangladesh has been described; ninth, noted the limitations of the study and finally, summary and conclusions are done appropriately.

2. Relevant Literature Review

Banking system has significant role in the economic development, historically (Cameron 1972). On one hand, banks give the security of savings for the general people, on the other hand, lend money to the entrepreneurs to start new businesses or expand their existing businesses, which ultimately create velocity of money and generation of employment within an economic territory. Modern banking system is involved in numerous financial services activities starting from lending money to exchange money nowadays (Woelfel 1993).

Defining Economic Development, Pokrant (2001) refers to the raising of the productive capacity of a country through the introduction of policies designed to enhance the

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productivity of land, labour and capital, raise standards of living and reduce or alleviate the poverty of the inhabitants of the country. Economic development usually means improvement of standard of living of the citizens by alleviating poverty through increased productivity. Scholars argue that there is a strong relationship between poverty elevation and economic development (Kifle, Olukoshi & Wohlgemuth 1997).

The principles of Islamic economics recommend interest-free and equity-based financing through the Islamic banking system. A great scholar on Islamic economics, Ahmad says that elimination of interest does not mean zero-return on capital (Ahmad, 1994). Rather, Islam forbids a fixed predetermined return for a certain factor of production. I.e., one party is having assured return and the whole risk of an entrepreneurship to be shared by others. Instead of interest, Islamic economics introduced profit and loss based banking transactions, which spreads the risk between borrower and the banks, made Islamic banks fundamentally different from the conventional interest based banks.

A contemporary scholar on Islamic banking Hassan (1999) views that the successful launching and operation of Islamic banks in Bangladesh has established that banking without interest is feasible. He also observes that Islamic banks have brought together many depositors and entrepreneurs under this banking system

3. Research Context

Bangladesh is a country, where IBBL operates, suffers from immense economic, social and environmental challenges, have been described below:

Economic situation of Bangladesh: Bangladesh has been facing severe economic problems. This country has a per capita income of only US\$781 (Bangladesh Ministry of Finance 2010). Feeding 160 million people with a piece of land measuring 147,570 square kilometers is really challenging. Having an annual budget of USD \$ 23.37 billion, this country is struggling to meet the basic needs for its citizens.

Social condition of Bangladesh: This country also suffers from ruthless social problems. Over two million female workers are employed in Bangladesh in its export oriented garments sector, who are low-paid and barely their salaries meet the day to day expenditures. Another major social problem is acid attacks on women, which are mainly due to refusal of marriage proposals and failure to give dowries to the husbands.

Easily available sulphuric acid, which can deeply injure a human face in seconds, has emerged as a weapon nowadays used to disfigure a woman's body. Social awareness, economic and psychological support, rehabilitation, and strict enforcement of laws are key to combat acid violence in Bangladesh (Begum 2004).

Environmental challenges in Bangladesh: Bangladesh has a number of environmental concerns as well. Being the largest delta in the world located at the downstream of the second largest river system, the country is subject to a series of climatic events. The probable impacts of global climate change (GCC), particularly sea-

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level rise and the associated impact on ecosystems and economic loss, adds to the already daunting array of environmental issues. Climate change will change the physiography and demography of Bangladesh. By 2050, 70 million people could be affected annually by floods; 8 million by drought; up to 8% of the low-lying lands may become permanently inundated (US AID 2011).

However, banking sector plays a vital role in Bangladesh economy. Islamic banking system is becoming popular since 1983 over the conventional banks in this country. Islami Bank Bangladesh Limited is playing leading role in the banking sector for last one decade due to its excellent performance. The Islamic banking system, specifically the IBBL's contribution to the socio-economic development may help improve current situation of the country.

4. Origin & Development of Islamic Banking System and Commencement of IBBL's Journey

Islamic banking refers to a banking activity that is consistent with the principles of the Shari'ah (Islamic jurisprudence) and its practical application through the development of Islamic economics (Ahmad & Hasan 2001). Dubai Islamic Bank, world's first fully-fledged Islamic bank, was established in 1975 (Dubai Islami Bank 2011). In the same year, Islamic Development Bank was established as a follow-up of decision of Conference of Finance Ministers of Muslim Countries. Today, there are 280 Islamic banks in 48 countries, whose total deposits have reached US\$400 billion, in addition to 300 conventional banks, which opened branches, windows or provide Islamic financial products (Dubai Islami Bank 2011).

5. Overview of Islami Bank Bangladesh Limited (IBBL)

Islami Bank Bangladesh Limited, a bank based on Islamic principles and shariah (Islamic law) started its journey with an authorized capital of TK. 500 million (US\$ 7 million) in 1983. This is one of the first interest free banks in South Asia. The opening of an Islamic bank 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. Currently this bank has over 10,068 employees, 251 branches with a deposit of taka 29,193 crore /USD \$4.2 billion (IBBL 2010). There is a Management Committee consisting of the most senior executives of the bank. In addition to these committees, a Shariah Council comprising famous Islamic scholars, economists and bankers, supervise the day to day affairs of IBBL from the viewpoint of the Islamic Shariah (IBBL 2010).

6. Theoretical Framework

The principle philosophy of Islamic Banking is based on Islamic Shariah, which prohibits interest. The role of Islamic banking is to establish the relationship with client is partnership and the operation followed Profit-Loss System (PLS).

6.1 Mudaraba (Capital Financing)

Capital trust financing is a contract between at least two parties in which the bank as the investor supplies the entire capital of the business. These two parties work together and share profits and losses. Under 'Murabaha' financing, the investor is known as 'Rab-Al-Mal', which means the owner of the property and the entrepreneur is called 'Mudarab', meaning the manager of capital. When the venture ends, the manager of capital i.e. the entrepreneur returns the entire capital to the bank, along with an agreed proportion of profit. If there is any loss, it is born by the bank.

6.2 Musharaka (Partnership)

The word 'Musharaka' means a profit sharing joint venture, designed to limited production or commercial activities of long duration. In this case the bank and the customer contribute capital jointly. They also contribute managerial expertise and other essential services at agreed proportions. Profit or losses are shared according to the agreed upon contract. An individual partner does not become liable for the losses caused by other(s).

6.3 Murabaha (Cost Plus Profit)

The word 'Murabaha' means a cost-plus Profit contract. In this system of financing the bank agrees to purchase for a client who will then reimburse the bank in a stated time period at an agreed upon profit margin. The mark-up price that the bank and the buyer agree to is mainly based on the market price of the commodity. Thus the bank earns a profit without bearing any risk.

6.4 Ijara (leasing)

The word 'Ijara' indicates leasing. In this case, the bank is called lessor and the customer is called lessee, who wants to use the assets and pays rent. According to the Western leasing system the lessee pays specific rentals and a fixed rate of interest over a given period for the use of specific assets. But in the Islamic banking system of leasing the risk related to leasing has to be shared between the bank and the lessee, in case of any damage to the leased assets.

6.5 Quard E Hasan (interest free loan)

Quard E Hasan means an interest-free loan given by the Islamic bank to the needy people in a society. The practice of dealing with this sort of investment differs from bank to bank. Quard E Hasan is normally given to the needy people like needy students, small producers, farmers, entrepreneurs and economically weaker sections of the society, who are not in a position to obtain loan or any financial assistance from any other institutional sources.

7. Methodological Framework: Content analysis

For the purpose of this study, Content Analysis has been considered as the most appropriate research method. To understand IBBL's roles and contributions to Bangladesh economy, we explored the contents of the annual report - 2010 of IBBL including relevant texts, articles, books, periodicals and websites. Conducting a content analysis in the current study involves at least four important steps: choose the documents to analyse, select the categories/sections within the report/texts/documents and measure the reliability of data/information.

8. Findings and Analysis

The authors, through a detailed content analysis, found the pieces of information, have been placed below which answers the research question, "What role is IBBL playing towards the socio-economic development of Bangladesh?"

8.1 Role Towards Employment Creation

IBBL has significantly contributed to 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.

8.2 Role in Earning Foreign Remittance

Remittances by migrant workers' earning sent back from the country of employment to the country of origin play a vital role in the economies of many labour sending countries (Puri & Ritzema 1999). Also remittance helps in macroeconomic development process in the home country as the remittance provides significant sources of foreign currency, increases national income, finances imports and contributes to improve the balance of payment situation. Demand for migrant workers remittances to Bangladesh has now increased tremendously. FY 2010-11, remittance inflow to Bangladesh was US\$ 11.65 billion /82,992 crore taka (EPB 2010).

8.3 Role in Strengthening Rural Economy

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).

8.4 Role in Promoting Ecology and Green Banking

IBBL insists on going green banking to help the environment that promote its online banking, Mobile Banking or the idea of socially responsible investment funds for sustainable project finance activities. Its Green Banking practices are connected with both in internal operation and in product ecology. IBBL's green banking initiative is supported by Hassan and Latif (2009), who express that scope for Islamic banks can develop Islamic financial products (such as green product), which contributes to the environment, such as energy efficiency loans or leasing of environmental technology.

8.5 Role in the Country's Industrialization

As per Investment Policy of IBBL, top priority has been given towards the Industrial development of the country. It 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 on RDS observes that the growth rate of investment in the industrial sector is very much significant than many other sectors (Alam 2000).

8.6 Role in the Development of SMEs

The role of Small and Medium Enterprises (SMEs) is indispensable for overall socio-economic development of a country particularly for developing countries like Bangladesh. Since this sector is labour intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation; achieving Millennium Development Goals (MDGs) especially eradication of extreme poverty and hunger, gender equality and women empowerment. In FY 2010, IBBL's Total SME Investment increased by 42.95 percent (compared to 2009) to Tk. 60734.44 crore /US\$ 8.5 at the end of September, 2010.

8.7 Role in International Trade (Import/Export)

IBBL plays significant role in the Bangladesh's international trading business. This bank 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 2010 bank opened 46,736 import Letters of Credit for Tk.24,628 crore/US\$ 3.5 billion crore against 38,717 Letters of Credit for Tk. 16,123 crore /US\$2.3 billion in 2009 showing 53% growth in amount.

EXPORT: During the year 2010, bank handled 46,699 Export Bills for Tk.14,842 crore/US\$ 2.0 billion against 44,291 Export Bills for Tk. 10,642 crore/US\$3.5 billion in 2009 showing 39.46% growth in amount.

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8.8 Role in Housing Finance

IBBL has taken massive initiative to invest under the Housing Investment Scheme for the eligible citizens of 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.

8.9 Contribution to the National Exchequer

IBBL has been able to contribute huge amount to the Government Exchequer as Income Tax out of its profit. This bank paid the highest tax to the Govt. in the Banking Sector by paying Taka 324.51 crore/US\$ 45 million corporate tax in the year 2008 and Taka 325.32 crore in 2009. This revenue income from IBBL's tax is significant for Bangladesh government compared to its total review income, which is an indicator for economic development of the country.

8.10 Role in Performing Responsibility to Society (CSR)

A recent study in Bangladesh observes, 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 (Rahman, Jahan & McDonald 2010). IBBL's CSR towards the society has been briefed below:

Healthcare Program: IBBL provides health care through six fully owned hospitals, 7 community hospitals consisting of 1,021 beds, 561 doctors and 411 staffs. In addition to these hospitals, it has been organizing mobile eye camps and charitable dispensaries.

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

Scholarship Program: IBBL provides Scholarship and lump-sum financial assistance to the meritorious but poor students under its Scholarship Program. Since inception of the Program 6,459 students received Scholarship/grant for Tk. 6.14 crore /US\$.85 million till 2010.

Sports, Art, Literature & Cultural Program: IBBL sponsors various sports & cultural events every year. During the year 2010, Tk. 1 crore/US\$ 0.13 million was donated to Bangladesh Olympic Association for organizing South Asian Olympiad in Dhaka. For example, the Bank contributed Tk. 20 lac/US\$ 28,000 to Bangladesh Association of Banks (BAB) for taking initiatives to encourage the members of Bangladesh National Cricket Team for winning against New Zealand.

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Humanitarian Assistance Program: IBBL always comes forward to assist the victims of natural or social disasters. For example, during the year 2010, the Bank contributed an amount of Tk. 25 lac/US\$35,000 to the Prime Ministers Relief Fund for the victims of

9. Limitations

Though IBBL is playing significant role in developing Bangladesh economy, but all relevant data could not be identified from the relevant industries, who generated businesses from the investment made by IBBL.

10. Summary and Conclusion

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. If this trend remains continued, IBBL's contribution will impact upon the social and environmental sectors, in addition to the economic well being of the country. This can be inferred from this study that this development of Bangladesh will benefit Bangladesh citizens and their future generations to live a better lifestyle.

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