

The Role of Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited in Developing Social Justice in the Economy of Bangladesh

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Abstract

Socio-economic development of a country can truly be measured by ensuring social justice. It requires the expansion of development facilities equally in urban and rural areas. In this urbanized society, the rural areas are lagging behind in every field of development, and the rural development has become a challenge for every country like Bangladesh having huge population living in village areas. Islami Bank Bangladesh Limited (IBBL), has been playing an important role in developing social justice by creating economic opportunities for the rural population. The bank established a *Shari'ah* based Microfinance program named Rural Development Scheme (RDS) in 1995 with the objective of alleviating rural poverty by providing micro-investment to the agricultural and rural sectors. Presently, the scheme is being implemented in around 18,810 villages. Some 940,989 members of around 28,740 centers, of whom 79% are female, are involved in this scheme. For this investment, RDS adds a flat 12.5% profit rate on the purchasing prices and provides a rebate of 2.5% for timely payment, while the CM institutions charge between 15 to 22% interest. The scheme has also been contributing to the moral and ethical development of the rural people. This paper is aimed at assessing the activities of RDS program with a view to analyzing its role in the development of social justice in the economy of Bangladesh. The study has been designed to identify the problems and prospects of the program and thus recommend the ways to improve the program.

Keywords: Social Justice, Rural Development, IBBL, RDS, Economy, Bangladesh.

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INTRODUCTION:

Social justice is ‘justice in terms of the distribution of wealth, opportunities, and privileges within a society’.² Socio-economic development of a country can truly be measured by ensuring social justice. It requires the expansion of development facilities equally in urban and rural areas and among every classes of people impartially in the society. In this urbanized society, the rural areas are lagging behind in every field of development, while majority wealth of a country are concentrated in a very few hands. Thus, the rural development has become a challenge for every country like Bangladesh having huge population living in rural areas, which creates huge economic gap between the rural and urban people. Besides many Conventional Microcredit (CM) institutions, several Islamic financial institutions are also conducting Islamic microcredit programs in Bangladesh to reduce the inequalities of income and wealth based on Islamic doctrines of socio-economic justice and ethics with the advocacy of economic empowerment through entrepreneurship, risk sharing and financial inclusion. Islami Bank Bangladesh Limited (IBBL), as the fastest growing private bank in the country aimed at establishing social justice with Islamic economy, has been playing an important role in the development of social justice in the economy of Bangladesh by creating economic and employment opportunities for the rural population. The bank established a *Shari’ah* based microfinance program named ‘Rural Development Scheme (RDS)’ in 1995 with the objective of alleviating poverty by providing small and micro investment to the agricultural and rural sectors for generating employment and raising the income of the rural poor. Presently, the scheme is being implemented through 251 branches in around 18,810 villages under 64 districts of Bangladesh. Some 940,989 members of around 28,740 centers, of whom 79% are female, are involved in this scheme. For this investment, RDS adds a flat 12.5% profit rate on the purchasing prices of the commodity and provides 2.5% rebate for timely payment, while the CM institutions charge between 20 to 30% interest for the investment. Besides financial activities, this scheme has a special plan to contribute to the welfare, moral and ethical development of the rural people. Keeping this idea in mind, field supervisors are to organize a weekly meeting involving all the clients where *Qura’n* and *Sunnah* based moral and ethical issues are elaborately discussed. This paper is aimed at assessing the activities of RDS program with a view to analyzing its role in the development of social justice in the

² Oxford dictionary, retrieved on 14 November 2015 from <http://www.oxforddictionaries.com/definition/english/social-justice>.

economy of Bangladesh. The study has also been designed to identify the basic problems and prospects of the program. It also recommends the ways to improve the program for a sustainable development of Islamic microcredit in Bangladesh to ensure social justice in the economy of the country.

SOCIAL JUSTICE, ECONOMIC JUSTICE AND ISLAMIC ECONOMICS:

‘Social justice’ is the appropriate scale with which the socio-economic development of a society could truly be measured. It is ‘about assuring the protection of equal access to liberties, rights, and opportunities, as well as taking care of the least advantaged members of society.’³ Social justice is the “promotion of challenging injustice and valuing diversity. All people share a common humanity and have a right to equitable treatment, support for their human rights, and a fair allocation of community resources... People are not be discriminated against, nor their welfare and well-being constrained or prejudiced on the basis of gender, sexuality, religion, political affiliations, age, race, belief, disability, location, social class, socioeconomic circumstances, or other characteristic of background or group membership”.⁴ The UN document states that “social justice may be broadly understood as the fair and compassionate distribution of the fruits of economic growth.”⁵ The term ‘social justice’ was seen by the UN “as a substitute for the protection of human rights.”⁶ The International Labor Organization (ILO) called that “universal and lasting peace can be established only if it is based upon social justice.”⁷ Social justice provides a way of assigning rights and duties in the basic institutions of society to define the appropriate distribution of benefits and burdens of social cooperation.⁸ The relevant institutions include education, health care, social security, labor rights, employments,

³ Rawls, John (1999). *A Theory of Justice*, The Belknap Press of Harvard University Press, pp. 23-25.

⁴ Robinson, Matthew (n.d.). *What Is Social Justice?*, Department of Government and Justice Studies, Appalachian State University, Retrieved on 28 November 2015 from <http://gjs.appstate.edu/social-justice-and-human-rights/what-social-justice>.

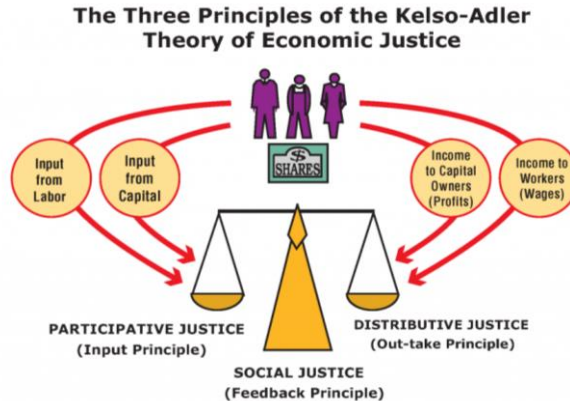
⁵ Department of Economic and Social Affairs (2006). *Social Justice in an Open World; The Role of The United Nations*, United Nations, New York, p. 7, retrieved on 14 November 2015 from <http://www.un.org/esa/socdev/documents/ifsd/SocialJustice.pdf>.

⁶ *Ibid*, p. 52.

⁷ ILO (2010). *Constitution of International Labor Organization*, Geneva, p. 5, retrieved on 14 November 2015 from <http://www.ilo.org/public/english/bureau/leg/download/constitution.pdf>.

⁸ Rawls, John (1999). *Op. Cit.*, p. 4.

infrastructures etc. to ensure fair distribution of wealth, equal opportunity and equality of outcome. It is equated with the notion of equality or equal opportunity in society. Social justice naturally incorporates the economic justice, as the economic institutions determine the earning sources of individuals, distribution of wealth, exchanges of goods and services among the members of society. To Kelso and Adler, there are three interdependent principles: Participative justice (the input principle), Distributive justice (the out-take principle), and Social justice (the feedback principle).⁹



Islam, being religion of nature, maintains that human beings may differ in their abilities, environments, circumstances and thus, economic inequalities too. Besides allowing private ownership of property, Islam strictly maintains that the wealth-gap should be within a reasonable limit. It does not permit that some people live in absolute luxury while millions are left to lead a life of abject poverty. Islamic social justice includes three basic things, namely: (1) just and equitable distribution of wealth, (2) securing basic necessities of life and (3) protection of the weak from economic exploitation by the strong. Hence, Islam takes very effective measures for ensuring social justice that includes *Zakat*,¹⁰ *Waqf*,¹¹

⁹ Louis O. Kelso and Mortimer J. Adler (1958). *The Capitalist Manifesto*, Random House, New York, pp. 64-99, retrieved on 14 November 2015 from <http://www.kelsoinstitute.org/pdf/cm-entire.pdf>.

¹⁰ Zakat is an obligatory form of alms-giving (2.5%) upon the Muslims who possess wealth above a minimum amount known as *nisab* to the poor, needy and specific categories of people once every year. Al-Qur'an says: "The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarers; a duty imposed by Allah. Allah is knower, Wise." (Surah-at-Taubah :60)

¹¹ Waqf is an Islamic endowment typically donating a building or plot of land or even cash for Muslim religious or charitable purposes with no intention of reclaiming the assets.

Sadaqat (voluntary charity), laws of inheritance and bequest, monetary atonements, and compulsory contributions in the form of taxes and levies. To prevent accumulation of wealth in few hands, Islam prohibits *Riba* (interest), hoarding, bribery, gambling, speculative transactions, fraudulent practices, embezzlement and every acquisition of wealth through illegal means. Islam strongly instructs the wealthy people to fulfill the needs of the poor and destitute.¹² To the question as to how much wealth should be spent by the rich for the poor, the Qur'an replies: "... And they ask thee how much they are to spend; say: what is beyond your needs"- (2:219). Thus, Islam inspires the rich people to spend their surplus wealth for the poor. *Abu Zarr Ghiffari*, a close companion of the Prophet (SAAM), who is considered a great champion of the cause of social justice, holds the view that it is unlawful to keep any surplus wealth after meeting one's personal needs and it must be spent to meet the needs of deprived members of the Muslim *Ummah*. In his view, so long as there is even one person who is unable to meet his basic needs, surplus wealth of the rich must be collected by the state and spent on poor. *Ibn Hazm*, a great Muslim jurist says: "It is the duty of the rich that they should meet the needs of the poor and the destitute of their village or town. And if the treasury is not sufficient to meet their needs, then the state has the right to take their surplus wealth, if necessary by force, to meet the needs of the poor in the community." Interests of the weaker classes of the society like women, orphans, slaves, labourers, tenants etc. have been protected through detailed legislation in Islam.¹³ Islam

¹² "And in whose wealth there is a right acknowledged for the poor, beggar and destitute"- (Al-Quran, 70:24-25)

¹³ Give unto orphans their wealth. Exchange not the good for the bad nor absorb their wealth into your own wealth. Lo ! that would be a great sin. - (Al-Qur'an 4:2), And know that whatever ye take as spoils of war, Lo! A fifth thereof is for Allah, and for the messenger and for the kinsman and orphans and the needy and the wayfarer. - (Al-Qur'an 8:41), Lo ! Those who devour the wealth of orphans wrongfully, they do but swallow fire into their bellies, and they will be exposed to burning fire - (Al-Qur'an 4:10), Believe in Allah and His messenger, and spend of that whereof He hath made you trustees....- (Al-Qur'an 57:7), And in whose wealth there is a right acknowledged for the beggar and the destitute. - (Al-Qur'an 70:24-25), The Prophet of Islam is reported to have said: If anyone spent a night in a town and he remained hungry till morning, the promise of God's protection for that town came to an end. - (Musnad Ahmad), *Abu Hurairah* reported that the Prophet (SAAM) said: One who strives for the widows and the poor is like one who fights in the way of Allah - (Bukhari, Muslim), *Abu Saeed Khudhri* reported that the Prophet said: Anyone who possesses goods more than his needs, should give the surplus goods to the weak (and poor); and whosoever possesses food more than his needs

maintains fair wages should be fixed before employing the labourers and that should be promptly paid before their sweat dries up. Interests of consumers have been protected by ordering ban on exploitive business malpractices like hoarding, monopoly, speculation, and short-weighing.¹⁴ Thus, principles of socio-economic justice have been the fundamental principles of Islamic economic system.

ISLAMIC BANKING AND ISLAMI BANK BANGLADESH LIMITED:

Islamic economic system founded the basis of Islamic Banking system based on the principles of Islamic social justice maintaining the laws of Islamic *Shari'ah*. 'Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally-and socially-responsible. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare.'¹⁵ The key principles of Islamic Banking include: 1) Prohibition of interest (Riba) on transactions; 2) Financing must be linked to real assets; 3) Engagement in immoral or ethically problematic businesses not allowed (e.g., arms manufacturing or alcohol production); 4) Returns must be linked to risks.¹⁶ The aim of Islamic economics is not only the elimination of interest-based transactions and introduction of *Zakat*, but also the establishment of just and balanced social order free from all kinds of exploitation.¹⁷ The concept of Islamic banking dates back to the early 1930s, but actual practice began a bit later. The first attempt to establish an Islamic bank was made in Pakistan in the 1950s. In the early 1960s, Islamic banking practices achieved a greater success in Egypt with the establishment of Mit Ghamr Savings Bank. Nasser Social Bank was established in Cairo in 1971 with the objective of granting interest-free loans. In the following years a number of Islamic banks were opened throughout the Muslim countries. Dubai Islamic Bank was established in 1975, Faisal Islamic Bank in Egypt in 1977, United Arab Emirates Islamic Investment Company in 1978, Kuwait Finance House in 1979, Bahrain Islamic Bank in 1979,

should give the surplus food to the needy and the destitute. -(Al-Muhalla by Ibn Hazm).

¹⁴ Give full measure and full weight, in justice...(Al-Qur'an 6:152)

¹⁵ World Bank (2015, 31 March). *Brief on Islamic Finance*, retrieved on 21 November 2015 from <http://www.worldbank.org/en/topic/financialsector/brief/islamic-finance>.

¹⁶ *Ibid*.

¹⁷ Molla, R.I, Moten R.A, Gusau, S.A, and Gwandu A.A (1988). *Frontiers and Mechanics of Islamic Economics*, University of Sokoto, Nigeria, Chapra, M.U. (1992), *Islam and Economic Challenges*, The Islamic Foundation, Leicester.

Qatar Islamic Bank in 1981, Bank Islam Malaysia in 1983. The Islamic Development Bank (IDB) was founded in 1975 in KSA. Thus, Islamic banking system has been growing very fast over the past decade at 10-12% annually and now it comprises of more than 400 institutions tasked with estimated financial assets roughly US\$2 trillion.¹⁸ The World Bank remarked ‘Islamic finance has emerged as an effective tool for financing development worldwide, including in non-Muslim countries... and that it has the potential to help address the challenges of ending extreme poverty ... As the 2008 global financial crisis ravaged financial systems around the world, Islamic financial institutions were relatively untouched, protected by their fundamental operating principles of risk-sharing and the avoidance of leverage and speculative financial products.’¹⁹ Bangladesh’s signing the Charter of IDB in 1974 opened the door for the establishment of Islamic bank in the country. In January 1981, *President Ziaur Rahman* while addressing the third Islamic summit conference stated “Islamic countries should develop a separate banking system of their own in order to facilitate their trade and commerce.”²⁰ In this regard, Islami Bank Bangladesh Limited (IBBL) was established on March 13, 1983 with an authorized capital of TK. 500 million (USD\$ 12.5 million) as a public Limited Company under the companies Act of 1913 with the mission ‘To establish Islamic Banking through the introduction of a welfare oriented banking system and also ensure equity and justice in the field of all economic activities, achieve balanced growth and equitable development in through diversified investment operations particularly in the priority sectors and less developed areas of the country. To encourage socio-economic upliftment and financial services to the loss-income community particularly in the rural areas.’²¹ It was incorporated as joint venture multinational bank with 63.92% of equity contributed by IDB and the rest by other financial institutions.²² The opening of IBBL brought a new era in

¹⁸ World Bank (2015, 31 March). *Op. Cit.*

¹⁹ World Bank (2015, 31 March). *Op. Cit.*

²⁰ IBBL (n.d.). *Emergence of Islamic Banking*, retrieved on 21 November 2015 from http://www.islamibankbd.com/abtIBBL/cis_evolution_of_islamic_bankin_g.php

²¹ IBBL (n.d.). *IBBL at a glance*, retrieved on 16 November 2015 from <http://www.islamibankbd.com/abtIBBL/abtIBBLAtaGlance.php>.

²² The other contributing institutions include Al-Raji Company for Currency Exchange and Commerce of KSA, Kuwait Finance House, Jordan Islamic Bank, Islamic Investment and Exchange Corporation of Qatar, Bahrain Islamic Bank, Islamic Banking System International Holding, KSA, Dubai Islamic Bank, and Kuwait Ministry of Awqaf and Islamic Affairs.

the history of the country's banking industry. To date, IBBL is considered the largest private bank in Bangladesh with 301 branches.²³ From its inception, IBBL has significantly been playing a role in the establishment of social justice in Bangladesh by improving its economy, removing rural-urban economic gap and inequitable distribution of wealth, making effective programs and positive changes to its socio-economic indicators, and developing infrastructure.

RURAL DEVELOPMENT SCHEME (RDS) OF IBBL:

Bangladesh is a developing country with 25.6% of population living under poverty,²⁴ though the actual rate is higher than it.²⁵ The country's economy is basically an agrarian one with vast population living in rural areas. Since the independence, poverty alleviation has become a challenging issue for the country, which has been making social justice almost impossible. The main reason behind it is the prejudice of rural population and area in every indicator of development. According to BBS, Urban residents are 30% more literate than that of rural.²⁶ According to BIDS survey, per capita income in rural area is 13,720 BDT while in urban area is 22,721, per capita personal consumption in rural area is 12,675 while in urban area is 21,140.²⁷ Poverty rate in urban area is 36%, while in rural area is 48%.²⁸ Approximate number of rural poor is about 38 million.²⁹ Below is a poverty comparison between rural and urban area of Bangladesh based on BBS data.

CURRENT SITUATION AND FUTURE PROJECTION OF POVERTY

²³ IBBL (n.d.). *IBBL at a glance, Op.Cit.*

²⁴ BBS (2014). *Statistical Year Book of Bangladesh*, Bangladesh Bureau of Statistics, retrieved on 22 November 2015 from <http://www.bbs.gov.bd/PageWebMenuContent.aspx?MenuKey=366>.

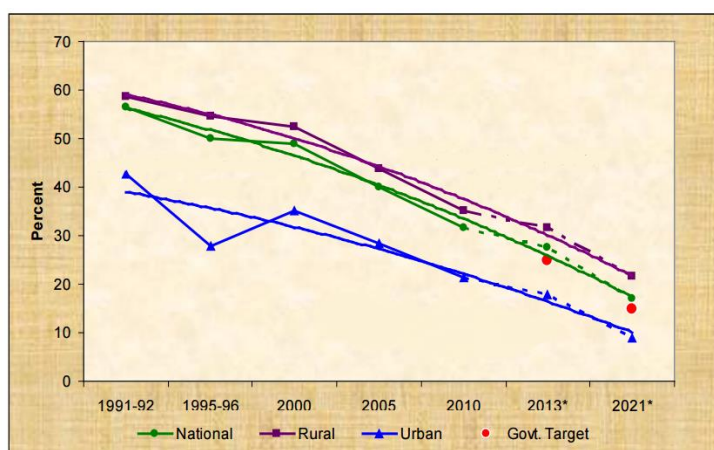
²⁵ IFAD (International Fund for Agricultural Development) maintains that the poverty rate is 31%, retrieved on 21 November 2015 from <http://www.ruralpovertyportal.org/country/statistics/tags/bangladesh>, while UNICEF says its 43% retrieved on 21 November 2015 from http://www.unicef.org/infobycountry/bangladesh_bangladesh_statistics.html.

²⁶ <http://www.thefinancialexpress-bd.com/2015/07/15/100575>.

²⁷ Khan, Azizur Rahman (2005). *Measuring Inequality and Poverty in Bangladesh: An Assessment of the Survey Data*, The Bangladesh Development Studies, Vol. 31, No. 3&4, p. 7.

²⁸ *Ibid*, p. 29.

²⁹ IFAD (2014). retrieved on 21 November 2015 from <http://www.ruralpovertyportal.org/country/statistics/tags/bangladesh>.



Taking this scenario into consideration, several financial institutions conduct microcredit program in the country pioneered by Grameen Bank, which has now been implemented worldwide as an effective poverty alleviation program. These CM programs provide interest-based credit and sometimes the rate is exorbitantly high. Charges for institutional sources range from 15 to 22% and for the non-institutional sources from 33 to 120%,³⁰ hence, capital-building is almost impossible for the rural poor. Thus, the vast population remained under poverty due to lack of education, employment, productive assets, skills and collective efforts to develop rural economy. This results in uneven distribution of income and wealth because of which the rural poor could not come out of the poverty trap.

In this context, IBBL has launched a program namely ‘Rural Development Scheme-RDS’ in 1995 with the objective of alleviating rural poverty by providing *shari’ah* based micro investment to the poor for creating productive employment opportunity and raising their income. The scheme also provides welfare, moral and ethical development services to the rural people. From the beginning, the program received huge success and rapidly expanding in the rural areas of Bangladesh.

SALIENT FEATURES OF RDS:

The fundamental features of RDS of IBBL are discussed below:

³⁰ Mahmood, Kazi Tanvir. (2006). *Effectiveness of Microcredit for Poverty Alleviation under Agricultural Intensification Projects in Bangladesh*, PhD Thesis, School of Graduate Studies, University Putra Malaysia, p. 32.

OBJECTIVES OF RDS:

The main objectives of the scheme are:

- To extend investment facilities to agricultural, other farming and off-farming activities in the rural areas.
- To finance self-employment and income generating activities of the rural people.
- To alleviate rural poverty through integrated rural development approach.
- To extend investment facilities for rural housing.
- To provide educational services, safe drinking water, sanitation and medicare facilities to the down-trodden people.³¹

INTEGRATED DEVELOPMENT APPROACH:

The purpose of the scheme is not only to provide micro investment facilities but also ensure various types of facilities and services to the downtrodden people as a part of Integrated Development Approach. The following areas have been covered under the scheme:

- Humanitarian assistance program.
- Education program.
- Capacity building or training program.
- Health and medicare program.
- Environment protection program.³²

TARGET AREA:

Initially the scheme was started as a pilot scheme in the rural areas of certain districts under the supervision of nearby branches of IBBL. The scheme is being gradually extended to all the districts through different branches of the bank.³³

COMMAND AREA AND BASELINE SURVEY:

Each branch selects villages within 10 kilometers of the branch premises based on easy communication; availability of agriculture and other off-farm activities and abundance of low-income people. After primary selection, branch conducts baseline survey to identify the target group people and the varieties of economic activities in those areas. The branch has to ensure the availability of at least 400 target group people in the selected area.³⁴

³¹ IBBL (2015). retrieved on 17 November 2015 from <http://www.islamibankbd.com/rds/index.php>.

³²*Ibid.*

³³*Ibid.*

³⁴*Ibid.*

TARGET GROUP:

- Able bodied and industrious rural poor aged between 18 to 50 years.
- Farmers having cultivable land maximum 0.50 acres and the sharecroppers.
- Persons engaged in very small off-farm activities in the rural areas.
- Destitute women and distressed people.³⁵

PURPOSE, PERIOD AND CEILING OF INVESTMENT:

Sl.	Sector of Investment	Duration	Ceiling of Investment(BDT)
1	Crop Production	1 year	25,000/-
2	Nursery and commercial production of flowers and 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 and 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/-

The clients are provided investment maximum of BDT 10,000/-(\$145) at the first time and the good performers are given enhancement, upon his requirement, by BDT 2,000 to BDT 5,000 in every next term up to the ceiling of a particular sector.³⁶

RATE OF RETURN:

- The rate of return is 12.5%. Timely repayment is encouraged by offering 2.5% rebate.³⁷

³⁵ *Ibid.*

³⁶ *Ibid.*

³⁷ *Ibid.*

SECURITY REQUIREMENTS:

- Collateral security is not required.
- Each member of a group gives personal guarantee for other members of the group and the members are collectively responsible for payment of investment.
- Deed of agreement
- Usual charge documents
- Required number of signed cheque.³⁸

SAVINGS PLAN:³⁹

MSA-RDS	MSS-RDS
The members of the group have to open <i>Mudaraba</i> Savings Account (MSA-RDS) in their individual names with the branch.	Able members can open <i>Mudaraba</i> Special Savings (MSS-RDS) by depositing minimum Tk.100/- only per month
The weekly compulsory savings is minimum Tk.20.00 only.	

CENTRE FUND:

- Each member of the group has to deposit minimum Tk.5.00 per week in the Centre fund.
- This fund is kept by opening a *Mudaraba* Savings Account in the name of the centre.
- This fund is utilized for the welfare of the members by way of *Quard*.
- This account is operated by centre leader and deputy leader jointly. It is refundable.⁴⁰

Modes of Investment:⁴¹

The branch selects any of the following modes depending upon the sector and purpose of investment : *Bai-Muajjal*⁴² and *Musharaka*.⁴³

³⁸ *Ibid.*

³⁹ *Ibid.*

⁴⁰ *Ibid.*

⁴¹ *Ibid.*

⁴² *Bai-Muajjal* means sale for which payment is made at a future fixed date or within a fixed period. It may be defined as a contract between a buyer and a seller under which the seller sells certain specific goods permissible under Islamic Shari'ah to the buyer at an agreed fixed price payable at a fixed future date in lump sum or within a fixed period by fixed installments. Retrieved on 17 November 2015 from <http://www.islamibankbd.com/prodServices/prodServBaimuajjal.php>.

SANCTION AND DISBURSEMENT:

- Based on the list submitted by the field officers, the investment committee of the branch scrutinizes the applications and sanctions the investment at branch level.
- After sanction, the branch complete documentation formalities and disburse the amount.
- Investment under RDS in *Bai-Muajjal* mode, where actual cost, quality or suppliers of the goods cannot be determined earlier, proposed goods are purchased to the debit of suspense A/c (Purchase A/c). After purchase of goods and handing over to the clients, investment is made by adjusting Purchase A/c.
- In all the cases, branch must ensure strict adherence to the banking and *Shari'ah* norms.⁴⁴

MODUS OPERANDI:

The cardinal principle of the scheme is 'group approach'. For all decision-making activities, mutual consultation is given priority. The operational procedures in brief are as under:

- Select villages within 10 kilometer radius from the branch.
- Conduct base line survey to identify target group people.
- Small groups to be formed consisting of 5 members preferably of similar professions.
- The members of the group select their leader and deputy leader to co-ordinate the group activities. The branch manager gives formal recognition of the group by issuing pass books.
- A centre is formed by 2 to 8 groups. The group leaders select the centre leader and deputy leader from amongst themselves to co-ordinate the centre activities.
- The centre conducts regular weekly meeting.
- Centre meetings are recorded in a resolution book along with signature of the members. Attendance in the centre meeting is the first requirement for being a dependable client.
- The agenda of the centre meetings are:
 - ✓ Discussion on different Islamic topics, moral values, social rights & responsibilities
 - ✓ Collection of investment installments, personal savings, centre fund etc.

⁴³ Musharaka is a contract of partnership between two or more individuals or bodies in which all the partners contribute capital, participate in the management, share the profit/loss in proportion to their capital or as per pre-agreed ratio. Retrieved on 17 November 2015 from <http://www.islamibankbd.com/prodServices/prodServMusharaka.php>.

⁴⁴ IBBL (2015).retrieved on 17 November 2015 from <http://www.islamibankbd.com/rds/index.php>.

✓ Appraisal and approval of investment proposals, etc.

- Investment client are selected in the centre meeting. The applications of selected clients are submitted to branch manager.
- Each member of the group has to provide guarantee against investment of other members.
- Clients are allowed to take initially BDT 10,000/- (US\$ 145). The amount would gradually be increased up to BDT 1,00,000/- (US\$1,449).
- The investment amount along with the profit has to be paid back by the clients in 45 equal weekly installments.⁴⁵

SUPERVISION, FOLLOW-UP AND MONITORING:

- The branch is responsible for the investment and recovery. Field officers make intensive supervision over the clients. The group approach is very helpful in this process- clients are motivated, induced and pressed by the fellow members in recovering the investment.
- Each field officer is appointed for 400 clients and one or more assistant officer/officer is engaged in the branch as project officer.
- One or more officials in each zonal office are assigned as RDS zone officer to supervise the RDS activities of the branches. The zone officers visit the branches at least twice in a year.
- Head office officials also visit the activities in the branch level once in a year.
- Weekly, monthly, quarterly and annual statement of RDS of the branches are prepared and sent to the higher authority to monitor and evaluate the activities regularly.⁴⁶

INVESTMENT UNDER MEIS:

- ‘Micro Enterprise Investment Scheme (MEIS)’ has been introduced in 2005 to satisfy the graduated clients who are already availed highest investment limit under RDS.
- The ceiling of MEIS investment is BDT 50,000/- (\$725) to BDT 300,000/- (\$ 4348).
- The existing field officers and project officers will propose for investment under MEIS and the branch manager will approve the proposals.
- The scheme has been chalked out in such a way so that all the persons within the target area may be brought within the fold of bank’s investment for productive economic activities.⁴⁷

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

PERFORMANCE OF RDS (UP TO 31 DECEMBER, 2016):⁴⁸

251 Branches of IBBL have been operating the activities of RDS in

Sl	Areas of performance	Fig. in million Taka (\$)
Area Coverage		No.&Volume/ Amnt.
1	No. of branches	252
2	No. of villages (no. of total village in the country is about 87,000)	19,418
3	No. of districts	64
4	No. of centers	28,960
5	No. of groups	180,403
6	No. of Members (existing)	999,140
7	% of women members	83%
8	Average no. of members per centre (expected no. 40)	35
9	No. of clients (Who availed investment)	582,852
Financial Statement (RDS & MEIS)		
10	Cumulative disbursement (since inception)	161,891.28
11	Present outstanding	24,476.99
12	Overdue	111.38
13	Percentage of recovery	99.54%
14	Balance of members' savings (including Centre Fund)	7,952.64
Financial Statement (MEIS)		
15	Number of clients under MEIS	76,348
16	Cumulative disbursement (since 2005)	47,757.25
17	Present outstanding	10,831.11
Manpower Position		
18	No. of field officers	2,573
19	No. of project officers	208
20	No. of zone officers	23

18,810 villages of 64 districts among 940,989 members with an

⁴⁸ *Ibid.*

investment amount of BDT 123,447.24 million. Rate of recovery is more than 99.14%.

Indicators	Conventional Microcredit Program	RDS of IBBL
Basic principle	Based on man-made principles	Based on Islamic <i>Shari'ah</i>
views of poverty	Any individual having per day income less than US\$ 1.0	Any individual having less than <i>Nisab</i> (no zakat is due on wealth) amount of income
Sources of Fund	External, client's savings	External, client's savings, <i>Zakat</i> , <i>Awqaf</i> , <i>Sadaqah</i>
Financing	Based on interest	Based on Islamic modes of finance such as <i>Mudarabah</i> , <i>Musharakah</i> , <i>Bai-Muajjal</i> and free from interest
Financing the poorest	The extreme poor are left out	The extreme poor are targeted by integrating <i>Zakat</i>
Fund Transfer	In cash	In goods
Target group	Women preferred	Any member of family
Collateral	Collateral is required	Collateral-free
Deduction	Deduction at the beginning but the interest is calculated on total amount	No deduction
Interest/profit rate	Between 20 to 30%	12.5% profit rate with rebate of 2.5% for timely payment
Ethical development	No contribution to ethical development	Special contributions to moral and ethical development
Objective	Maximising profit without restriction	Maximising profit subject to <i>Shari'ah</i> restrictions
Relationship	Creditor-Debtor relationship	Partner, investor/trader, buyer/seller relationship

Risk	Risk free as interest is pre-determined	Profit-loss sharing between RDS and client
Dealing with defaults	It can charge additional money in case of defaulters Group/centre pressure	No provision to charge extra money from the defaulters Group/spouse guarantee, and Islamic ethics
Result	Bank's interest is prominent, no effort to ensure growth with equity	Due importance to the public interest, ensures growth with equity
Work incentive	Material	Material and spiritual

URBAN POOR DEVELOPMENT SCHEME (UPDS):

IBBL launched a new scheme in 2012 under the name of "Urban Poor Development Scheme (UPDS)" to ensure equity and justice in the field of all economic activities. The objectives of UPDS are:

- To alleviate urban poverty through investment in income generating activities
- To improve the livelihood of urban poor specially the slum dwellers
- To improve the health and education status of urban poor specially the children and women
- Help to improve the environment of the poor
- Reduce the level of crime through the development of ethical and religious values.⁴⁹

THE BASIC DIFFERENCES BETWEEN THE CONVENTIONAL MICROCREDIT PROGRAMS AND RDS:

There are some basic differences between the Conventional Microcredit Program and Islamic Microcredit Program such as RDS of IBBL. Some important differences are as follows:

THE ROLE OF RDS IN ESTABLISHING SOCIAL JUSTICE:

The RDS has remarkably been contributing to the establishment of social justice by developing socio-economic condition of rural poor, creating employment opportunity for them and most importantly prioritizing their moral progress.

OVER-ALL PROGRESS COMPARED TO CONVENTIONAL MICROCREDIT PROGRAMS:

There are more than one million

⁴⁹ *Ibid.*

small businesses in Bangladesh as potential borrowers, but only 7% of them have access to formal financial institutions.⁵⁰ IBBL created RDS program in order to capture this market and address the gap that the government, CM programs and NGOs failed to address. Being the first Islamic and interest-free scheme, RDS attracted the religious Muslim poor, while collateral-free made it easily-accessible to them. The number of centres, groups, members, investment amount, and recovery rate are witnessing the widespread popularity, rapidity in expansion and success of the program. RDS introduced the first Islamic microcredit model in the country and abroad without financial support from the government or external donors. Unlike CM programs, the RDS earns a very nominal profit from the program. In every indicator of progress of microfinance institutions, RDS has a remarkable status. This provides anecdotal evidence that there is a high demand for RDS products and if this growth continues, it can have positive implications on the rural poor's livelihood and their economic development. Here is a comparative report on the progress of microfinance programs in Bangladesh following the data of Bangladesh Microfinance Statistics Report 2013,⁵¹ which evidently support the idea of high growth of RDS and its success:

Items	Branch (as on December)			Members (as on December)		
	2012	2013	Growth over 2012 (%)	2012	2013	Growth over 2012 (%)
MF-NGOs	14,759	15,135	3.70	23,871,924	23,464,946	-3.50
Grameen Bank	2,567	2,567	0.00	8,373,893	8,543,977	2.03
PDBF ⁵²	357	390	9.24	735,622	828,191	12.58
RDS	207	240	15.94	733,520	836,227	14.00
Grand Total	17,890	18,332	2.1	33,714,959	33,673,341	-1.93
Items	Borrowers (as on December)			Loan Disbursement (as on December)		
	2012	2013	Growth over 2012 (%)	2012	2013	Growth over 2012 (%)
MF-NGOs	18,415,896	18,933,795	0.94	379,493.08	440,815.27	16.16

⁵⁰ Parveen, Jannat Ara (2009). "Sustainability Issues of Interest-free Microfinance Institutions in Rural Development and Poverty Alleviation; The Bangladesh Perspective," *Theoretical and Empirical Researches in Urban Management* vol. 2, no. 11, p. 117.

⁵¹ Credit and Development Forum (2013). *Bangladesh Microfinance Statistics Report*, retrieved on 22 November 2015 from http://www.cdfbd.org/new/admin/images/Chapter_1-Development.doc

⁵² Palli Daridra Bimochon Foundation.

Grameen Bank	7,536,504	6,738,588	-10.59	118,608.80	126,026.30	6.25
PDBF	468,349	523,416	11.76	5,539.60	6,263.40	13.07
RDS	474,766	532,235	12.10	14,529.75	19,522.61	34.36
Grand Total	26,895,515	26,728,034	-2.42			15.75
Items	Recovery Rate (as on December %)			Distribution of members' net savings (as on December)		
	2012	2013		2012	2013	Growth over 2012 (%)
MF-NGOs	98.21	94.91		78,725.95	100,599.18	27.78
Grameen Bank	98.31	99.69		79,162.40	92,211.00	16.48
PDBF	98.00	98.00		2,229.00	2,789.50	25.15
RDS	100.00	100.00		3,322.52	4,377.98	31.77
Grand Total	98.16	98.47		163,439.87	199,977.66	22.36
Items	Distribution of outstanding loan (as on December)					
	2012	2013	Growth over 2012 (%)			
MF-NGOs	230,722.51	263,668.22	12.20			
Grameen Bank	80,321.50	84,385.00	5.06			
PDBF	3,616.40	4,197.40	16.07			
RDS	10,390.71	13,730.92	32.15			
Grand Total	325,051.12	365,981.54	10.55			

ETHICAL DEVELOPMENT AND TRAINING:

Moral development is an important factor for human development and social justice. It is quite logical that the clients with good morality are honest and sincere in their dealings. As RDS investment is collateral-free, clients ethical values would indirectly be proxy as collateral to get their investment back and also to invest the borrowed money to the proper income generating activities. Unlike other microcredit programs, RDS has incorporated ethical development activities in its microcredit program. Field supervisors are responsible to organize a weekly meeting involving the clients where moral development related issues- on the basis of *Qura'n* and *Sunnah*- are discussed. RDS through its ethical programs and informal education contribute to create social awareness about different environmental and national issues. Research result shows that the recovery rate of RDS is almost 100% and most of the clients do fasting, almost 85% women clients maintain *purda*

(covering the head), about 85% clients avoid interest.⁵³ RDS program also provides training and non-formal education to the clients to enhance their level of skills in performing income generating activities. Thus, the RDS program is developing religious-moral values, socio-economic and educational-cultural awareness among its clients which ultimately contributing to social justice.

ENSURING INVESTMENT IN INCOME GENERATING ACTIVITIES PROPERLY: The RDS program is styled following Grameen Bank⁵⁴ concept except the scheme uses Islamic modes of investment. Under this model, the bank does not provide the loan in cash, rather goods to the clients, which ensures the investment in income generating activities. In the CM programs, the investment is handed over in cash and thus there is possibility of using money in non-productive activities. RDS investment is allowed for the purpose of production of crops, off-farm 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, in all covering about 343 types of economic activities. Thus, the collateral-free RDS investment is more effective in alleviating poverty by creating income generating activities in the rural areas. These income generating activities on the one hand, increase their income directly, and on the other hand it increases their ability for more investment in new income generating activities as well as enhances their purchasing ability. More purchasing ability would enable them to spend more on food, health, education, nutrition, and thus, leading them to a higher quality of living. Beneficiaries from RDS were also able to increase their net savings by more than 32%, the highest growth in comparison with CM programs according to Bangladesh Microfinance Statistics. Several studies⁵⁵

⁵³ Rahman, Mizanur. M., Jafrullah, M., & Islam, Tawhidul ANM. (2008). "Rural Development Scheme of Bangladesh Limited (IBBL); Assessment and Challenges", *IIUM Journal of Economics and Management*, Vol. 16, No. 2, p. 153.

⁵⁴ Grameen Bank is a Nobel Peace Prize-winning microfinance organization founded by Professor Muhammad Yunus in 1983 in Bangladesh. It pioneered providing small loans 'microcredit' to the impoverished poor without requiring collateral.

⁵⁵ Bhuiyan, Abul Bashar, Abdul Ghafar Ismail, and Mamunur Rashid (2011). "Islamic microcredit in Bangladesh: performance analysis of rural development scheme (RDS) of Islami Bank Bangladesh Limited (1996–2009)," *The Global Journal of Finance and Economics* vol. 8, no. 1, pp. 1–21., Bhuiyan, Abul Bashar, Chamhuri Siwar, Abdul Ghafar Ismail, and Basri Talib (2011). "Islamic Microcredit is the Way of Alternative

show that the household income and asset remarkably increased of RDS members.

Category of activities	Change in asset possession (in Taka) ⁵⁶		Changes in household income ⁵⁷	
	Before joining RDS	3 years after joining RDS	Before joining RDS	3 years after joining RDS
Agriculture	35,112	101,785	17,470	22,595
Business	25,957	87,762	46,513	60,505
Others	30,932	94,773		

EASILY ACCESSIBLE AND OPEN FOR ALL: The beneficiaries of RDS are mainly rural poor having limited access to education, institutional credit and productive resources. Due to their inability to meet the collateral requirement, the rural poor cannot start up productive activities even though they may have the adequate skills for pursuing income-generating activities. In such circumstances, RDS program supports the poor to have access to finance without providing collateral. Only member of a group gives personal guarantee for other members of the group and the members are collectively responsible for payment of investment. Thus, anyone can enjoy easy access to avail RDS investment. CM programs mainly target women with the vision of women empowerment. In practice, the women clients are not necessarily the users of the funds. It has been reported that male household members are usually tend to control the funds which creates tensions within the households and even increases violence against

Approach for Eradicating Poverty in Bangladesh: A Review of Islami Bank Microcredit Scheme,” *Australian Journal of Basic and Applied Sciences* vol. 5, no 5, pp. 221–230., Parveen, Jannat Ara (2009). “Sustainability Issues of Interestfree Microfinance Institutions in Rural Development and Poverty Alleviation. The Bangladesh Perspective,” *Theoretical and Empirical Researches in Urban Management* vol. 2, no. 11, pp. 112–133.

⁵⁶ Jinan, Tasnimun (2008). “Impact of Micro-Investment Program under Rural Development Scheme of Islami Bank Bangladesh Limited from Poverty Alleviation in Mymensingh District,” *Thoughts of Economics* vol. 19, no. 4, pp.73–93.

⁵⁷ Rahman, M. Mizanur (2010). “Islamic Micro-finance Programme and its Impact on Rural Poverty Alleviation,” *International Journal of Banking and Finance* vol. 7, no. 1, pp. 119–138, retrieved on 22 November 2015 from www.tinyurl.com/MRahman2010.

women.⁵⁸ While male members tend to utilize such funds usually on non-income generating activities, the women are consistently being pressured to repay the loan installments by the loan provider institutions and thus, increasing the likelihoods of loan defaults leading families to spiral further into poverty. On the contrary, RDS focus on the family as a whole and every member of a family can avail the investment equally male or female as Islam believes the family as the cornerstone of society and a divinely ordained institution. Consequently, the RDS investment is easily accessible for all and both recipient and spouse are responsible for the repayment of loan.

MANAGEMENT, MONITORING AND SUPERVISION FOR PROPER UTILIZATION OF THE FUND:

As a collateral-free funding, the RDS investment is strongly managed, monitored and supervised by the authority, which in turns, results in the proper utilization of the fund in creating employment opportunities by the rural poor. It starts after an eight-week observation of the group members in terms of regular attendance in weekly meetings, centre meetings, and deposit of their personal saving. At the group and centre meetings, members are offered support services such as skill training, environmental awareness and entrepreneurship development to ensure the success of the potential new investment. During the eight-week process, all the investment applications are carefully reviewed. Two members from each group selected by the group members are considered for investment and investment products (not cash) are handed over to the clients. The investment starts with Tk. 10,000 and based on good repayment, it increases by Tk. 2,000 to 5,000 in every succeeding term depending on the sector. The rest of the group members become eligible for financing after observing member who received loan has duly paid 2/3 installments. The rate of return (based on profit-loss sharing method) is at 12.5%, however timely repayment is rewarded by 2.5% rebate, thus a successful member will pay 10% profit to the bank. This rate of return is remarkably lower than the rate of CM programs in Bangladesh. Moreover, members of the centre also have to open a Mudaraba savings account and to deposit Tk. 20 per week. Savings can be withdrawn once members have fulfilled their liabilities towards the bank. This ensures the sustainability of the fund. And to promote the act of *Zakat*, members are encouraged to deposit a minimum of Tk. 5 per week to the *Quard-El-Hasan* fund, which is given to the extremely

⁵⁸ Rahman, Aminur (1999). "Microcredit Initiatives for Equitable and Sustainable Development: Who Pay?," *The Bangladesh Development Studies* vol. 22, no. 2, pp. 49-92.

poor, for members who are unable to repay their installments timely or toward the rural development (building latrines, tube wells etc.). The receiver of the *Quard-El-Hasan* is only liable for the repayment of the principle without profit. This innovative approach encourages the act of giving and ensures the inclusion of extremely poor in the program to become self-reliant. Investment proposals are strictly scrutinized which ensures investment in the most profitable and productive projects. It leads to further employment of the poor and has considerable socio-economic effects in the long run. This kind of operational mechanism has proved to be very successful in benefiting many of the rural poor. It makes RDS program one of the most successful schemes in Bangladesh in alleviating rural poverty.

DEDUCTION AT THE BEGINNING:

It is a practice of CM programs to deduct an amount from the loan before disbursement for different reasons such as group and emergency funds. But the interest paid by the beneficiary is calculated on the total amount. Furthermore, there is a risk that the fund might be diverted to non-productive uses as the fund reduced after deduction. In RDS, there is no such deduction and the fund is directly used to purchase the goods and these goods are given to the beneficiary and thus the risk of diverting fund is minimized.

UTILIZATION OF ISLAMIC ECONOMIC SOURCES AND SMALL FUNDS:

One of the important features of RDS is using the Islamic financial sources such as *Zakat*, *Waqf*, *Sadaqah* etc. The *Zakat* management in Bangladesh is still very poor and thus these potential Islamic resources are could not being efficiently utilized for the rural poor and needy people. Several studies show that *Zakat* can play a vital role in alleviating poverty in Bangladesh.⁵⁹ Here are also potentials to have a vast amount from other Islamic financial sources such as *Waqf*, *Sadaqah*, if the wealthy Muslims are properly motivated. RDS takes the initiative to use the fund of Islamic sources for poverty alleviation which enriches the program with a very special characteristic. Many small funds from these Islamic sources are combined together and managed in the most profitable way through RDS, obviously contributing to reduce rural poverty as well as social justice.

⁵⁹ Ahmed, Habib (2010). "Zakah; Macroeconomic Policies and Poverty Alleviation: Lessons from Simulations on Bangladesh", *Thoughts on Economics*, Islamic Economics Research Bureau, Vol. 18, No. 3, pp. 83-111.

CARING THE POOREST OF THE POOR:

CM programs usually do not pay attention to the poorest of the poor, on justification “extending microfinance to the extremely poor not only does not saves them, but also, because of the disability for repayment, makes them more indebted and will make them poorer in the future”.⁶⁰ But in RDS program, the poorest are targeted under the scheme of *Quard-El-Hasan*.

HUMANITARIAN ASSISTANCE PROGRAM:

Only financial services alone do not lift the poor out of poverty. They need to be combined with services that add to the accumulation of their human, social and natural capitals. Aside from the financial, RDS also provides humanitarian assistance program, education program, capacity building and training program, health and medicare program, and the environment protection program. These assistances contribute to socio-cultural and environmental awareness among the rural poor.

PARTICIPATION OF WOMEN IN DECISION MAKING PROCESS:

Men have been the main decision makers within the family relating to crop production, employment, housing, child education etc. A study⁶¹ revealed that after joining RDS program, women’s participation in decision-making process is dramatically increased. It is evident that women’s involvement in the program increased women’s empowerment within the household and the community. Facilitating women with access to and control over economic resources have significantly improved the stability and financial means of participating households. They not only generated new income, but also impacted positively the entire wellbeing of their household, and possibly the community and entire society. Here is the result of study:

Decision making areas	Investment in business and agriculture activities					
	Before taking invest			After taking invest		
	Man only (%)	Woman only (%)	Man in consultation with woman (%)	Man only (%)	Woman only (%)	Man in consultation with woman (%)
Crop Production	98	-	2	54	-	46
Labor employe	100	-	-	14	2	84

⁶⁰ Dhumale, R & Sapcanin, A. (1998). *An Application of Islamic Banking Principles to Microfinance*, Regional Bureau for Arab States, New York, p. 189.

⁶¹ Jinan, Tasnimun (2008). *Op. Cit.*

nt						
Housing	60	26	14	2	2	96
Children's care	-	82	18	-	66	34
Child education	80	2	18	2	2	96
Village meetings	98	2	-	14	84	2
Child marriage	66	-	34	-	-	100
Rural activities	88	-	12	44	-	56

ACCESS TO HEALTHCARE SERVICES:

Health is one of the basic needs of human being. A study⁶² provided a good picture on the linkage between RDS and access to health services, safe drinking water and sanitary latrine. It indicated that after joining RDS, due to the increase in family income, beneficiaries' access to health care and tendency of using sanitary latrine increased by 10%. Also to promote further improvements in the health sector, IBBL through its non-financial investments under RDS, provided hand tube wells and sanitary latrines to successful members from *Zakat* fund. As of December 2008, a total of 6,844 tube wells and 3,838 sanitary latrines have been built.⁶³ Thus RDS produced multiplier benefits for the beneficiary's households and livings.

SPIRITUAL INCENTIVES:

In the case of CM programs, the main motives of the employees are monetary. This is in stark contrast to the work incentives of employees of RDS which, before all, are religious and only subsequently monetary. In other words, in RDS, the staffs view their work as a part of religious duty. This spiritual sense makes them sincere, honest and client-friendly, which in turns, makes the program a very successful and effective one in the country.

PROBLEMS AND PROSPECTS OF RDS PROGRAM:

⁶² Uddin, Mohammad Main (2008). "Credit for the Poor: The Experience of Rural Development Scheme of Islami Bank Bangladesh Ltd.," *The Journal of Nepalese Business Studies*, Vol. 5, no. 1, p. 72, retrieved on 23 November 2015 from www.nepjol.info/index.php/JNBS/article/view/2084/1910.

⁶³ Haque, M.S. and. Yamao, M. (2011). "Prospects and Challenges of Islamic Microfinance Programmes; A Case Study in Bangladesh", *International Journal of Economic Policy in Emerging Economics*, Vol. 4, no. 1, p. 104.

In spite of having remarkable success in reducing rural poverty and thus establishing social justice, the RDS program also has some problems diverse in nature. The basic challenges and prospects of the program are discussed below:

FINANCIAL VIABILITY:

Lack of financial viability is one of the main shortcomings of RDS. A study⁶⁴ shows that as of 2009, only 27% of disbursements have been financed from savings while the rest from debt, IBBL's other investments. The financial viability of RDS is thus dependent on the financial viability of the IBBL's commercial means. The high dependency on debt could make the business of RDS risky. The program has been incurring high operational costs too. In 2009 the operating cost was 75%. The net profit has gradually been decreasing. In 1996, the profit was 62.91% and in 2009 it stood at 7.88%. In order to make RDS program financially viable, IBBL will need to consider other financial and human management means to strategically minimize its operational and transaction costs.

LACK OF FUND AND PROSPECTIVE SOURCES:

For a sustainable program in the long-run, adequate funding is required. In order to extend RDS service to greater number of rural poor, large volume of fund is needed. As there is lack of knowledge about Islamic micro-financing among the donors and *Zakat-Waqf-Sadaqah* payers, many are not interested in funding such programs. IBBL should spread the concept of Islamic micro-financing among prospective national and international donors, *Zakat-Waqf-Sadaqah* payers, development agencies and make them understand the importance of financing such a model for poverty alleviation with a view to raise the fund for a sustained successful project.

CAPACITY BUILDING:

Capacity building is needed at all levels for a successful microcredit program. Though RDS program operating in 64 districts, the number of client is not as high as many CM programs. Currently, RDS has about 1 million clients while Grameen Bank has about 10 million. To expand the activities of RDS at a large scale, it needs to strengthen its capacity. There should be a comprehensive guideline for Islamic microfinance. It is observed that field supervisors are not well trained to motivate the rural people for income generating activities. Frequent training should therefore be organized to improve field supervisors' knowledge, skill and ethical values with developed operational tools and manuals. Although, participation in

⁶⁴ Bhuiyan, Abul Bashar, Abdul Ghafar Ismail, and Mamunur Rashid (2011). *Op. Cit.*, pp. 1-21.

religious activities has been improved after joining RDS, there is still scope for improvement of these activities, especially knowledge about interest, its consequence, and how to get rid of it. In the weekly meetings, effective lectures may be organized covering wider issues.

POLICY ENVIRONMENT:

For any microfinance program to be successful, a favorable policy environment should be offered by the government. Still now, there is no set rule for Islamic microcredit programs like RDS in Bangladesh. Without setting policies to support Islamic microcredit, the expected success of RDS is not possible. Thus, a good policy environment supported by the government is needed to offer better services to large number of rural poor. Government's role should ensure stability and viable Islamic microcredit programs in the country.

PROBLEMS WITH THE CLIENTS:

A study⁶⁵ shows that the 90.65% clients of RDS had problems with investment size. They viewed that the investment amount was insufficient to conduct a productive income generating activities smoothly. 86% clients mentioned the training facilities to upgrade their skill were not satisfactory. 85% clients mentioned their problems in receiving the investment payments lately. This was followed by the very short gestation period for repaying investment. 78% clients mentioned that they had to start repay even before investing the money. Rural poor are not enough aware of modern technology. They usually use the traditional method of farming, resulting in low production. Therefore, effective training with modern technology should be provided on farm/off-farm activities, credit management, environmental pollution, legal rights etc. Necessary technical support may also be provided to the rural entrepreneurs.

SELECTING TARGET PEOPLE AND PROPER UTILIZATION OF THE FUND:

RDS is a welfare oriented program rather profit. It has definite target people in rural Bangladesh prioritizing the most vulnerable poor, widows and divorcees. Study⁶⁶ shows that only 2% of clients are divorcees and widows. The selecting criterion is the person should have land less than 50 decimals. But study shows that 35% of clients have more than 50 decimals land, and are basically not

⁶⁵ Rahman, Mizanur. M., Jafrullah, M., & Islam, Tawhidul ANM. (2008). *Op. Cit.*, pp. 158-159.

⁶⁶ *Ibid.*, pp. 152-158.

poor. Therefore, regulations should strictly be followed in selecting target people. The result shows that all the clients have not invested their borrowed money in income generating activities. Some of them have utilized it in house repairing, children's marriage, furniture purchase etc. Therefore, proper monitoring and supervision should be done so that they use the fund in income generating activities. The rural poor usually invest in seasonal crop production and sometimes they are unable to repay before the end of season. Therefore, a product-based periodic investment may be developed. Besides, crop cultivation is depended on nature and there is possibility of natural damage. Hence, farmers may require supplementary investment to re-plant their crops. Therefore, a supplementary investment system may also be developed.

CONCLUSION:

Poverty alleviation and just distribution of wealth are precondition for establishing social justice in the society. Microcredit is now a well-established poverty alleviating program which is being implemented across the world. Bangladesh as a country with about 170 million population and about 30% living under poverty, keenly needs to reduce rural poverty and minimize the rich-poor or urban-rural wealth gap for establishing social justice. Many microcredit institutions working in Bangladesh provide interest-based credit to the rural poor, prioritizing the women. These institutions do not care about their ethical developments, which is essential in all aspects of life. Besides, the extreme poor are left out from the interest-based microcredit programs and the interest rate is also exorbitantly high. In these circumstances, IBBL, as one of the fastest growing and best performing banks in Bangladesh based on Islamic *sharia'h*, introduced first Islamic microcredit program RDS, now which has become a very successful microcredit program in Bangladesh remarkably contributing to reduce rural poverty. The program is welfare-oriented rather profit based on Islamic *Sharia'h*. It targets the extreme poor members, who are left out by the CM programs. It is collateral-free and provides the investment not in cash but in goods. The program has no deduction, while CM programs deduct an amount before disbursement. Any member of a family can receive the investment, while women are given priority in CM programs. The interest rate of CM programs is between 20 to 30%, while RDS executes 12.5% profit rate based on profit-loss sharing method with 2.5% rebate for timely payment. RDS arranges weekly programs for ethical and moral development of the client. Several studies remarked that the RDS, from its inception, has successfully been contributing to alleviate poverty and thus ensuring social justice. Though the program has been proved as a very successful one, it has still now several

shortcomings to be overcome to make it as an effective tool for ensuring social justice. It should be made financially viable with strong resources and fund. *Zakat, Waqf, Sadaqah* should be made key sources of RDS fund. The concept of Islamic microfinance should widely be expanded among the development agencies, *Zakat*-payers and the mass people of society by arranging various seminar, symposium or conferences to enrich RDS fund. Comprehensive guideline should be developed for Islamic microfinance. Field supervisors should be well trained to motivate the rural people for income generating activities. In the weekly meetings, effective lectures on moral development and religious issues should properly be organized to make the rural people conscious about ethical practices, socio-environmental pollution, legal rights, nutrition, and health issues. Selection procedure and concerned regulations should strictly be maintained so that the benefits of the fund would go to the proper targeted poor in the rural areas of the country. Clients' problem with the size of investment, repayment method, disbursement timing, and training should be taken into consideration. IBBL can create new investment mode and scope for RDS investment by further research and study to make the program sustainable in the long run. Finally, a supportive legal environment should be developed by the policy makers for such kind of projects for sustainable socio-economic development of the country.

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