

Socio-Economic Impact of Islamic Banking and its Future in Bangladesh: A Case of IBBL

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Abstract: Islami Bank Bangladesh Limited (IBBL) is one of the fastest growing and best performing banks in Bangladesh. IBBL is playing a leading role in the banking sector for last one decade and specifically the IBBL's contribution to the socio-economic development may help improve the current worse situation of the country. This study presents the role of Islami Bank Bangladesh Limited (IBBL) to the contemporary socio-economic impact and economic development in Bangladesh. The study explores available writings, objects, scholar articles, websites and annual report of IBBL through a content scrutiny. Significant findings of this study manifest the different areas of economic progress in Bangladesh by IBBL like generating employment, earning foreign remittance, strengthening rural economy, promoting ecology and green banking, enhancing industrialization, emerging the SMEs assisting in foreign trade (import-export), rising the housing sector, etc. This study contributes to the field of economic development of Bangladesh the role of IBBL behind it, especially where there is a lack of literature in this specific area.

Key words: Islamic banking, economic development, Bangladesh, Islami Bank Bangladesh Limited, foreign

INTRODUCTION

Once it was a myth to open an Islamic bank and to help the bank survive competing with the interest-based magnificent local banks like United, Habib, National and so on. Since, the establishment of the Dubai Islamic Bank in 1975, over 277 Islamic banks had established in 70 countries around the world. Nowadays, the dream has become true. In South Asia, Islami Bank Bangladesh Limited (IBBL) commenced its activities with an authorized capital of Tk. 500 million in 1983. From the very beginning till now IBBL is progressing very sharply and its authorized capital is now about Tk. 20,000 million. IBBL has opened 251 branches all over the country and the number of employees is 10,068 (IBBL, 2011). This has been possible due to its unique principles enacted by the Shariah Council originated from Islamic jurisprudence. This bank is unique in nature because on one hand it always prohibits interest completely, on the other hand takes part of losses according to the stipulated agreement. It treats a client as a partner and operation follows profit-loss system. So, inevitably IBBL has achieved utmost faith of its client and become one of the top thousand banks of the world. Besides, IBBL has introduced a lot of new schemes like Green Banking, Small and Medium Enterprise (SME's) scheme, Corporate Social

Responsibility (CSR) and so on to serve the people as well as economy. Considering the whole situation, it might worthy to conduct a research on IBBL's socio-economic impact for strengthening the existing facilities extended by bank and to find out new horizon.

The study manifests the different extents of socio-economic progress in Bangladesh by IBBL like creating employment, earning foreign remittance, strengthening rural economy, encouraging ecology and green banking, increasing industrialization, rising the Small and Medium Enterprises (SMEs), supporting in foreign trade (import-export), developing the housing sector, paying to the national exchequer and performing Corporate Social Responsibility (CSR) as well as identifies IBBL's contribution to corporate social responsibility in Bangladesh and its significant contribution to the national exchequer.

Currencies play a vital role as a medium of exchange of services as well as goods and commodities. In the ancient time, people used to exchange commodities following the barter system. Modern currency has taken the place as a medium of exchange avoiding the barter system. Nowadays, people are not willing to keep their money with them but to deposit it in the banks. The main objective of commercial banks is to maintain higher profitability by keeping circular and efficient flow of

amount of money deposited by the clients and the investors. The interest based traditional banks claim that they are not only performing their duty as a bank but also making welfare to the society though there is a pivotal dispute against their claiming. Traditional banks are taking interests as a certain percentage of its investment only for considering a particular time period avoiding the borrower's situation. The interest based banks really do not care about the borrower's capability or position whether or not the debtor is capable to repay the loan. On the other hand, Islamic banking is directed through the sharing of profits and losses of the investment. IBBL the pioneer of Islamic banking in Bangladesh has attracted a great deal of attention to the people of Bangladesh as welfare banking. It is the introducer of Islamic banking in Bangladesh and it has been served as welfare banking since, its inception in 1985. The prime objective of this study is to observe what sorts of role IBBL is playing to the socio-economic development of the country.

LITERATURE REVIEW

The prime role of a bank is nothing but to muster funds and to encourage investment for fruitful endeavors. Commercial banks contribute to the economic cycle by keeping the money circulation among households, government and corporate businesses which ultimately create velocity of money and generation of employment within an economic territory. Usually, banks on one hand receive money from the depositors and the other hand advance loans to the entrepreneurs for enhancing investment activities inevitable for a strong economy. For upholding trade and business activities banks develop a link between excess and shortage units. In order to maximize profit in conventional banking, investors are ensured a predetermined rate of interest even incurring the cost of society or other stakeholders. Additional use of credit and financing in debt may create financial problems and also can turn people's attitude towards only material gain, exploitation is the final outcomes from that which is really very lethal for humanity. It is suggested that *riba*-free and equity based economy is necessary to realize the benefits of Islamic financial system and to ensure the well-being of mankind (Chapra, 1985). According to Al-Jarhi and Iqbal (2001), Islami banking ensures all known banking activities including borrowing and lending evading interest.

Economic development is nothing but the harmonious development of economic, political and social condition of its people. The scope of economic development includes the procedure and policies by which a nation advances the economic, political and social well-being of its people (Wikipedia). According to the opinion of pokrant economic development refers to the raising of the productive capacity of a country

through the introduction of policies designed to enhance the productivity of land, labor and capital, raise standards of living and reduce or alleviate the poverty of the inhabitants of the country. Scholars argue that there is a strong relationship between poverty elevation and economic development (Kifle *et al.*, 1997).

For the betterment of the society, it is indispensable to distribute income rationally, establish of social justice, parity in resource allocation and so on. It is evident that Islamic banks are more focused towards just and equitable distribution of resources as compared to conventional banks (Siddiqi, 1985). Islamic banks ensure stable economy; fair distribution of income; reduce injustice; risk sharing, lesser financial crisis; facilitate production and business activities.

IBBL follows the rules enacted by the shariah so IBBL has to deal in equity based (profit/loss) contracts that are more suitable for the economy as well as society as compared to interest oriented conventional banks. However, Friedman (1969) suggested that a nominal zero interest rate is necessary condition for optimal allocation of resource. It was found that zero interest rate is required and sufficient for allocative efficiency by investigation within general equilibrium models (Wilson, 1979; Cole and Kocherlakota, 1998). Literature also supported that interest-free (profit and loss sharing) system is viable and superior to an interest-based system (Chapra, 1985; Mirakhor, 1997).

Moreover, Galbraith (1975) reported, "The best economic system is one that supplies the most of what that most people want". It means that an ideal economic system has the ability to meet expectations of people what they "want" in a transparent manner. Islamic economic system is superior because it is based on the principles of justice, transparency and accountability that ensure substantial economic growth. Islamic bank is beneficial due to its capability to spread risk in the economy among the concerned parties (depositor, banker, borrower, etc.) according to their contribution (Siddiqi, 1973). So, it is distinctively clear that IBBL complying with shariah rules is playing a vital role in economic development and also contributes a lot in the advancement of the society.

DIFFERENCE BETWEEN ISLAMI BANKS AND CONVENTIONAL BANKS

Conventional bank does not play the same role which is being played by IBBL. Actually, Islami banking system is totally different from conventional banking system. According to Olson and Zoubi (2008), Islami banks differ from conventional banks in a number of ways.

The principles of Islamic banking is based of Islamic Shariah which prohibits interest and establish relation with a client as a partner and the operation followed profit and loss system.

Mudaraba (capital financing): Capital trust financing is actually a contract between at least two parties those who work together and share profit and losses. According to this system the investor is known as Rab-al-Mal means the owner of the property and the entrepreneur is called Mudarab meaning the manager of the capital. At the end of the venture, the manager of the capital returns the entire capital to the bank along with the agreed proportion of profit. If there is any loss, it is born by the bank. So, people encourage investing through bank at various sectors which inevitably plays role in enhancing industrialization.

Musharaka (partnership): Musharaka means the a profit sharing joint venture shared both by the bank and customer which is designed to limited production of long duration. Profit and loss are distributed according to the stipulated contact. An individual partner is not liable if losses occurred by other(s). According to the principle, both bank and the customer are benefited which motivates them for the production.

Ijara (leasing): The word Ijara means leasing, here the bank is known as lessor and the customer is known as lessee who wants to use the assets after paying rent. Western leasing system shows that the lessee pays specific rentals and a curtailed rate of interest over a given period for the use of specific assets, on the other hand the risk related to leasing has to be shared between the bank and the lessee, in case of any damage to the leased assets, this system is enacted by the Islamic Shariah. Again, both the parties are taking facility pursuing this principle.

However, IBBL has not yet been able to reach with its rural development schemes all over the country and about 54,000 villages have still been left out of 68,000. On the other hand, Grameen Bank are providing their micro credit all over the country and many people believe that they are helping people to eradicate poverty though they are taking a high rate interest.

So, from the rural development perspective which is must for bringing in socio-economic development there are a lot of scopes to enhance the existing facilities and to find out new horizon after the contemplated study and research.

RESEARCH CONTEXT

Bangladesh is a small country is to envisage untold sufferings about some issues like economics, social, environmental. Being an underdeveloped country, about 70% of the people are living under poverty line, per capita income is very poor about USD 781. People need to

maintain their life within the meager income. So, it is really very difficult for them to survive. As a result, social condition is deteriorating in the course of time. So, they are far behind from getting proper treatment as well as education. A significant portion of people don't know how to read and write. Besides, being the largest delta in the world situated by the downstream of the second largest river system, the country is to encounter a series of hazards regarding climate. Consequently, people are to suffer from immense economic, social and environmental challenges that have been described here:

Economic situation: Now Bangladesh has been facing tremendous economic problems. According to the Bangladesh Ministry of Finance, it has a per capita income of only US \$71. Most of the people are living below the poverty line and feeding 160 million people with a piece of land measuring 147,570 km² is really challenging. It is really tough to meet the basic needs under a little budget of USD \$23.37 billion per annum.

Social condition of Bangladesh: This country has been suffering from ruthless social problems. Over 2 million female workers are working in the export-oriented garments sector they are very poorly paid and it is very difficult for them to meet their day to day expenditures with that little income. Women are tortured very often after refusal of marriage proposals and failure to give dowries to the husbands. Sometimes they are also being attacked by acid that burns their limbs in seconds. Easily available sulphuric acid is used as weapons to disfigure a women's body. Social awareness, rehabilitation, economic and psychological support and strict enforcement of laws are key to combat acid violence in Bangladesh (Begum, 2004).

Environment challenges in Bangladesh: Bangladesh has a number of environmental issues as well. It might be a cause of Global Climate Change (GCC), particularly sea level rise and the associated impact on ecosystems and economic loss, adds to the already daunting array of environmental issues. Its obvious effect will change the physiography and demography of Bangladesh. By 2050, there is ample chance that 70 million people could be affected annually by floods, up to 8% of the low lying lands may become permanently inundated (USAID, 2011). However, banking sector is playing major role to overcome this situation and especially IBBL is playing the leading role for last one decade for its excellent performance. There is no denial that Islamic banking system, specifically IBBL's contribution to the socio economic development may help improve current situation of the country.

However, Islami Bank Bangladesh Limited has been serving its social activity only in 16,000 villages out of 68,000 villages. It has not yet been possible for them to reach the rest of the villages. But for the socio-economic development it is must to enhance their activity throughout the country. So, the core question would be about expansion of new process as well as introduction of new schemes for socio-economic development.

OVERVIEW OF THE FINDINGS

It is needed to know what socio-economic development is meant by. Actually, socio-economic impact refers to the harmonious development of society as well as economy. Socio-economic development for Bangladesh can be identified through the number of social and economic indicator including GDP growth, poverty issues, employment, health care, environment, education, trade, commerce, etc.

Since, the inception IBBL has been playing various role in socio-economic development, some the existing facilities are given below after reviewing annual report, booklet, article, scholar's article, relevant books, website and papers and so on. It would be helpful for finding out the gap.

Impact on employment creation: Since, the inception of Islamic bank a significant number of jobs have been created (and) about 10000 employees are directly involved in Islamic bank. On the other hand, Islamic banking is indirectly helping a few million people by financing various businesses like industrialization, SME financing as well as import-export and rural development projects. It is very clear that a large number of families are directly and indirectly facilitated by IBBL and also taking part in the advancement of the economy of Bangladesh. According to the Rashid *et al.* (2009), Islamic bank along with IBBL is providing satisfactory community services through job creation and ensuring consistency in service provisions.

Impact on earning foreign remittance: The prime source of our national income comes from foreign remittance and increasing number of workers are staying abroad for earning money and they are sending a substantial amount of foreign currency each and every year. This remittance helps in macro-economic development process by increasing national income-finances and contributes to improve the balance of payment situation. For preparing national budget a lion portion comes from foreign remittance and this demand is increasing in the course of time, FY 2010, remittance in flow to Bangladesh was US \$11.65 billion at equivalent of Tk. 82, 992.

Impact on strengthening rural economy: IBBL is playing a vigorous role to help people self-reliant. IBBL has taken upright endeavor for the development of rural areas as well as rural people taking RDS scheme. Their activities have already been expanded around 21,000 centers covering 16,000 villages and >5,00,000 members are getting various sorts of cooperation from them throughout the country. It should be noted that IBBL is trying their level best to expand its' scheme all over the country as soon as possible. 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 *et al.*, 2008).

Impact on promoting ecology and green banking: In the course of a business some facets like social, ethical and environmental responsible approaches are being emphasized by IBBL. Since, the inception of IBBL, it has been giving importance on Green Banking which actually promotes its online banking, mobile banking or the idea of socially responsible investment funds for sustainable project finance activities. Hassan and Latiff (2009) vindicated the initiative of green banking which adds to the environment like energy efficiency loans or leasing of environmental technology.

Impact on the country's industrialization: According to the current policy, IBBL is giving emphasis on the industrial development of the country. A wide range of industries like chemical and petroleum, textile and garments, food and beverage, steel and engineering, printing and packages, plastics and ceramics, hotel and restaurants, poultry and hatchery are getting investment from IBBL without any hassel. A study of RDS observes that the growth rate of investment in the industrial sector is very much significant than many other sectors (Alam, 2000; BMoF, 2010).

Impact on the development of SMEs: Establishing small and medium enterprises, it is possible to play significant role in overall socio economic development, basically, a developing country like Bangladesh it is indispensable to establish various type of projects which is labor intensive and short gestation period. It is very much fruitful for huge employment in the national income as well as achieving Millennium Development Goals. IBBL has taken SME program and it has been playing a fantastic roll to eradicate extreme poverty, hunger, gender equality and women empowerment. In FY 2010, IBBL's total SME investment increased by 42.95% (compared to 2009) to Tk. 60734.44 crore at the end of September 2010.

Impact on international trade (import/export): For the advancement of the society as well as economic progress import export plays a vital role there is no doubt about that. In this consideration, IBBL is always giving emphasis both on import and export. IBBL providing money to procure raw materials from abroad as well as encourages people to export their products to a foreign country for earning foreign currency and from all of the banks the role of Islami bank in international trade is very significant. As is observed during the period 2010 bank opened 46,736 import Letter of Credit (LC) for Tk. 24,628 crore against 38,717 letter of credit for 16,123 crore in 2003 which indicates a growth of 53% in amount. During the year 2010, bank handled 46,699 export bills for Tk. 14,842 crore against 44,291 export bills for Tk. 10,642 crore in 2009 which showed a clear growth of 39.46% in amount.

Impact on housing finance: IBBL has taken a massive imitative to invest under the housing investment scheme for the people of all sphere like the middle class and the upper middle class. Actually, the program is popularly known as Hire purchase under ShirkatulMelk.

Impact on the national exchequer: Since, the beginning of IBBL it has been providing a large amount of government exchequer out of his profit. To be honest, the lion portion of government exchequer comes from IBBL compared to the total tax comes from the banking sector. The bank has paid taka 324.51 and 325.32 crore as corporate tax in the year 2008, in 2009, respectively and this is a significant amount compared to Bangladesh Government's total revenue and there is no denial that it is a major indicator of economic development of the country.

Impact on performing responsibility to society: According to the study of a renowned English daily The Bangladesh Observer, general view of Bangladesh people about Corporate Social Responsibility (CSR) plays a vital role among the financial institutions (Rahman *et al.*, 2010). IBBL's CSR towards the society has been briefed here:

Education program: Many sorts of educational institutes have been established by IBBL such as one medical college, one health technology institute, one nursing training institute in Rajshahi. It has been directing six technical institutes-two in Dhaka, one each in Bogra, Sylhet, Khulna and Chittagong. One English medium school, one Bengali medium school and one girl's madrasa in Dhaka with a total number of 2521 students employing 106 teachers and 49 staffs are already being operated by IBBL.

Healthcare program: IBBL has been taking health care of people of all walks through six fully owned hospitals and seven community hospitals comprises 1021 beds, 561 doctors and 411 staffs. Besides, it is organizing eye camps as well as charitable dispensaries. Distress people need tube- well; sanitary latrine to follow the health policy and IBBL is installing the same in cities as well as the rural areas.

Scholarship program: As a scholarship program, IBBL provides scholarship and lump-sum financial assistance to the meritorious but poor student's. Since, inception of the program about T 6.14 crore has already been received by 6,459 students.

Sports, arts, literature and cultural program: To encourage sportsman, artists and cultural programmer IBBL donates many a different types of sports as well as cultural event almost every year. Some of the facts are given here: for organizing South Asian Olympiad in Dhaka Tk. 1 crore was paid to Bangladesh Olympic Association during the year 2010. On the other hand motivating the cricketer to win against New Zealand, IBBL contributed Tk. 20 lac Bangladesh Association of Bank (BAB).

Humanitarian assistance program: IBBL is always looking forward with a view to helping the victim of natural and social disaster as a result the bank contributed an amount of Tk. 25 lac to the Prime Ministers Relief fund for the distress people during the year 2010. In addition, IBBL is serving the helpless people by their foundation namely Islami Bank Foundation which has been working as a unique and special programs for the welfare of the distressed humanity and to make poor, downtrodden, landless and asset less people self-reliant. So, it is very clear that IBBL is playing a major role in socio-economic development of the country.

CONCLUSION

IBBL is advancing sharply and performing very well due to its well organized teamwork. IBBL is serving to the people of Bangladesh including its citizens working abroad taking various schemes of investment and sharing both for the profit and loss. The above study has shown a right direction of IBBL's part in the socio-economic development of Bangladesh. If IBBL can proceed in line with the progress there is no doubt about that IBBL's role will influence to the social and environmental areas and furthermore to the economic welfare of the country. It will inevitably play a positive impact on the existing people as well as the forthcoming generations for improved lifestyles.

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