

# POVERTY REDUCTION SCALING UP LOCAL INNOVATIONS FOR TRANSFORMATIONAL CHANGE



United Nations Development Programme

UN  
DP



## Scaling up Islamic Microfinance in Bangladesh through the Private Sector: Experience of Islami Bank Bangladesh Limited (IBBL)

### Summary

Islami Bank Bangladesh Limited, a private sector Islamic bank, developed the Rural Development Scheme (RDS), an innovative Islamic microfinance channel to answer the demand of the rural Muslim poor in Bangladesh who were left out from conventional micro financing due to religious beliefs. This case study analyses the key enablers that facilitated the expansion of RDS, from a pilot project covering four villages in 1995 to a widely recognized model in poverty alleviation benefiting more than 600,000 people. The RDS scaling up process was made possible by a number of key enablers: cultural environment, a conducive

policy environment, institutional and organizational capacity and a dedicated management with the vision to scale up the RDS programme in Bangladesh.

This case study also attempts to promote south-south learning and knowledge exchange by highlighting the lessons learned from RDS which can serve as an example for countries to emulate it in terms of its sustainability and transferability. It also provides some of the challenges that are currently hindering the scaling up of Islamic microfinance programmes in many Muslim majority countries.

## FOREWORD

Scaling up local innovations for transformational change is key to achieving sustainable and equitable development, especially when these innovations are driven by national and local governments and actors. In order to best support countries to scale up proven local successes and achieve transformational changes, the UNDP Poverty Practice of the Bureau for Development Policy (BDP) works to build a solid knowledge base and to discover systematically the enabling environment and drivers for scaling up. In this context, the Poverty Practice has initiated a series of case studies of “scaled up” development cases. Learning from these country cases, we aim to identify key policy, institutional and political enablers and drivers for a successful scaling up process, and to inspire development partners to transform innovations into sustainable development results.

In 2011, the Poverty Practice launched its first series of case studies on successfully scaled up local development innovations from China, Costa Rica, Mexico, Mongolia and Nepal. While the case studies are about a range of different development challenges and responses, from agriculture extension, education, social protection, and micro-finance to energy provision and environmental protection, they all try to address the common question of development effectiveness: *how is it possible to scale up a pilot/seed initiative to achieve larger and sustainable development impact?* The case studies attempt to answer this question through describing the process of scaling up, capturing the key milestones, and distilling the main drivers for success. The common findings of the case studies point to scaling up enablers such as the political vision and commitment, internal and external ‘catalysts,’ and political, financial and policy enablers, as well as institutional arrangements and human capacities.

The 2012 series of country case studies provide examples of successfully scaled up innovations through usage of inclusive financial systems and leveraging public-private partnerships. Such successes would not have been possible without the involvement and commitment of government agencies, formal financial institutions, NGOs and the private sector. The case studies demonstrate successful examples from middle income countries to low income and least developed countries, including Bangladesh, Bhutan, China, Rwanda, and Timor-Leste. This case study is the second of the 2012 scaling up series. It outlines a successful innovation and scaling up of an Islamic microfinance scheme, Rural Development Scheme (RDS), which was introduced by a private commercial bank that targeted rural Muslim poor in Bangladesh who were left out from conventional micro-financing due to religious beliefs.

The findings of all the case studies will be further utilized in UNDP’s ongoing UNDP efforts of strengthening an integrated approach for local development.

The Poverty Practice would like to express its sincere gratitude to the country offices and for the private sector and academia partners for their strong support to this initiative. Without their vision and commitment, this work would not have materialized. We also gratefully acknowledge the peer reviewers who helped improve the quality of the case studies, and authors of each country case. Their contributions are acknowledged in each case study. Lastly, in addition to facilitating this initiative, UNDP Poverty Practice colleagues have also compiled and edited all the case studies.



Selim Jahan  
Director, Poverty Practice  
Bureau for Development Policy  
United Nations Development Programme

## Contents

Summary	1
Foreword	2
List of Acronyms and Abbreviations	3
Introduction	4
Why is there a need for Islamic Microfinance in Bangladesh?	7
The Rural Development Scheme (RDS) by Islami Bank Bangladesh Limited (IBBL)	9
Development of the Rural Development Scheme	12
Financial viability and sustainability of RDS	16
Development Benefits of RDS	16
Scaling Up of IBBL's RDS Programme: Key Enablers	19
RDS as an Opportunity for South-South Learning	22
Potential Challenges to the Growth of Islamic Microfinance	24
Conclusion	26
References	27

## List of Acronyms and Abbreviations

BMT	Bait Maal wat Tamwil (Indonesia)	MDGs	Millennium Development Goals
CSR	Corporate Social Responsibility	NCD	Nationalized Commercial Bank
GDP	Gross Domestic Product	NGO	Non-governmental Organization
HMFD	Al-Hudaidah Microfinance Programme (Yemen)	PRSP	Poverty Reduction Strategy Paper
IBBL	Islami Bank Bangladesh Limited	RDS	Rural Development Scheme
IBTRA	Islami Bank Training and Research Academy	SMEs	Small and Medium Enterprises
IFC	International Finance Cooperation	RCDP	Rural Community Development Project (Syria)
MFIs	Microfinance Institutions	UNDP	United Nations Development Programme
MSME	Micro Small and Medium Enterprises	VDF	Village Development Fund (Syria)

## Acknowledgements

This case study was developed by Shams Banihani, Poverty Practice (UNDP), as part of a series of case studies on Scaling up Local Innovations for Transformational Change. Invaluable comments and advice were provided by Tuya Altangerel and Chanmi Kim (UNDP), Mohammad Pournik, Cairo Regional Centre (UNDP), Anuradha Rajivan, Niranjana Sarangi and Bishwa Tiwari, Asia Pacific Regional Centre (UNDP). Special thanks go to Xiaojun (Grace) Wang for her continued support and guidance. This publication was designed by S. Alex Majumder.

Cover Photo: Salman Saeed/UNDP Bangladesh.



## Introduction

According to CGAP (2008) 72 percent of people living in Muslim majority countries do not use formal financial services. Even when financial services are accessible some Muslims view conventional banking products as incompatible with Islamic principles and laws (Sharia law). Some microfinance institutions (MFI) have stepped in to service poor Muslim clients who demand financial products in accordance with Islamic financial principles leading to the development of Islamic microfinance as a new market niche. This new practice has the potential to not only respond to unmet demands of the Muslim poor but also to combine Islamic social principles of caring for the less fortunate. This new niche has the prospective to provide millions of poor Muslims, who reject conventional microfinance products, access to Sharia compliant financial products. It should be noted that Islamic MFIs have not yet materialized in many Muslim countries as commercial Islamic banks have. Islamic microfinance is currently mainly concentrated in Afghanistan, Bangladesh and Indonesia which account for 80 percent of the global outreach.<sup>1</sup>

Recognizing that microfinance can be an important channel in poverty alleviation, Islamic microfinance is increasingly seen, especially in Muslim majority countries, as an alternative to conventional microfinance to alleviate the poor out of poverty. Islamic MFIs have been developed with the sole purpose of providing the poor which have little or no access to capital from the commercial banking sector with viable financial services that are in accordance with Islamic principles. Based on Islamic Sharia principles it is not permissible to charge, pay or receive interest, known as “Riba”. The Sharia law does not recognize the time value of money and it is therefore not permissible to make money by lending it. Money must be used to create real economic value in which the providers of the funds are not considered creditors but investors or financiers who share rewards as well as risks with the individual seeking micro financing. This prohibition is the main driving force behind the development of the modern Islamic finance industry, while conventional micro financing is mainly interest-based.

This ban on interest is derived from two essential Sharia principles: i) money has no intrinsic worth. Money is not an asset by itself and can increase in value only if it joins other resources to undertake productive activity. Therefore, money cannot be bought and sold as a commodity, and money not backed by assets cannot increase in value over time; and ii) fund providers (Islamic MFIs) must share the business risk. Providers of funds are not considered creditors (who are typically guaranteed a predetermined rate of return), but rather investors (who share the rewards as well as risks associated with their investment which is based on profit and loss principles).

Moreover, Islamic finance spreads beyond the ban of interest-based transactions. Supplementary vital financial principles encompass the following:

1. **Material finality.** All financial transactions must be linked, either directly or indirectly, to a real economic activity. In other words, transactions must be backed by assets, and investments may be made only in real, durable assets.
2. **No contractual manipulation.** Contracts are required to be by mutual agreement and must specify exact terms and conditions. Moreover, all involved parties must have detailed knowledge of the product or service that is being bought or sold.

Another characteristic of Islamic micro financing is that it was founded on the basis of ethical responsibility while promoting economic justice. To this end, the system places the responsibility on the financier (Islamic MFI) and the borrower (entrepreneur), as they both share the risks and benefits associated with the financial transaction. Many Islamic microfinance programmes also integrate the zakah principles (act of giving) in their financing model to ensure that the extreme poor are not left out. This is done by providing interest free-loans (Qard-hasan) to the poor by utilizing the funds provided through zakah (See table 1 which compares Islamic MFIs versus conventional MFIs).

The most used Islamic microfinance products by Islamic commercial banks and Islamic MFIs are illustrated in Box 1.

<sup>1</sup> Nimrah Karim, Michael Tarazi and Xavier Reille, “Islamic Microfinance: An Emerging Market Niche,” CGAP, Focus Note, No. 49: 1, (2008), accessed 25 April, 2012, [www.tinyurl.com/cgap-fn49](http://www.tinyurl.com/cgap-fn49).

**Table 1: Differences between conventional MFIs and IMFIs**

	Conventional MFIs	Islamic MFIs
<b>Sources of Funds</b>	Foreign donors, multilateral and national agencies, government, central banks, savings of clients	Religious institutions, Islamic charitable sources, savings of clients, foreign donors, national agencies, private sector
<b>Mode of financing</b>	Interest-based	Non-interest bearing financial instruments
<b>Financing the poorest</b>	The extreme poor are usually left out of the financing model	The extreme poor are integrated in the financing model by integrating the Zakah (act of giving) principles in the model
<b>Funds transfer</b>	Cash	Goods
<b>Deductions at inception of contract</b>	Percentage of funds deducted from principle	No deductions from principle
<b>Methods of dealing with defaults</b>	Group/centre pressure	Group/spouse guarantee, and Islamic ethics
<b>Social development programme</b>	Secular, ethical and social development	Religious which includes behaviour, ethics, and social values

**Source:** Habib Ahmed, 2002, *Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions*.

### Box 1: Islamic microfinance products

**Murabaha Sale (cost plus markup sale contract).** Murabaha is an asset-based sale transaction used to finance goods needed as working capital. Typically, the client requests a specific commodity (tangible good) for purchase, which the financier procures directly from the market and subsequently resells to the client, after adding a fixed “mark-up” for the service provided. However, ownership of the commodity (and the risk inherent thereto) strictly lies with the financier until the client has fully paid the financier. In most cases, clients repay in equal instalments. The mark-up is distinct from interest because it remains fixed at the initial amount, even if the client repays past the due date.

**Musharaka and Mudaraba (profit and loss sharing).** The profit and loss sharing (PLS) schemes are the Islamic financial contracts most encouraged by Sharia scholars. Musharaka is equity participation in a business venture, in which the parties share the profits or losses according to a predetermined ratio. Musharaka can be used for assets or for working capital. Mudaraba denotes trustee financing, in which one party acts as financier by providing the funds, while the other party provides the managerial expertise in executing the project. In mudaraba, profits are shared according to a predetermined ratio; any losses are borne entirely by the financier. If the mudaraba joint venture results in a loss, the financier loses the contributed capital and the manager loses time and effort.

**Ijarah (leasing contract).** Ijarah is a leasing contract typically used for financing equipment, such as small machinery. Duration of the lease and related payments must be determined in advance to avoid any speculation. For the transaction to be considered Islamic (and not a sale with camouflaged interest), the ijarah contract must specify that the ownership of the asset, and responsibility for its maintenance, remains with the financier. An ijarah contract may be followed by a sale contract, in which event the ownership of the commodity is transferred to the lessee.

**Takaful (mutual insurance).** The equivalent of Islamic insurance, takaful is a mutual insurance scheme. The word originates from the Arabic word “kafala,” which means guaranteeing each other or joint guarantee. Each participant contributes to a fund that is used to support the group in times of need, such as death, crop loss, or accidents. Paid premiums are invested in a Sharia-compliant manner to avoid interest.

**Source:** CGAP, *Islamic Microfinance: An Emerging Market Niche*, Focus Note, No. 40, 2008.





*Photo: Md. Akhlas Uddin/ UNDP Bangladesh.*

Based on Islamic doctrines of social and economic justice, ethics, wealth distribution and public interest; Islamic microfinance advocates economic empowerment through entrepreneurship, risk sharing and financial inclusion. It also contributes to the reduction of inequalities in income and wealth. Thus, there is a great potential for Islamic micro financing to improve the business environment for small and medium enterprises (SMEs), empower women and accelerate the achievement of the Millennium Development Goals (MDGs).

In light of the above, conventional microfinance did indeed make headways in many countries. Approximately 44 percent of their clients reside in Muslim majority countries; however conventional microfinance was unable to fulfil the needs of many poor Muslim clients due to the above religious restrictions that prohibit financial transactions that involve interest, 'Riba'. Aside from the low availability of Islamic microfinance, recent studies are increasingly suggesting that conventional microfinance may not have

fully met its objectives in graduating the poor out of poverty. This is attributed to the following factors:

1. **Distorted Information:** The main objective of targeting poor women as recipients of loans is to empower and engage them in income generating activities. However, in reality, the receivers of the funds are not necessarily the users of the funds. It has been reported that male household members are usually the initiators of taking loans and they tend to control the funds received by the female borrowers. Rahman (1999) reported that such targeting by MFIs creates tensions within the households and even increases violence against women. Once the loans are obtained by the female members, who are responsible for the repayments, male members tend to utilize such funds usually on non-income generating activities. This further adds pressure on women who are constantly being pressured by MFIs to repay the loan instalments, thus, increasing the likelihoods of loan defaults leading families to spiral further into poverty.

**2. Economic Sustainability of MFIs:** Due to the lack of resource mobilization and the high administrative costs, many MFIs are not economically sustainable in the long run. According to Ahmed (2004) administrative costs of five MFIs in South Asia range from 24 percent to more than 400 percent per dollar lent. He also added that Grameen Bank would operate at a loss without grants, and for it to breakeven without subsidies it would need to increase its interest rate by an additional 21 percent. In this context, many MFIs are at risk of long term instability without grants and subsidies.

**3. Debt Trap:** Since some of the loans received from MFIs by borrowers go to non-income generating activities (ex. household expenses), these borrowers (mostly women) take loans from other sources to pay their instalments (including interest incurred) thus trapping them further into poverty and in a spiralling debt cycle.

**4. High Drop-out Rate and Non Graduation from Poverty:** Several studies report that conventional MFIs do not necessarily service the very poor. They are either not given loans or drop out of the credit scheme.<sup>2</sup> Furthermore, some studies indicated that MFIs do not necessarily enhance the income level of the poor, and the current operations of those MFIs are not very effective in improving the livelihoods of the extreme poor. Also, financial services alone do not lift the poor out of poverty. They need to be combined with services that add to the accumulation of the poor people's human, social and natural capitals.

Despite the strong demand for Islamic microfinance products and services, the growth of the sector has been slow. This is mainly due to the fact that Islamic microfinance services are generally provided by non-governmental organizations (NGOs) who may not possess the adequate technical expertise or funding to ensure the proper implementation and sustainability in servicing the very poor. On the contrary, the Islamic commercial banking sector, which provides Islamic products to the non-poor, has seen tremendous growth in the past three decades.

Not only do Islamic commercial banks have the adequate technical expertise and capacities, but they are also increasingly becoming more resourceful and have been expanding at a fast rate. Unfortunately, the vast majority of Islamic commercial banks do not service the poor nor do they share their technical knowledge and expertise with Islamic MFIs.

In this context, it is necessary for national and local governments to introduce policies, encourage and provide incentives to Islamic commercial banks to start investing in the poor, share their knowledge, and to extend their services to unprivileged clients in order to lift communities out of poverty. Bangladesh is a prime example in which an Islamic commercial bank has introduced a microfinance window for the poor which is now operating in 61 out of 64 districts benefiting more than 600,000 people to date.

## Why is there a need for Islamic Microfinance in Bangladesh?

Islam is the official religion in Bangladesh, and it is the third largest Muslim country in the world in which 90 percent of the population belong to the Muslim faith. Islamic finance emerged in 1995, comprising of mostly Islamic commercial banks, a few Islamic NGOs and financial cooperatives. In 2010, it was estimated that 43.3 percent of the people living in Bangladesh live below the poverty line and more than 11 percent live in absolute poverty. The number of poor was 78.2 million in 1970 but by 2009 the number increased to 80.46 million.<sup>3</sup> They suffer from acute rural-urban economic disparity coupled with lack of adequate education and lack of proper health and sanitation facilities.

Bangladesh's economy is an agrarian economy with the vast majority of the population living in rural areas. The agriculture sector has not been able to provide decent employment to all rural people. The vast human resources have remained underutilized due to lack of education, access to land and natural capitals, vocational training, but most importantly economic opportunities especially among women. This vicious cycle the poor are caught in, has resulted in increased levels of inequality, uneven

<sup>2</sup> Dropout rates for Grameen Bank, BRAC and ASA and other conventional MFIs in Bangladesh range between 10 and 15 percent per annum. (Richard L. Meyer, 2001).

<sup>3</sup> World Bank, *World Development Indicators*, 2009, (2009).



distribution of income, and geographical growth with major risks to internal and external economic shocks.

In light of this, poverty alleviation and creation of employment opportunities especially for rural women and youth were prioritized in the government's development agendas. The government of Bangladesh has adopted a broad-based approach to poverty alleviation by putting more emphasis on macroeconomic stability, economic liberalization, and giving support to government agencies, NGOs and the private sector. Thus, micro credit or microfinance in its wider dimension became a much favoured intervention for poverty alleviation and was seen as an approach to alleviate rural poverty.

As a result, over 20,000 NGOs and MFIs are registered with the Bangladeshi Department of Social Affairs and have been working in poverty alleviation since the independence of Bangladesh in 1971. However the degree of success of those NGOs and MFIs in poverty alleviation through socio-economic means has been somewhat debatable. The sustainability of microfinance NGOs mainly depends on foreign grants and to some extent government grants. However due to funding fluctuations, high administrative and operational costs, NGO and MFIs, including Grammen Bank, tend to charge high interest rates, ranging from 20-35 percent, forcing the poor to dispose any assets they may have in order to repay their loans.

As an alternative, the government tried to introduce microfinance initiatives through its nationalized commercial banks (NCBs), however, NCBs outreach to the poor, especially the rural poor, was very low and unsuccessful. This was mainly due to weaknesses in the design, planning and management of such programmes combined with political interferences, lack of experience in micro financing, insufficient accountability and administration of the credit delivery system. One of the most serious design imperfections, for example, was the lack of a targeting mechanism, such as landholding and income ceilings, so the truly poor could not qualify for credit under such programmes.<sup>4</sup> On the other hand, this allowed many non-poor borrowers to be attracted to such credits due to the low

interest rates. With their greater socio-economic and political power, the non-poor were able to gain access to credit in a much easier manner than their poor counterparts, thus crowding out the latter. For example, the Special Agriculture Credit Programme in Bangladesh which was introduced and operated by the government fell under this trap.

Government programmes that attempted to make use of conventional banks to provide credit to the poor, often in the form of directives, have generally been unsuccessful. This is because they did not provide satisfactory incentives for the banks to make adequate profit from their loans to the poor.<sup>5</sup> Not only were the incentives low, but the costs associated with providing credit to the poor also proved to be very labour intensive with high transaction costs and risks. Additionally, the interest ceilings introduced in such programmes were not sufficient to generate enough profit to sustain the service delivery in comparison with the profits generated through alternative capital outlets. Understandably, conventional banks did not find such financial services to be profitable, and therefore, were discouraged from participating in such programmes.

Conventional banks that took part in the Special Agricultural Credit Programme for the poor for example, channelled the programme's loans to the rural elite. Additionally, politicians and influential figures were influencing the selection of beneficiaries, which in most cases, were not those who need it most, poor women and men. Even in cases where the poor were targeted, the banks were requesting collateral which the programme has specifically already waived. The lack of an appropriate and transparent credit delivery mechanism was a major contributor to the programme's failure.

In addition, staff of conventional banks assigned to implement credit-for-poor programmes were not provided with financial incentives for making these loans even though these loans required the same amount of work (or even more) as to commercial loans. As a result, bank officers had little incentive to work with the poor and concentrated their efforts to work with the non-poor borrowers who were profitable and less difficult to service. This was another factor why such government programmes were unsuccessful.

4 "Concept and Ideology: Rural Financing," IBBL, last modified February 2, 2012, ([www.islamibankbd.com/abt/IBBL/cis\\_rural\\_financing.php](http://www.islamibankbd.com/abt/IBBL/cis_rural_financing.php)).

5 Ibid, IBBL website.



Since commercial banks and traditional MFIs (government and non-government) did not offer Islamic microfinance products to the majority Muslim poor in Bangladesh, a proportion of the population were further excluded from having access to formal sources of credit. In very few rural settings in Bangladesh, Islamic leaders, and spontaneous local charities and initiatives were the only source of Islamic financing available to the very poor.

However, such marginally small initiatives were very limited, insufficient and were not operating within the country's financial regulatory authority. This need was later picked up by a private Islamic bank.

## The Rural Development Scheme (RDS) by Islami Bank Bangladesh Limited (IBBL)

### *History of IBBL and RDS*

The development of the first Islamic bank was made possible after Bangladesh signed the Charter of Islamic Development bank in 1974 in which it committed itself to reorganize its economic and financial system as per Islamic Sharia. 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". This statement indicated favourable attitude by the Government toward

### *Box 2: Islamic Microfinance Experience in Indonesia*

Indonesia's microfinance initiatives have played a vital role in reducing the poverty rate in the country from 40 percent in 1970 to 12.4 percent in 2011. This success has been attributed to Indonesia's national development strategy which was introduced in the 1980s and later on in 1994 when the government placed microfinance as an important component in its poverty reduction strategies and programmes.

The Islamic microfinance sector in Indonesia, which includes both formal and informal, has evolved since its introduction in 1990 after many Islamic scholars demanded the introduction of Islamic financial products. This sector is categorized into three segments, Islamic rural banks known as Bank Perkreditan Rakyat Syariah (BPRS), Islamic financial cooperatives, Baitul Maal wat Tamwil (BMT), and microfinance divisions in Islamic commercial banks, however only BMT was able to target the poor.

BMTs, which started operations in the 1980s, operate as Islamic MFIs and were initially community based organizations supported by Islamic community leaders. The promotions and establishment of BMTs were initiated in response to the failure to rapidly expand sharia bank networks (BPRS) and to the fact that the majority of the Muslims, especially the poor, had no access to financial services that were in compliance with Islamic financial laws. BMTs offer three types of services to the poor, micro financing, social welfare funds (zakat), and entrepreneurship trainings. In the early years of BMT development it struggled to keep afloat but after the Asian financial crisis BMTs experienced tremendous growth which was later followed by national support from President Suharto who declared the BMT programme as a national movement aiming at empowering the poor through institution building and small business development. In 1995, Bank Indonesia and YINBUK (Foundation for the Incubation of Small Business, NGO) signed a memorandum of understanding through which BMTs were given the opportunity to participate in the Linking Banks and Self-help Groups. To further promote Islamic financing, in 2002, Bank Indonesia, Indonesia's Central Bank, released its Islamic banking development plan which includes the development of the Islamic microfinance sector and the support for the development of Islamic rural banks and BMTs.

Currently, there are approximately 3,000 BMTs around the country servicing 1.5 million borrowers and 2 million savers. According to Bank Indonesia, Islamic microfinance is estimated to account for about 70 percent of Islamic financing in the country and it is estimated that outstanding Islamic financing to micro, small and medium enterprises (MSMEs) will increase to USD 5.1 billion by the end of 2012.

establishing Islamic banks and financial institutions in the country. In this regard, on 13 March 1983, the first Islamic Bank in Bangladesh, called Islami Bank Bangladesh Limited (IBBL) was incorporated as a public Limited Company under the companies Act of 1913. IBBL, with an authorized capital of Tk. 500 million (USD 12.5 million), started as a joint venture multinational bank with 63.92 percent of equity contributed by the Islamic Development Bank and the rest by other financial institutions.<sup>6</sup> IBBL was founded with the major objective of establishing an Islamic economy for balanced economic growth by ensuring reduction of rural-urban disparity and equitable distribution of income. IBBL was not only the first interest free bank in Bangladesh but in South Asia as well.

The opening of IBBL 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. To date, IBBL is considered the largest bank in Bangladesh with a total clientele at around 6 million operating in 266 branches throughout Bangladesh, mainly situated in rural areas. IBBL saw its vast successful expansion in the commercial market as an incentive to help many of the rural poor. Taking into consideration that the majority of the population lives below the poverty line in rural Bangladesh, the Bank devised the "Rural Development Scheme" (RDS) with a view to create employment opportunities for them and to reduce their poverty through income generation activities.

Since the government of Bangladesh has placed many policies encouraging the private sector's involvement in the country's development plan in alleviating poverty, IBBL introduced RDS in 1995 as part of its corporate social responsibility (it is considered now one of its main financing channels) to support the government in addressing the high rates of rural poverty, and to tackle the gaps associated with government programmes that failed to target the poor. The main goal of RDS is to create employment opportunities (by providing small and micro investments) for the poor and to alleviate poverty through income generating activities

by adopting Islamic microfinance products through a community development approach.

According to a World Bank study, there are more than one million small businesses in Bangladesh as potential borrowers, but only 7 percent of them have access to formal financial institutions.<sup>7</sup> IBBL created this programme in order to capture this market and to address the gap that the government, conventional MFIs and NGOs failed to address. The microfinance products extended through the scheme do not charge interest and do not require collateral, making the scheme more accessible to the poor. Since IBBL was already providing Islamic products through its commercial means, it had the resources, knowledge and expertise in managing Islamic microfinance products. This made RDS the first Islamic microfinance model to be introduced in the country and abroad without needing financial support from the government or external donors. IBBL was able and currently is funding RDS through its general investment fund. The main objectives of the scheme are:

1. To extend investment facilities to agricultural, other farming and off-farming activities in the rural areas.
2. To finance self-employment and income generating activities of the rural poor, particularly the unemployed youth and women.

The RDS programme is styled in accordance to Grameen Bank concept except the scheme uses Islamic modes of investment based on the profit and loss sharing methodology (see box 3). Under this model, the bank does not issue the agreed upon loan amounts to customers in cash, but rather delivers goods to the customers ensuring that lending is invested in income generating activities. The RDS has been working towards this objective, in creating income generating activities and productive self-employment opportunities through extension of investments for the development of the rural areas and the rural poor.

<sup>6</sup> The other financial institutions that contributed to IBBL's development include Al-Raji Company for Currency Exchange and Commerce of Saudi Arabia, Kuwait Finance House, Jordan Islamic Bank, Islamic Investment and Exchange Corporation of Qatar, Bahrain Islamic Bank, Islamic Banking System International Holding, S.A, Dubai Islamic Bank, and Kuwait Ministry of Awqaf and Islamic Affairs.

<sup>7</sup> Jannat Ara Parveen, "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: 117, (2009), accessed May 1, 2012, [www.um.ase.ro/no11/10.pdf](http://www.um.ase.ro/no11/10.pdf).

### *Box 3: Operation of the IBBL's RDS programme*

The target beneficiaries of the scheme are mainly landless poor (farmers having cultivable land maximum 0.50 acres), wage labourers and marginal farmers aimed at meeting their basic needs and promoting their comprehensive development. Since the scheme operates through a community development approach, activities under the scheme are organized in groups with the following features:

1. Each group must consist of five members living in the same village
2. A centre is formed with a least of two to eight groups. The group leaders appoint the centre leader and deputy leader from among themselves to organize the centre activities
3. All groups must attend the weekly centre meetings in order to be considered a dependable client
4. In terms of loan guarantee requirement, each member of the group must provide a personal guarantee from the other members in same group and the members are jointly and severally liable and responsible for payment of investment.
5. The centre meetings are facilitated by the bank's field officers. Their role is to inform the centre members about the moral values, social rights and responsibilities of investment repayment; collection of investment instalments, personal savings and centre funds; and review and approve investment proposals.

Investment financing starts after eight weeks of observing the group members in terms of regular attendance to the weekly group meetings and centre meetings. At the group and centre meetings, members are offered support services such as skill training, environment awareness and entrepreneurship development to ensure the success of the potential small and medium entrepreneurs. This is offered to ensure that potential beneficiaries are successful in starting and managing their new investment. During the eight week process the field officers in collaboration with the investment committee of the branch carefully review all of the investment applications. Upon the approval of the applications, investment products (not cash) are handed over to the clients. The initial investments start around Tk. 10,000 (approximately USD 145) and based on good repayment, thresholds increase by Tk. 2,000 to Tk. 5,000 in every succeeding term depending on the sector of investment. The rate of return (based on profit and loss method) is at 12.5 percent, however timely repayment is rewarded by a 2.5 percent rebate, thus a successful member will pay 10 percent of his or her profit to the bank. This rate of return makes it lower than any rate offered by any conventional MFI in Bangladesh.

Members of the centre also have to open a Mudaraba savings account and are required to deposit Tk. 20 per week. Savings however can be withdrawn once members have fulfilled their liabilities toward the bank. This ensures the sustainability of the fund. And to encourage the act of Zakat (welfare giving to the poor), members are encouraged to deposit a minimum of Tk. 5 per week to the Quard El Hasan fund, which is an interest-free fund given to the extremely poor, for members who are not able to make their timely payments or toward the rural development of the community (building and insulating latrines, tube wells etc.). The receiver of the Quard El Hasan is only liable for the repayment of the principle. This innovative approach encourages the act of giving and ensures that the extremely poor are included in the programme in order for them to become self-reliant and productive in the community. This kind of operational mechanism has proved to be very successful in benefiting many of the rural poor. RDS's current repayment rate is at 99 percent, making this scheme one of the most successful schemes in Bangladesh.



## Development of the Rural Development Scheme

RDS was initially launched with the support of the bank's upper management. In order to ensure that the rural poor were well targeted, the bank management set the following criteria: 1) surrounding villages need to be within a radius of 10 km from bank branch premises making it accessible to both the surrounding villages and branch employees; 2) availability of agriculture and non-agriculture activities; and 3) high percentage of low-income people.

Following the set criteria, field officers/managers from the bank conducted field visits to the potential areas in order to make preliminary selection of the villages, meet the people and collect the necessary information which is done through detailed baseline surveys to identify the target groups and the availability of economic activity in the area. The concerned branch had to ensure the availability of at least 400 target group people in the selected areas for the scheme to become operational. The initial information was collected through a projection meeting with local villagers, local government officials, village/local leaders, and religious personalities. Their participation and engagement was seen as crucial as they are more familiar with their community needs and their economic status. With the full support of the local communities/villages; the programme

was launched in 3 to 4 branches and RDS was officially operational in 1995. In the first year of operation the scheme had outstanding investments for total of Tk. 9.91 million benefiting 3,335 poor individuals, of which 84 percent were women. The scheme provided investment funding toward many sectors which included crops cultivation, agro-machineries, nursery, livestock, poultry/duckery, fisheries, rural transport, rural housing and off-farm activities. Non-farming investments toward SMEs made up 33 percent of the total investments.

The pilot phase was successful in reaching the poor and it was further expanded to other rural areas after the government introduced the Fifth Five Year Plan (1997–2002) which provided a conducive policy space for the private sector to assist in the country's agenda in reducing poverty. The Fifth Five Year Plan clearly sighted that the private sector will play a leading role in alleviating the poor out of poverty especially in rural areas.<sup>8</sup> The government of Bangladesh, through the Fifth Plan, envisaged developing a productive micro-enterprise sub-sector to provide profitable self-employment to the rural people. This was to be supported by public and private sector institutions by encouraging banks and financial institutions to establish separate credit lines for micro enterprises and entrepreneurs. The purpose was to develop sustainable programmes and services to meet the credit needs of micro entrepreneurs and to facilitate their access to financial resources. It also encouraged the private sector, in collaboration with the local governments, to develop replicable microfinance models that can be disseminated for adoption and replication throughout rural Bangladesh. The main target audience was the poor, especially women and youth, to become micro entrepreneurs, to break through the vicious cycle of poverty, and promote equality between women and men in the sharing of power and decision making at all levels.

This policy space allowed IBBL to expand its RDS outreach for the poor to additional branches in rural areas. In 1997, the RDS was replicated in six additional branches which further reached an additional 4,855 beneficiaries in 63 villages. The success was due to the high demand for RDS products, repayment rates at 99 percent, and the economic impacts

**Table 2: Sector-wise Investment Inception**

Sector	Amount (in Tk. millions)	Percentage
Off-farm activities	2,334	33%
Crops & other cultivation	1,556	22%
Live Stock	990	14%
Rural Housing	919	13%
Rural Transport	637	9%
Fisheries	354	5%
Nursery	141	2%
Agro-machineries	71	1%
Poultry/Duckery	71	1%
Total	7,072	100%

**Source:** IBBL, 2011 Annual Report.

<sup>8</sup> Bangladesh, Ministry of Planning, *The Fifth Five Year Plan (1997-2002)*, pg, 152, (1998).

it had on the poor in increasing their income levels and their overall wellbeing. The high demand for Islamic finance products were also attributed to the low fixed rate of return (at 10 percent during that time which later increased to 12.5 percent to keep up with market conditions) in comparison with other MFIs that usually charge interest rate anywhere between 20-30 percent. The replication continued gradually since then.

By 2005, the RDS programme was able to benefit 217,425 of the rural poor in 4,560 villages through the bank's 101 branches. However, as the beneficiaries were graduating from RDS's maximum investment ceiling set at Tk. 50,000 and to accommodate their increasing investment needs and demands, IBBL through RDS introduced the Micro Enterprise Investment Scheme (MEIS). This scheme increased the investment ceiling to TK.300,000 in order to address the needs of small entrepreneurs, mostly women, to expand their SMEs. By that year more than 120,087 beneficiaries had SME investments. That same year, the Government of Bangladesh introduced its Poverty Reduction Strategy Paper (PRSP) "Unlocking the Potential: National Strategy for Accelerated Poverty Reduction".

The strategy further encouraged the private sector involvement in scaling up micro-credit through their active engagement in the process. The PRSP called on MFIs and private banks to introduce rural credit programmes for the poor and to rationalize their interest rates by lowering them or by introducing interest-free microfinance products. The strategy also called on the MFIs and the private sector to introduce more diversified micro finance products to assist the poor especially women.<sup>9</sup> Since IBBL was the first private commercial bank to introduce such a scheme, which eventually became one of its main financing channels for the poor, it gave it market advantage to expand further. It could be said that the government's support had enabled the bank to further expand the scheme to reach more poor and to assist the government in alleviating poverty in rural areas which are heavily impacted by poverty.

Furthermore, in 2008 the Government of Bangladesh introduced its second National Strategy for Accelerated

Poverty Reduction (2009-2011). In this Strategy, it called on the private sector and banks to introduce new and innovative credit schemes and other financial instruments to assist the poor and entrepreneurs as part of the corporate social responsibility. It also called on local governments to be more involved in microcredit delivery.<sup>10</sup> In light of this strategy, Bangladesh Bank, the Central bank of Bangladesh, issued DOS Circular No 01 dated 01 June 2008, a policy support measure for corporate social responsibility (CSR) initiatives, which was addressed toward all banks and financial institutions, calling on them to speed up financial inclusion of the large socially disadvantaged rural and urban population segments. They were asked to provide appropriate financial service packages with financing programmes innovatively designed to generate new employment, output and income. In the "Review of CSR Initiatives in Banks (2008-2009)" published by Bangladesh Bank, it stated that IBBL, was the first private commercial bank in the country who has been discharging social responsibility products by creating employment opportunities and ensuring healthy work environments. The document indicated that financial institutions need to expand their CSR programmes in the same light rather than just providing donations to different charitable organizations.<sup>11</sup> In both 2008 and 2009 IBBL received the best Corporate Social Responsibility Award.

On 21 March 2012, the Governor of Bangladesh Bank, Dr. Atiur Rahman, stated that Islamic microfinance services in the economy were growing healthily; with avid participation of the Islamic banks in the Financial Inclusion campaign. He called upon "the Islamic banks and the Islamic windows of conventional banks in the country to pursue vigorous promotion of Islamic micro and SME finance to attain faster poverty eradication with deeper, wider financial inclusion,"<sup>12</sup> and to establish and replicate the same microfinance window that IBBL has created through its RDS programme. He further added that Islamic microfinance has ample room

10 Bangladesh, General Economics Division Planning Commission, *Moving Ahead: National Strategy for Accelerated Poverty Reduction II* (2009-2011), pg. 104, (2008). [www.tinyurl.com/bd-nsapr2](http://www.tinyurl.com/bd-nsapr2).

11 Bangladesh Bank, *Review of CSR Initiatives in Banks (2008 & 2009)*, pg. 2 (2010), [www.bangladesh-bank.org/pub/annual/csr/csr0809.pdf](http://www.bangladesh-bank.org/pub/annual/csr/csr0809.pdf).

12 Atiur Rahman, "The Role of Islamic Microfinance as a Tool of Poverty Alleviation," *The Financial Express*, 22 March 2012, [www.tinyurl.com/fe-bd-120322](http://www.tinyurl.com/fe-bd-120322).

**Table 3: Institutional development of RDS (2007–2011)**

	2007	2008	Growth (%)	2009	Growth (%)	2010	Growth	2011	Growth (%)
No. of villages	10,023	10,676	7%	10,751	1%	11,482	7%	12,857	12%
No. of centres	18,897	21,193	12%	22,261	5%	20,833	-6%	22,206	7%
No. of beneficiaries	516,725	577,740	12%	492,475	-15%	523,941	6%	608,703	16%

Source: IBBL, 2011 Annual Report.

**Table 4: Development of Microfinance Sector in Bangladesh**

MFI Name	Loan disbursement in 2010 (Taka, millions)	Recovery rate in 2010 (%)	Loan disbursement in 2009 (Taka, millions)	Recovery rate in 2009 (%)	Growth in disbursement (%) 2009–2010
MFI-NGO	275,668	97.08	291,388	96.22	22.35
Grameen Bank	96,149	97.37	79,408	99.46	19.29
PDBF	5,403	98.00	5,053	98.00	15.74
RDS	7,608	99.00	5,198	99.00	31.39

Source: Bangladesh Microfinance Statistics 2010.

to flourish, given the growing popularity of Islamic finance among both Muslims and non-Muslims. During the same month, the Islamic Development Bank (IDB) expressed interest in establishing an Islamic MFI in Bangladesh in partnership with renowned local and international financial institutions that have the knowledge and technical expertise in Islamic microfinance in order to scale up this new innovative approach throughout Bangladesh.<sup>13</sup>

Moreover, according to the Bangladesh Microfinance Statistics in 2010, the RDS programme has experienced the highest growth rate in comparison with other microfinance institutions. The RDS saw an increase of 6.39 percent the second highest after Palli Daridro Bimochon Foundation (PDBF), a conventional microfinance institution. Moreover, the RDS programme as indicated in table 4, had one of the highest recovery rates at 99 percent, and experienced the highest growth in its investment disbursement at 31.39 percent in comparison with other MFIs. This provides anecdotal evidence that there is a high demand for Islamic microfinance products and if this growth continues, it can

have positive implications on the rural poor's livelihoods and their economic development. Additionally, the Bangladesh Microfinance Statistics also indicated that the country's microfinance was 28.84 percent of the agricultural GDP in 2010. RDS contribution toward it was 0.57 percent from the total amount.<sup>14</sup> This is an indicative figure that even though RDS's outreach is still quit small in comparison with the other MFIs, it was still able to have a positive impact on the total agricultural GDP contributed by microfinance investments.

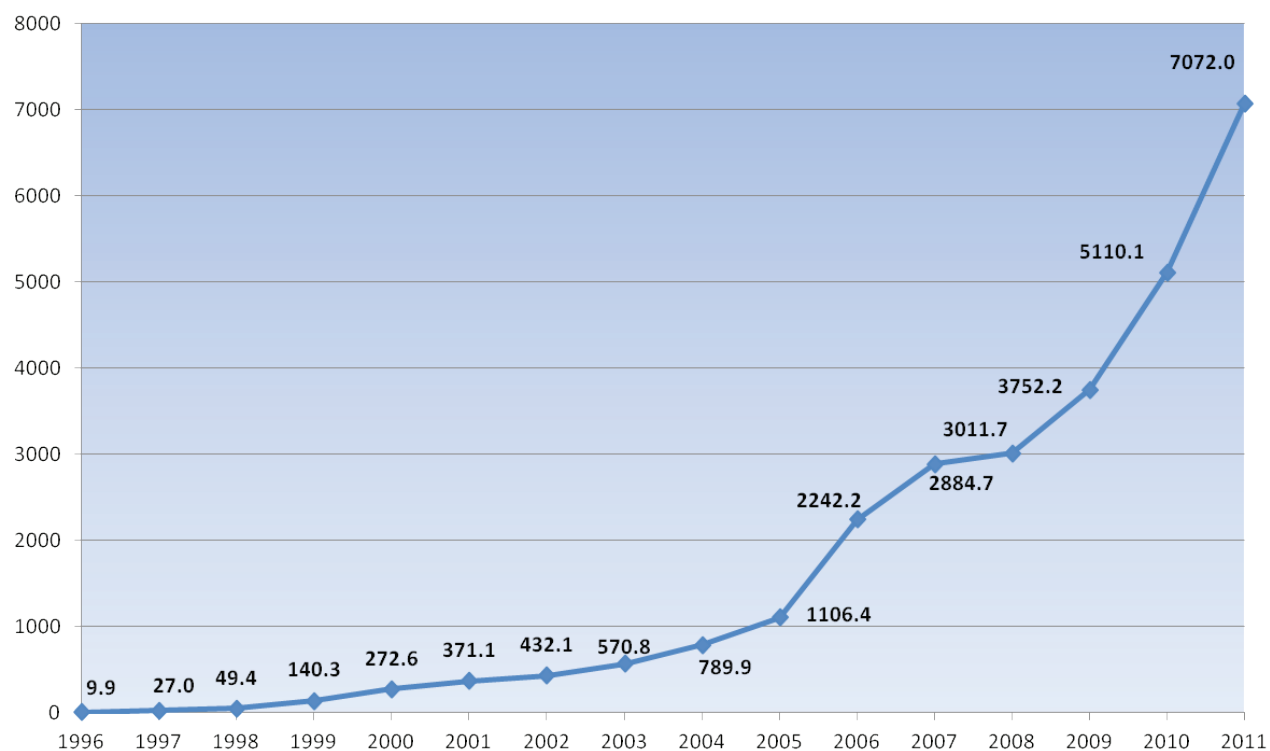
As of February 2012, RDS disbursed TK. 45086.32 million benefiting 624,591 in 13,373 villages within 61 districts. Women make up 94 percent of the beneficiaries of which 41 percent are between the ages of 18 and 30. The expansion of scheme has brought many benefits to the beneficiaries in terms of increasing their income and improving their overall livelihoods. IBBL plans to extend the RDS programme to all its 266 branches across the country's 64 districts in the coming years.

<sup>13</sup> "Atiur calls for promotion of Islamic microfinance," *The Financial Express*, 21 March 2012, [www.tinyurl.com/fe-bd-120321](http://www.tinyurl.com/fe-bd-120321).

<sup>14</sup> Credit and Development Forum (CDF) and Institute of Microfinance (InM), *Bangladesh Microfinance Statistics 2012: Development of Microfinance Sector in Bangladesh*, pg. 6, (2010). Available from [www.tinyurl.com/cdf-inm-2010](http://www.tinyurl.com/cdf-inm-2010).

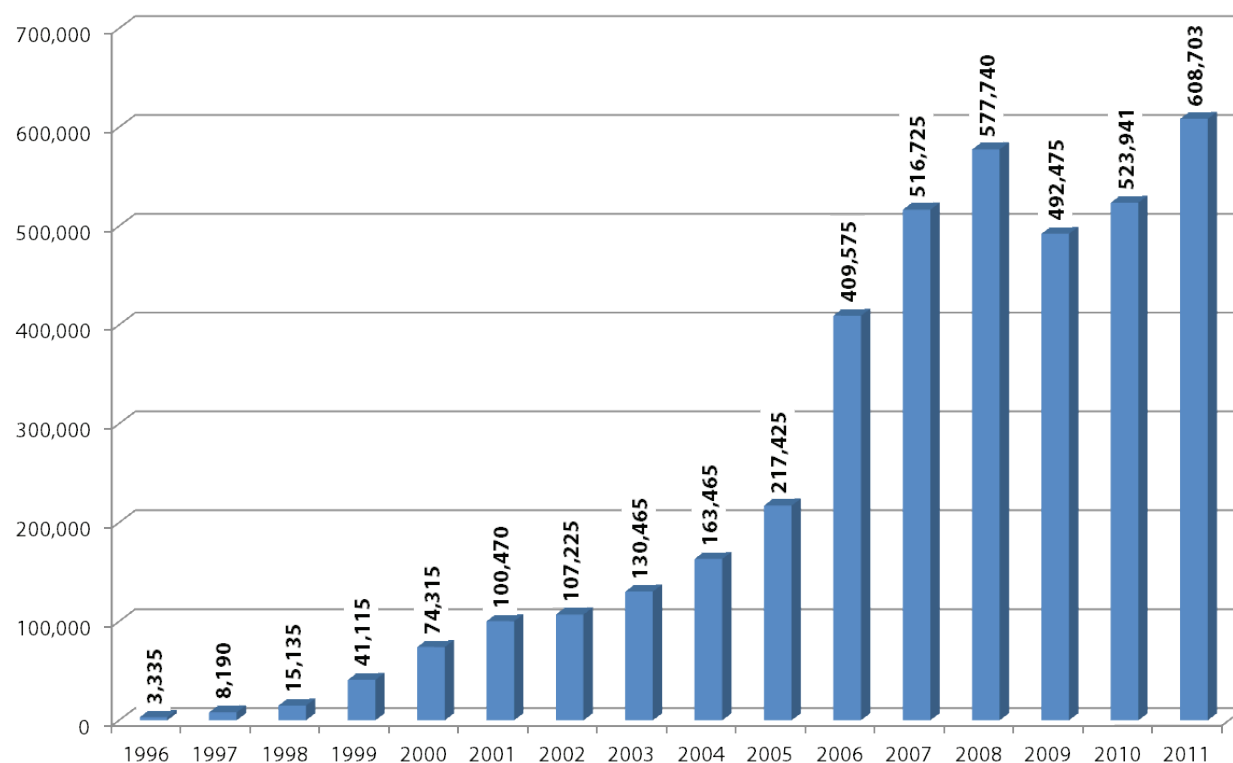


**Figure 1: Gradual development of RDS since inception**



Source: IBBL 2011 Annual Report.

**Figure 2: Growth of RDS members since inception**



Source: IBBL 2011 Annual Report.

Aside from the financial services offered under RDS, the programme also provides non-financial services such as the Humanitarian Assistance Programme, Education Programme, Capacity building and Training Programme, Health and Medicare Programme, and the Environment Protection Programme.

Even though IBBL made distinguished headways with its RDS programme, Islamic micro finance remains very small in comparison with the conventional MFIs. As of 2007, the top 535 NGOs and MFIs distributed approximately USD 10,690.86 million to 39 million beneficiaries while Islamic microfinance institutions represented 1.26 percent of that micro financing share.<sup>15</sup> If this form of financing expands it could have tremendous impact on reducing poverty especially in rural areas. IBBL's programme provides evidence that a private commercial bank with proper management and motivation can profitably run microcredit operations. The expansion of this scheme would not have been possible without the commitment and support of the local communities and local governments in assisting IBBL in targeting the poor.

## Financial viability and sustainability of RDS

Even though RDS was able to make headways in many rural areas in Bangladesh; the programme has been incurring high operational costs (see table 5). As of 2009, only 27 percent of disbursements have been financed from savings (in 1996 that figure stood at 4.92 percent and has been steadily increasing) while the rest has been financed from debt, borrowed from IBBL's other investments. The financial viability of the programme is thus dependent on the financial viability of the IBBL's commercial means.

15 Muhammad Sayeedul Haque and Masahiro Yamao, "Prospects and Challenges of Islamic Microfinance Programmes: a Case Study in Bangladesh," *International Journal of Economic Policy in Emerging Economies* 4, no. 1: 96, (2011), accessed May 15, 2012, [www.tinyurl.com/MSHaque2011](http://www.tinyurl.com/MSHaque2011).

**Table 5: Rate of Return Ratios from 1996–2009**

Year	Investment income as % of disbursements	Investment income as a % of total income	Net profit as a % of investment income	Net profit as a % of Disbursement	Profit margin as a % of disbursement
1996	6.00	50.00	62.91	3.77	4.00
2000	5.57	40.44	74.49	4.15	2.23
2001	5.38	46.13	49.24	2.65	1.80
2005	8.95	100.00	16.56	1.49	5.83
2008	8.66	100.00	0.24	0.02	5.31
2009	8.40	100.00	7.88	0.07	5.30

**Source:** Bhuiya, A. B., Ismail, A. G. and Rashid, M., *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*, 2011.

The high dependency on debt could make the business of RDS financially risky as the programme expands in the future. Moreover, in 2009 the operating cost to total income ratio was at 75 percent which has increased drastically from 50 percent from 1996. The net profit as a percent of the investment income has also been decreasing. In 1996 that figure stood at 62.91 percent and has been gradually decreasing since then (7.88 percent in 2009). This indicates the RDS is still profitable however, as the number of members, employees and disbursement increase this figure could further decrease which could make the programme operate at a loss. Currently the highest operating expense is incurred from salaries disbursed to employees. IBBL places strong emphasis on providing RDS employees with competitive salaries as this ensures the adequate implementation and management of RDS in terms of investment disbursements and recovery. However, in order for RDS to become financial viable in the future and independent from IBBL funding, IBBL will need to consider other financial and human management means in order to strategically minimize its operational costs.

## Development Benefits of RDS

Several studies conducted by Habib (2003), Badiuzzman (2006), Rahman, Jafrullah and Islam (2008), Uddin (2008), Jinan (2008) and Rahman (2010) provided evidence that the RDS programme did in fact have positive impacts on the poor in terms of increasing income generating

activities, household income, purchasing ability, expenditure on food, and improvement of livelihoods on the beneficiaries for members who have been in the programme for more than three years. The studies randomly surveyed and interviewed more than 1,200 beneficiaries from more than 34 branches throughout IBBL branches that extended the RDS programme to the rural poor.

### MDG 1: Poverty Reduction: Increase in household income and Possessions of Assets

The results from the studies provided evidence that the amount of investment taken by the borrowers had a positive and significant impact on household income. The collateral free investment had increased women's opportunities, which make up 94 percent of the beneficiaries, to participate in income generating activities. It has also increased their ability to invest more on existing economic activities, resulting in more earnings from their investments. A study by Habib (2003) reported that the RDS programme has significant positive effect on the respondents' income, employment and asset position. Similarly, Badiuzzaman (2006) found that the RDS programme was able to bring significant positive impact in terms of income and asset position to the beneficiaries.

Household income increased approximately by 30 percent after joining the RDS programme. As indicated in table 6 beneficiaries who invested in small businesses increased their annual income by an average of 30.1 percent, while investments in agricultural activities increased by an average of 29.3 percent. Another study by Jinan (2008), reported that average income per family who invested in agricultural activities increased by an average of Tk. 22,500.000, an increase of 38 percent. For investments in business activities through SMEs, family income increased by an average of Tk. 31,000, an increase of 42 percent. Beneficiaries from RDS were also able to increase their net savings by more than 32 percent, the highest growth in comparison with other MFIs according to Bangladesh Microfinance Statistics in 2010. It is evident from the studies that investments in SMEs increased annual income slightly more than agricultural activities. This

**Table 6: Annual income generation of households by source after joining RDS for a period of three years or more**

Source of income	Household income per year (in Taka)		Change in income	
	Before joining	After joining	Amount (in Taka)	Percent (%) change
Agriculture	17,470	22,595	5,125	29.3
Business	46,513	60,505	13,992	30.1
Total	63,983	83,100	19,117	29.9

*Source: Rahman, M. M., Islamic micro-finance programme and its impact on rural poverty alleviation, International Journal and Finance, 2010.*

is a positive indication since members will be able to invest more into their businesses, children's education, health, and will be more likely resilient to economic shocks.

As family income increased, family's possessions of assets also increased. As seen in the table 7, families that invested in both agricultural and business activities increased their asset possessions significantly for members who have been involved in the programme for a minimum of three years.

### MDG 3: Gender Equality and Women Empowerment- Participation of Women in Decision making process

Previously, before joining the programme, men were the main decision makers within their households in relations to crop production, employment, housing, raising children, child education, community meetings, and rural activities. A study conducted by Tasnimum Jinan in 2008 in five villages in Sadar Upzaila of Mymensingh District revealed that women who joined the RDS programme and participated

**Table 7: Change in household income and in assets for a period of three years or more**

Broad Category of Activities	Change in asset possessions (in Taka)	
	Before	After
Agriculture	35,112	101,785
Business	25,957	87,762
All	30,932	94,773

*Source: Field study by Tasnimum Jinan (2008).*



**Table 8: Participation of Woman in household decision making**

Decision making areas	Investment in agriculture and business activities					
	Before taking invest			After taking invest		
	Man only	Woman only (%)	Men in consultation with women (%)	Man only (%)	Woman only (%)	Men in consultation with women (%)
Crop production	98	-	2	54	-	46
Labour employment	100	-	-	14	2	84
Housing	60	26	14	2	2	96
Take care of children	-	82	18	-	66	34
Child education	80	2	18	2	2	96
Village group meetings	98	2	-	14	84	2
Child marriage ceremony	66	-	34	-	-	100
Rural activities	88	-	12	44	-	56

**Source:** Field study by Tasnim Jinan (2008).

in income generating activities dramatically increased women's participation in the decision making process within their households and community.

As shown in table 8, before women's involvement in the RDS programme, 98 percent of the decisions made in relation to crop production were made by men within the household, and only 2 percent consulted with their wives, however after joining the programme, women's participation increased by 44 percent. Moreover, before women's involvement in the programme, 98 percent of the decisions conducted during community group meetings were made by men, after joining the RDS programme women's participation and involvement increased by 82 percent. Thus it is evident that women's involvement in the programme increased women's empowerment within the household and within the community.

Providing women with access to and control over resources have significantly improved the stability and financial means of participating households. Not only focusing on poor women is smart economics, but it is a rights based one as well. In fact, when women are given the opportunity to engage in income generating activities, not only, they were able to generate substantive new income and increased

rates of possessions, but they have also positively impacted the entire wellbeing of their household, and possibly the community. Studies show that when women generate income, they are more likely to spend their earnings on the wellbeing of their household and children, in terms of education, health, and skills building. This is the positive spill over effect of women's empowerment on the household, community and entire society.

### *MDG 4, 5, 6: Access to healthcare services, safe drinking water and sanitary latrines*

Health is considered one of the basic and vital needs, which reflects the people's quality of life. A field study conducted by Mohammad Main Uddin (2008) on the beneficiaries of RDS indicated that due to the increase in family income, beneficiaries' access to health care increased by 10 percent. By visiting health facilities, beneficiaries become more aware of the negative impact of using unsanitary latrines which led to the usage of sanitary latrines that increased by 10 percent after having access to the RDS programme.<sup>16</sup>

<sup>16</sup> Mohammad Main Uddin, "Credit for the Poor: The Experience of Rural Development Scheme of Islami Bank Bangladesh Ltd.," *The Journal of Nepalese Business Studies* V, no. 1: 72, (2008), accessed May 23 2012, [www.nepjol.info/index.php/JNBS/article/view/2084/1910](http://www.nepjol.info/index.php/JNBS/article/view/2084/1910).

These findings provide a richer picture on the linkage between RDS and access to adequate health services, safe drinking water and sanitary latrine. Also to promote further improvements in the health sector, IBBL through its non-financial investments under the RDS programme, provided hand tube wells and sanitary latrines to successful RDS members from the Quard fund given by Islami Bank Foundation and through the Quard El Hasan fund (Zakat fund) that RDS members contributed to.

As of December 2008, a total of 6,844 tube wells and 3,838 sanitary latrines have been built.<sup>17</sup> All of the studies conclude that RDS produced multiplier benefits for the beneficiary households and has made substantive contributions to several MDGs, particularly by promoting income generating activities in rural households, possessions in assets, promoting women participation in all activities, and improving their overall health status.

## Scaling Up of IBBL's RDS Programme: Key Enablers

Scaling up Islamic microfinance through IBBL's RDS programme was made possible by a number of enablers. The process benefited from the cultural environment in which many poor Muslims were yearning for microfinance services that are in compliance with Islamic financial principles. The process also benefited from the government's support by encouraging the financial sector to introduce innovative microfinance products to reach the rural poor and finally the scaling up process would not have been possible without the management's vision to scale and the capacity building of its employees.

### *Developing microfinance products that are responsive to market demands and cultural needs of the poor*

Bangladesh established the first Islamic bank in 1983 in order to address the needs of the many Muslims who demanded Islamic financial products which prohibit the usage of interest. IBBL's main objective is establishing an Islamic economy with a balanced economic growth by ensuring reduction of rural-urban disparity and equitable

distribution of income. Since then it has expanded its financial services to 266 branches throughout Bangladesh and is now considered the biggest private bank in the country. IBBL was able to address the demand of the many Muslims through commercial needs; however, many of the Muslim poor were left out from this financing channel, as mentioned earlier, due to the religious restriction in accessing credit that is based on interest.

According to a survey conducted by Muhammad Sayeedul Haque in Bangladesh revealed that 80 percent of the Muslim respondents claimed a preference for Islamic products over conventional products. Forty five percent showed their preference even if they come at a higher price. Additionally, 32 percent of the survey respondents who have never applied for any loans stated that religious reasons were the main barrier in getting a loan. The survey also indicated that 85 percent of the current borrowers from conventional MFIs admitted that they will not apply for another conventional loan and will switch over to Islamic products once such products become available.<sup>18</sup>

The survey also revealed that many of the Muslim rural women had the perception that conventional MFIs may exclude them from wearing the Purdah (the practice of Muslim women wearing a headscarf 'hijab'). For this reason, these women did not participate in conventional MFIs. These reasons of exclusion provide anecdotal evidence that there is a strong religious and cultural demand for Islamic microfinance products in many Muslim communities.

This high demand for Islamic financial services provided IBBL with the cultural environment to develop and expand RDS outreach to the rural Muslim poor in Bangladesh. IBBL was able to identify such cultural obstacles and introduced RDS as an intervention to address the high rural poverty rates in Bangladesh. This cultural and religious enabler assisted RDS to expand and reach many poor in Bangladesh.

## Conducive Policy Environment

Scaling up a local level project led by the private sector is an endeavour that could not have been accomplished without

17 Haque and Yamao, "Prospects and Challenges of Islamic Microfinance Programmes," pg. 104.

18 Haque and Yamao, "Prospects and Challenges of Islamic Microfinance Programmes," pg. 100.

a conducive policy environment provided by the national government. The Government of Bangladesh Fifth Five Year Plan (1997-2002) provided an enabling environment for the private sector to get involved in the country's poverty reduction agenda. The Plan clearly sighted that the private sector will play a leading role in alleviating the poor, especially the rural poor, out of poverty. The Plan also encouraged banks and financial institutions to develop and introduce innovative, replicable and sustainable microfinance models that meet the credit needs of poor micro entrepreneurs.

Through this support, IBBL was able to introduce an innovative and replicable microfinance model, a new Islamic lending channel, to meet the demand of the poor while at the same time assisting the government in its poverty reduction plan. This support was further intensified when the Government introduced its new Poverty Reduction Strategy Paper in 2005 which encouraged the private sector's involvement in the scaling up of microcredit programmes through their active engagement. The Paper, however, stated the private banks need to introduce more diversified microfinance products to assist the poor, especially women. In the same year, IBBL, through RDS, introduced the Micro Enterprise Investment Scheme (MEIS) which is specifically targeted towards women.

Furthermore in 2008 the Government, through its second National Strategy for Accelerated Poverty Reduction (2009–2011) called upon the private sector and private banks to introduce innovative credit schemes to assist the poor entrepreneurs as part of their corporate social responsibility. In light of this, the Central Bank of Bangladesh, issued DOS Circular No 01 stressing on the need of banks and financial institutions to introduce CRS initiatives and to speed up financial inclusion of the large socially disadvantaged rural and urban population segments in order to increase their employment opportunities and incomes. By then the RDS became one of the bank's main financial channels to the poor and was able to reach more than 500,000 beneficiaries. More recently in 2012, the Governor of Bangladesh Bank stated that Islamic micro financing should be seen as an alternative channel to poverty reduction and private banks and conventional MFI should introduce Islamic windows to attain faster poverty eradication with deeper, wider financial inclusion. It is evident from the mentioned above that

the government's support toward the involvement of the private sector in its poverty reduction agenda provided an enabling space for RDS to expand and to reach many poor rural women and youth. Even though the government did not provide any financial incentives to the private sector, as an Islamic bank in an Islamic society, part of its existence is to introduce a welfare oriented banking system that ensures equity and justice in the field of all its economic activities and in the process achieve a balanced growth and equitable development in less developed areas in society which are in line with Islamic teachings. This has been the strongest incentive for IBBL to scale up the RDS programme.

### *Organizational/staff capacity space: The institutional and organizational capacity has to be created to carry the scaling up process forward*

For the scaling up process to be successful, institutions need to adequately train their employees, and provide quality training.<sup>19</sup> IBBL places strong emphasis on the development of its employees as the bank's performance is depended on employee skills and performance. IBBL considers employee development and training as a partnership between the employee and bank which ensures the further development and success of the bank and its programmes. After a year of IBBL's inception in 1983, it established the Islami Bank Training and Research Academy (IBTRA) dedicated to training employees on Islamic financial practices. IBTRA's main activities cover both training and research on various aspects of Islamic banking. All newly recruited employees are required to attend a one-month training session at the Academy to get familiarized with Islamic banking practices. The training sessions cover ideological, theoretical and practical teachings. IBTRA also has an online learning platform where journals and studies on Islamic practices are accessible to all employees.

After the introduction of RDS, the IBBL introduced several training courses to employees working under the programme. The purpose of such training courses is to ensure that employees have the adequate skills in managing RDS once they are placed in field branches. The training

<sup>19</sup> Arntaud Hartmann and Johannes Linn, "Scaling Up: A Framework and Lessons for Development Effectiveness from Literature and Practice," Brookings Global Economy and Development, Working Paper: 29, (2008).





*Photo: Mohammad Moniruzzaman/UNDP Bangladesh.*

courses are periodically updated and further developed based on the assessment and feedback received from the field officers managing the programme.

Additionally, the management style coupled with staff training is an important component of measuring the institutional viability of RDS. The management style used by the RDS programme evolved from its effort to deliver a whole range of programmes to the rural poor. The management structure has a build-in-adaptability that has been refined through field level experiences. This method is based on an innovative approach to training characterized by a structured learning process, which is continuously updated and modified by trial and error. The staff members involved are empowered to plan, organize and implement the RDS programme in their assigned areas with little supervision from IBBL headquarters,<sup>20</sup> however an

official from each zonal office is assigned to supervise RDS activities in the branch level once a year. Moreover, weekly, monthly, quarterly and annual statements of RDS activities of the branches must be prepared and submitted to the assigned Zone supervisor and to IBBL headquarters to ensure that all RDS activities are monitored and evaluated regularly.<sup>21</sup> To further ensure the adequate implementation and management of RDS, employees are offered a much attractive benefits package in comparison with other MFIs in Bangladesh. It can be stated that quality training, joined with appropriate incentives assisted in the scaling up of RDS.

### *A Dedicated Management with the Vision of Scale*

As stated by Hartmann and Linn (2008) "To move from idea to reality and from scientific finding to practical application, a vision for implementing and scaling up the

<sup>20</sup> Parveen, "Sustainability Issues of Interest-free Microfinance Institutions," pg. 121.

<sup>21</sup> Haque and Yamao, "Prospects and Challenges of Islamic Microfinance Programmes," pg. 103.

idea, innovation or model is critical". The management of RDS right from the start had the "vision of scale" during the initiation of the pilot phase. The main objective of the programme was to establish an Islamic economy with balanced economic growth by ensuring reduction of rural-urban disparity and equitable distribution of income. IBBL had the vision in providing financial channels for the rural Muslim poor who were neglected by government programmes or by conventional MFIs. Since the vast majority of the Bangladeshi population belong to the Muslim faith and which are most likely to be poor, right from the planning phase it had the vision to provide them with the financial means to improve their livelihoods.

Prior to designing RDS, IBBL conducted a survey to assess if in fact there is a need for Islamic microfinance products. The survey did provide evidence that many of the rural poor desired financial products that are in compliance with Islamic laws. Based on that assessment IBBL moved forward with the planning phase. One of the criteria which were used in the village selection during the pilot phase was to ensure that the selected villages are within a 10 km radius from the branch premises. And since RDS was to be extended through its commercial branches, it was easy for IBBL to replicate the RDS programme throughout its branches while maintaining a rigorous monitoring and evaluation framework that ensured a continuous learning process for improvement and to make necessary adjustments when need be.

Moreover, IBBL had the knowledge and expertise in Islamic finance products through its branches operations thus making the RDS process easier to implement and extend. However, from a profit perspective, IBBL is a private bank and one of its main objectives aside from assisting the poor, is to generate and increase its profits. Once the beneficiaries graduate for the RDS programme, IBBL will introduce them to the commercial products offered by the branches, thus increasing its profits and increasing its client base. This partnership between the bank and the beneficiaries proved to be a win-win partnership. This vision from the start assisted the bank to further expand and replicate the programme through many of its branches making it a self-reliant sustainable programme.

## RDS as an Opportunity for South–South Learning

The Islamic finance sector has made great headways over the past 40 years. The Islamic finance industry, which is currently valued at USD 1.3 trillion,<sup>22</sup> has been growing in prominence and importance as a viable and efficient alternative to conventional banking. Islamic finance has expanded in terms of products and geographical outreach, but the numbers of Islamic finance institutions offering sharia compliant microfinance products and serving the unbankable poor continue to lag behind.

A CGAP study in 2007 revealed that there is a visible gap between supply and demand of Islamic microfinance products. In addition, the International Finance Cooperation (IFC) has commissioned several studies which revealed that there is a strong demand for Islamic microfinance products. For example in the West and the Gaza Strip 60 percent of low-income survey respondents stated their preference of Islamic products over conventional products. In Yemen, an estimated 40 percent of the poor demand Islamic products irrespective of the price, while in Syria 43 percent of the survey respondents considered religious reasons for not accessing conventional microcredit products. Moreover, according to a 2000 Bank Indonesia report, 49 percent of the rural population in Java considered interest as incompliant with Islamic Sharia laws and preferred to bank with Islamic financial institutions.<sup>23</sup>

As mentioned above Islamic microfinance accounts for less than 1 percent of the global microfinance outreach which are mainly concentrated in several countries. Even in Bangladesh which has the largest outreach, it still accounts for less than 1 percent of the total microfinance market share. It is estimated that approximately 1.2 billion people live below the poverty line of which 44 percent reside in Muslim majority countries. According to a study by the World Bank, Asia Pacific has the highest proportion of people living in poverty whereby around 60 percent of the world's Muslim live in the region. The establishment of Islamic microfinance institutions in the Asia Pacific region

22 Anjuli Davies, "Global Islamic Finance Assests Hit \$1.3 Trillion," Reuters, 29 March 2012. [www.tinyurl.com/davies-120329](http://www.tinyurl.com/davies-120329).

23 Karim, et al., "Islamic Microfinance: An Emerging Market Niche," pg. 5.



#### *Box 4: Rural Community Development Project (RCDP) in Jabal al Hoss, Syria*

In 2000 the United Nations Development Programme (UNDP) along with the Syrian Ministry of Agriculture and Agrarian Reform established the Rural Community Development Project (RCDP) in the rural region of Jabal al Hoss one of the poorest areas in Syria. The primary objective of RCDP is to provide a sustainable network of self-reliant local microfinance institutions or village development funds (VDFs) (known in Arabic as sanadiq) to finance employment-generating small and micro enterprises. The programme uses community savings to offer local low-income people, particularly women, with financial services for income generating activities. It is the only membership-based microfinance model in the region that introduced Islamic lending procedures.

As of 2007, 32 VDFs were established and 12,000 loans were disbursed of which 43 percent were given to women. The programme helped create 1,000 jobs and improved income of the beneficiaries by 20 percent. In this same period the total number of shareholders reached 7,378 with a share capital of USD 280,681. These shareholders enjoyed an average return on equity of 24 percent by maintaining a high repayment rate from participants at 97 percent. The programme also empowered women through promoting their participation in the economic and social sectors. It addressed socio-economic challenges facing women in the area, including early marriages, the denial of inheritance rights, limited access to the decision-making processes, and inadequate access to basic financial and physical compensation for their work. Due to the success of the programme, in 2007, the government issued a legislative Decree no. 15 which permitted the Credit and Monetary Council of the Central Bank of Syria to license Social Financial Banking Institutions (SFBIs) with the objective of providing microfinance services to the poor following the VDF model.

could have the potential of eradicating poverty among many Muslims and non-Muslims as well. And since the vast majority of the unbanked are Muslims, expanding the outreach of sharia compliant products has the potential to elevate the Islamic microfinance industry on a global scale. This clearly indicates the huge untapped potential for Islamic microfinance to respond to the unmet demand of this segment of society who demand products that are consistent and compatible with Islamic principles.

However, recent developments indicate that Islamic microfinance has gained some traction in the number of institutions offering Islamic compliant products. There are currently 300 Islamic microfinance institutions operating in 32 countries across all six continents. Islamic MFI have recently emerged in Bahrain, Jordan, Kosovo, Lebanon, Mali, Pakistan, occupied Palestinian territories, Saudi Arabia, Sudan, Syria and Yemen. UNDP assisted in the implementation of those programmes in Syria, Yemen (see boxes 4 and 5), the occupied Palestinian territories and is currently in the planning phase of establishing a similar programme in Somalia. This provides a clear indication that the demand of Islamic microfinance is high given that there are currently 1.3 billion people who belong to

the Muslim faith. Islamic microfinance has a positive role in poverty alleviation with a huge untapped potential as an effective socioeconomic development tool. Islamic microfinance advocates economic empowerment through entrepreneurship, risk sharing and financial inclusion. Thus, Islamic microfinance has a great potential in achieving the MDGs.

The lessons learned from the scaling up of IBBL's RDS programme can serve as an example for countries to emulate. The expansion of the programme in 61 districts was due to the conducive policy environment provided by the government to involve the private sector in the country's poverty reduction agenda; has helped the scaling up efforts that increased the programme's innovation and effectiveness. IBBL proved that as a private bank it is able to scale up the RDS programme due to its expertise in Islamic finance through its commercial means and its commitment to its CSR. Since many Muslim majority countries have mainstreamed commercial Islamic banking, this programme can serve at a benchmark for them to learn from.

### Box 5: Al-Hudaidah Microfinance Programme in Yemen

According to a study by the International Finance Cooperation (IFC) it revealed an estimated 40 percent of the poor in Yemen demand Islamic products irrespective of the price. To address this high demand, in 1997 UNDP and Yemen's Social Fund for Development (SFD) launched the Al-Hudaidah Microfinance Programme (HMFP) the first of its kind in Yemen to employ Islamic banking principles offering financial products that fit local customs and address economic needs.

By June 2000 the HMFP had 1,770 active clients, 23 percent of whom were women, and USD350,000 in outstanding debts with an average loan disbursement size was USD240. By 2006, the HMFP had 3,551 active borrowers (85 percent were women) and disbursed more than 22,710 loans. According to SFD's 2006 Annual Report, the HMFP had a portfolio at risk of 0.024 percent, which was considerably lower than the SFD's other microenterprise projects which range between 2 percent and 4 percent. Also the HMFP's portfolio risk rate is below the average of other MFIs across the Middle East and North Africa (MENA) region which as of 2004 stood at 2.1 percent. The programme was able to empower women, increase their income and their overall well-being. Another sign of the programme's high credit quality is that the SFD agreed in 2006 to provide HMFP with an additional 41.5 million rials to guarantee the continuous flow of funds and to expand its on-lending activities.

Due to this success, in 2002 the Government of Yemen issued Law No. 23 which permitted the establishment of banks that specialize in micro financing. Based on that law, in 2009, SFD along with the partnership of the Yemeni government and the Arab Gulf Programme of the United Nations Development Organizations established the first Islamic microfinance bank, Al Amal bank, the first of its kind in Yemen and in the MENA region. As of 2012, Al Amal bank captured 25 percent of the country's microfinance market. It opened 14 branches all over Yemen with over 14,164 active borrowers of which 57 percent are women. Due to this success Al Amal bank in 2011 was named by CGAP as the winner of Islamic Microfinance challenge for its Islamic leasing products.

## Potential Challenges to the Growth of Islamic Microfinance

Even though Islamic microfinance has the potential to expand at unprecedented levels throughout the Muslim world, the industry is yet to validate it can provide financial services that meet the needs of the poor on a larger scale. There are several challenges that are currently hindering the scaling up of Islamic microfinance in many Muslim majority countries which are due to the following:

- 1. Lack of resources:** Many Islamic microfinance institutions in many Muslim majority countries suffer from lack of funding and in order to extend this service to individuals living in poverty large volume of funds are needed. There tends to be a lack of knowledge on the concept of Islamic micro financing among many donors, and due to that, many show no interest in funding such programmes, while conventional MFIs are heavily funded by them. Commercial Islamic banks, who are much more

familiar with Islamic financial products, such as IBBL, can play an important role in initiating Islamic microfinance programmes in their countries to bring more awareness to this important funding channel and the positive socio-economic impact it has on the poor who are left out of the mainstream financing models due to religious reasons. Such banks can also play a pivotal role in informing national governments, national and international donors along with development agencies on the importance of financing such a model. However, for programmes to be sustainable in the long-run adequate funding support and commitment will be required. IBBL was able to provide funding toward RDS however as the programme expanded its operational costs have increased drastically. As a private bank it has the resources for its commercial means to fund such a programme, however for MFIs wanting to emulate this programme, they will require funding for governments, donors and from the private sector in order to be sustainable.



**2. Capacity building:** Capacity building is needed at all levels for Islamic microfinance programmes to be successful. Currently, many Islamic MFIs and NGOs work in limited areas with limited staff capacities that tend to lack the expertise and adequate guidelines. As a result, despite their willingness to provide such a service to the poor, they are unable to expand their activities at a larger scale. At the macro level, the Islamic Development Bank and Islamic financial standard setters such as IFSB and AAOIF, should develop global financial reporting standards adapted to microfinance to build infrastructure for transparency in the global Islamic microfinance sector. This entails comprehensive disclosure guidelines on Islamic microfinance accounting principles, pricing methodologies, financial audits, and also rating services.<sup>24</sup> At the institutional levels, more efforts should be placed to train Islamic MFI staff through the development of operational tools and manuals. This could be done by seeking the knowledge and expertise from Muslim scholars who specialize in Islamic financing and from Islamic banks that already provide such services and products through their commercial means.

**3. Operational efficiency and risk management:** Operational efficiency is crucial to extending affordable financial services to the poor. Managing small financial transactions is costly and it is important for Islamic MFIs to innovate to reduce transaction costs. For example, in murabaha (cost plus mark-up sale contract) or ijara (leasing contract) transactions, the provider of fund is the one who purchases the commodity and then resells or leases it to the user with a fixed mark-up. Islamic MFIs may have the channels to purchase commodities at whole price, but usually the costs associated with purchasing, maintaining, selling or leasing a commodity are usually expensive and are passed on the beneficiary. An innovative way to reduce such costs is by allowing the beneficiary to search and identify the desired commodity. Thus, Islamic MFIs who face funding



*Photo: Ellie Van Houtte.*

challenges that desire to expand and to become sustainable should consider applying such a technique in order to minimize costs and offer more competitive pricing for their beneficiaries. Risk management which is also another vital factor to the sustainability of Islamic MFIs. Some conventional MFIs rely on peer pressure to secure loans without demanding collateral, a method introduced and practiced by Grameen Bank. This method should be practiced to comply with the risk-sharing no interest principles that are used in Islamic financing.

<sup>24</sup> Karim, et al., "Islamic Microfinance: An Emerging Market Niche," pg. 12.

**4. Unfavourable rules and regulations:** For Islamic microfinance programmes to be successful, governments need to offer a policy environment that allows for diverse and competitive financial service providers to grow and flourish. Currently many governments support conventional microfinance programmes and introduced policies to support their growth but without setting policies to support Islamic micro financing. Thus, a good policy environment supported by the government should allow a range of financial service providers to coexist and compete to offer higher-quality and lower-cost services to large number of poor clients. Conducive policies should also support and provide incentives for the private sector to introduce innovative funding channels to support the poor. Furthermore, the government's role should ensure macroeconomic stability, liberalize interest rates, and establish banking regulation and supervision to make viable microfinance possible for both conventional and Islamic microfinance programmes.

socioeconomic development of the poor should be given utmost priority by policy makers and regulators. However it should be noted that the private sector and financial institutions task in not to solve the problem of poverty, the challenge of poverty requires a comprehensive national approach and an agenda, where all actors in the economy and society play a relevant role. It just happens that being the financier or provider of capital, there are pivotal intervention points where financial institutions and banks can serve as catalysts as part of a mapped out solutions to poverty reduction.

## Conclusion

With a large number of poor women and men, unable to access financial services due to religious restrictions and beliefs, it becomes important for governments, the private sector, especially Islamic commercial banks among other stake holders, to support Islamic MFIs and channel resources to service those who need it most, poor women and men, girls and boys. Islamic microfinance has a positive role in poverty alleviation with huge untapped potential as an effective socioeconomic development tool. In fact, by scaling up Islamic micro financing in majority Muslim countries, there is ample evidence that suggests, that millions of poor people can be lifted out of poverty.

Countries wishing to emulate the RDS programme with the assistance of the private sector must place strong emphasis on capacity building at all levels in order to realize the potential of Islamic microfinance. Efforts must be placed on funding and training to ensure that a programme such as the RDS can be sustainable in the long run. Finally, a supportive and enabling environment that supports the involvement of the private sector in

## References

- Ahmed, Habib (2004), "Frontier of Islamic Banking: A Synthesis of Social Role and Micro Finance," *The European Journal of Management and Public Policy*. Available from [www.tinyurl.com/HAhmed2004](http://www.tinyurl.com/HAhmed2004).
- Ahmed, Habib (2002), "Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions," *Islamic Economic Studies* 9, no. 2: 27–64.
- "Atiur calls for promotion of Islamic microfinance," (2012), *The Financial Express*, 21 March, Available from [www.tinyurl.com/fe-bd-120321](http://www.tinyurl.com/fe-bd-120321).
- Bangladesh Bank (2010), *Review of CSR Initiatives in Banks (2008 & 2009)*, April. Available from [www.bangladesh-bank.org/pub/annual/csr/csr0809.pdf](http://www.bangladesh-bank.org/pub/annual/csr/csr0809.pdf).
- Bangladesh, General Economics Division Planning Commission (2008), *Moving Ahead: National Strategy for Accelerated Poverty Reduction II (2009–2011)*. Available from [www.tinyurl.com/bd-nsapr2](http://www.tinyurl.com/bd-nsapr2).
- Bangladesh, General Economics Division Planning Commission (2005), *Bangladesh Unlocking the Potential: National Strategy for Accelerated Poverty Reduction*. Available from [www.tinyurl.com/bd-nsapr](http://www.tinyurl.com/bd-nsapr).
- Bangladesh Ministry of Planning (1998), *The Fifth Five Year Plan (1997–2002)*.
- Bhuiyan, Abul Bashar, Chamhuri Siwar, Abdul Ghafar Ismail, and Basri Talib (2011), "Islamic Microcredit is the Way of Alternative Approach for Eradicating Poverty in Bangladesh: A Review of Islami Bank Microcredit Scheme," *Australian Journal of Basic and Applied Sciences* vol. 5, no 5: 221–230.
- 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: 1–21.
- Credit and Development Forum (CDF) and Institute of Microfinance (InM) (2010), *Bangladesh Microfinance Statistics 2010: Development of Microfinance Sector in Bangladesh*. Available from [www.tinyurl.com/cdf-inm-2010](http://www.tinyurl.com/cdf-inm-2010).
- Davies, Anjuli (2012). "Global Islamic Finance Assests Hit \$1.3 Trillion," Reuters, 29 March. Available from [www.tinyurl.com/davies-120329](http://www.tinyurl.com/davies-120329).
- Hashemi, Syed M. (1997). "Building up Capacity for Banking with the Poor: The Grameen Bank in Bangladesh," in *Microfinance for the Poor*, edited by Hartmut Schneider, Paris: Development Centre of the Organization for Economic Cooperation and Development, OECD.
- Haque, Muhammad Sayeedul and Masahiro Yamao (2011). "Prospects and Challenges of Islamic Microfinance Programmes: a Case Study in Bangladesh," *International Journal of Economic Policy in Emerging Economies* vol. 4, no. 1: 95–111. Available from [www.tinyurl.com/MSHaque2011](http://www.tinyurl.com/MSHaque2011).
- Hartmann, Arntraud and Johannes Linn (2008). "Scaling Up: A Framework and Lessons for Development Effectiveness from Literature and Practice." Brookings Global Economy and Development, Working Paper.
- IBBL (2011), *Annual Report 2011: Directors' Report*, IBBL. Available from [www.tinyurl.com/IBBL2011dr](http://www.tinyurl.com/IBBL2011dr).
- 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: 73–93.
- Karim, Nimrah, Michael Tarazi, and Xavier Reille (2008). "Islamic Microfinance: An Emerging Market Niche," CGAP, Focus Note, no. 49. Available from [www.tinyurl.com/cgap-fn49](http://www.tinyurl.com/cgap-fn49).
- Meyer, Richard L. (2001). "The Demand for Flexible Microfinance Products: Lessons from Bangladesh," *Journal of International Development* vol. 14, no. 3.

- 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: 112–133. Available from [www.um.ase.ro/no11/10.pdf](http://www.um.ase.ro/no11/10.pdf).
- Rahman, Aminur (1999). "Microcredit Initiatives for Equitable and Sustainable Development: Who Pay?," *The Bangladesh Development Studies* vol. 22, no. 2: 49–92.
- Rahman, Atiur (2012). "The Role of Islamic Microfinance as a Tool of Poverty Alleviation," *The Financial Express*, 22 March, Available from [www.tinyurl.com/fe-bd-120322](http://www.tinyurl.com/fe-bd-120322).
- 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: 119–138. Available from [www.tinyurl.com/MRahman2010](http://www.tinyurl.com/MRahman2010).
- Rahman, M. Mizanur., M. Jafrullah, and Anm Tawhidul Islam (2008). "Rural Development Scheme of Islami Bank Bangladesh Limited (IBBL): Assessment and Challenges," *IJUM Journal of Economic and Management* vol. 16, no. 2: 139–163.
- Seibel, Hans Dieter and Wahyu Dwi Agung, (2006). "Islamic Microfinance in Indonesia," Working paper no. 2006. 2, University of Cologne, Development Research Center.
- 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* V, no. 1: 62–75. Available from [www.nepjol.info/index.php/JNBS/article/view/2084/1910](http://www.nepjol.info/index.php/JNBS/article/view/2084/1910).
- UNDP (2011). "Gender Equality and UNDP" Fast Facts, 2011, Available from [www.tinyurl.com/undp201107ff](http://www.tinyurl.com/undp201107ff).
- World Bank (2012), *World Development Indicators 2012*. World Bank: Washington D.C.
- World Bank (2009), *World Development Indicators 2009*. World Bank: Washington D.C.
- Yaron, Jacob. (1997) "Performance of Development Finance Institutions: How to Access it?," in *Microfinance for the Poor*, edited by Hartmut Schneider. Paris: Development Centre of the Organization for Economic Cooperation and Development, OECD.