

Grameen Bank vs. RDS of IBBL: A Comparative Analysis

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Abstract

Interest-based Grameen Bank and Islamic Shariah-based Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited (IBBL) provide micro finance to the rural poor of Bangladesh. The main purpose of this study is to make a comparative analysis of them with a view to enumerating the superiority. It is demonstrated that contrary to prevailing notion, Micro-credit alone can't break the vicious circle of poverty unless it is operated under the Islamic Banking System where poor borrower has an opportunity to learn Islamic values and culture and to move from Micro-credit to market through micro enterprise after its successful graduation process.

The study is divided into 5 sections. After an introduction in section 1, Grameen Bank model and its weaknesses have been discussed in section 2, while section 3 analyses the RDS model of IBBL. In section 4 a comparison between RDS and Grameen Bank has been made and a conclusion has been drawn in the last section.

The Grameen Bank (GB) Model

The GB, established in 1983, is a brainchild of Dr. Mohammad Yunus. It provides micro finance to the poor, particularly the women who form a group with 5 likeminded persons having almost same socio-economic conditions. Loans are given to individuals. The Loanee alone is responsible for his/her loan but very importantly, there exists informal interlocking responsibility among members of the group. Once a group is formed it is kept under observation for a month or so to see if the members are conforming to the discipline of the Bank. During this period they are required to memorise the articles of the 16 decisions and learn to put their signatures. After the observation period is over, two members of the group are selected for taking loans. The Loanees can use the credit in any productive activity, of his/her choice. The loan is repaid in 48 weekly

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instalments. The loan utilisation and repayment behaviour of the first two Loanees is observed for a month or two. Only when these members behave properly, the other members become eligible for receiving loans. If one of the members defaults the whole group becomes ineligible to get repeat loans. Because of these restrictions a lot of group pressure works to keep the records of individual members clean.

The GB workers attend the centre meeting where loan proposals of individual members are discussed. Once a loan proposal is accepted; the Bank Worker disburses the credit in the office. The Bank Worker in the weekly meetings collects the weekly instalment of the repayment. Note that the Loanee does not have to come to the bank office to repay the instalment but are required to go to the bank to receive the loan. A Bank Worker is responsible for caring for about 400 members. One of the conditions of the loan is that the group members save 5 Takas every week plus 5 per cent of the loan amount, which is kept aside at the time of loan disbursement. The rate of interest on such savings is paid at the rate of 8.5%-12% and on the loan, interest realized at the rate of 20% (reducing).¹

Unique Privileges, Power and Position

The Grameen Bank Ordinance 1983 was promulgated by the then Chief Martial Law Administration, Hossain Muhammad Ershad on the 1st September 1983. Subsequently, expansion of Grameen Bank became a part of the 18 point programme of President H.M. Ershad.² The Grameen Bank project under Dr. Mohammad Yunus was initially sponsored by the Rural Economics of Department of Economics, University of Chittagong in 1976, in village Jobra, Police Station- Hathazari in the district of Chittagong, Bangladesh and subsequently adopted by the Bangladesh Bank and participated by new Banks and the Bangladesh Krishi Bank. This project would have been melted away, had there been no political support of the then President Hussain Mohammad Ershad and his political party. Grameen Bank made a tremendous progress due to his continuous nine year's support to expand its activities in rural areas as part of his political program. No institutions of Bangladesh either from the public or

¹ Andreas Fuglesang and Dale Chandler, *Participation As Process-Process As Growth*, (Dhaka: Grameen Trust 1993).PP.87-108.

² See point 4 in Appendix – 1.

the private sector, other than Grameen Bank received such a massive political support ever since the establishment of Bangladesh in 1971.

Interestingly, the very Ordinance leading to the establishment of the Grameen Bank gave unprecedented autonomy and freedom to its Founder Managing Director and the Board to operate overriding the existing company laws, Banking companies Act and all other cases which are inconsistent with the provisions of this Ordinance. Thus Bangladesh Bank has no control over the operation of the Grameen Bank. Unlike company laws of Bangladesh where Managing Director cannot hold office for more than five years at a time, Founder Managing Director of Grameen Bank has been holding his office for more than 24 years since 1983. Besides, Grameen Bank enjoyed a number of unprecedented privileges and powers and position in terms of recovery of Grameen Banks dues, exception from income taxes, profits or gains as well as liquidation. Thus all sums due to the Bank shall be recoverable as arrears of land revenue. All officers of the Bank may exercise all powers exercisable by a certificate officer under the Public Demands Recovery Act 1913. It is widely reported in various national dailies that there is a widespread misuse of such powers leading to various types of torture they made for recovery of Bank's loan from the borrowers violating human rights. Furthermore, no provision of existing law relating to the winding up of the companies including Banking companies, shall apply to the Grameen Bank and the Bank shall not be wound up save by the order of the Government and in such a manner as it may direct. Unlike scheduled Banks operating under Banking companies Act, Grameen Bank will not be subject to audit by Bangladesh Bank.

The authorised, capital of the Bank shall be Taka 100 million. The initial paid-up share capital of the Bank shall be taka three crore which shall be subscribed as: (a) 60% by the Government or by any organisation or body set up, managed or controlled by the Government, as may be determined by it; and (b) 40% by borrowers of the Bank of which 20 % preferably by women borrowers. Subsequently the Bank's paid up capital was raised to Tk. 72 million, and Government's share was reduced to 25% of the shares. It remains a standing puzzle as to why Grameen Bank and its Managing Director enjoyed such a wide range of privileges to the neglect of all other Banks operating under Banking Companies Act, in Bangladesh. A careful study of the Ordinance 1983 leading to establishment of the Grameen Bank raises a number of questions concerning fundamental rights, protected by the constitution of Bangladesh. The Article 27 of the

Constitutions clearly states that "all citizens are equal before law and entitled to equal protection". The Article 19 (1) of the same Constitution clearly declares that "the state shall endeavour to ensure equality of opportunity to all citizens". The several provisions of the ordinance of the Grameen Bank clearly violate the fundamental rights as given by the Constitution of the Republic. Perhaps, no individual of the Republic enjoyed such an unique privilege as enjoyed by Founder Managing, Director of the Grameen Bank who has been holding the position for last 24 years in clear violation of section 110 of the Companies Act 1994 which states that no Companies shall appoint or employ any individual as its Managing Director for a term exceeding five years at a time and 110 (2) also states that "any individual holding, at the commencement of this Act, the office of the Managing Director shall unless his term expires earlier, be deemed to have vacated his office immediately on the expiry of five years from the commencement of this companies Act 1994". This provision of law has not applied to Grameen Bank. The very fact that the founder Managing Director has been holding the office of the Managing Director for over two decades continuously, it clearly shows that the state has failed to endeavour to ensure equality of opportunity to all citizens in violation of the Article 19(1) of the Constitution.³

Micro-Credit Operation: An Analytical Review

Given the privileges, powers and positions, Grameen Bank knocked the donor agencies and development partners to finance Grameen Bank approach to micro-credit operations to eliminate poverty in rural areas. During 80's this created a massive response from donor agencies and development partners and created an unprecedented market for aid, loan and grants. Then Grameen Bank became the pioneer of modern micro-credit practice. There are too many studies on 'Grameen Bank' by the donor agencies and all they have admired it in terms of a) Achieving Credit Adjustment or Re-payments, b) Bringing Banking facilities to the people under poverty level, c) Investing in the productive sector in rural area, (1) Increasing the income level of the landless day laborers,

³ M.A. Mannan, "Alternative Micro-Credit Models in Bangladesh: A Comparative Analysis Between Grameen Bank and Social Investment Bank and Myths and Realities," Paper presented in First International Islamic Conference on Inclusive Islamic Financial Sector Development: Enhancing Islamic Financial Services for Micro and Medium Sized Enterprises (MMES) held in Brunei Darussalam, April 17-19, 2007. Seminar Proceedings, vol -2, PP-601-652.

e) Working for birth control. f) Bringing household females to the physical laborer in the field and so on. The Bank made a tremendous progress in a very short time. By February 1987, it had opened 298 branches Just in four years and mobilized nearly 250,000 households from 6 percent of the villages in the country. At the end of 1986, the amount of outstanding loans stood at Tk 301 million. The yearly disbursement of loans increased from Tk 99 million in 1983 to Tk 542 million in 1986. At the end of 1986, women accounted for 74 percent of all members and 69 percent of outstanding loans. Nearly 98% percent of the new members mobilized during 1986 were women. The single most important Factor in determining such rapid expansion of the Grameen Bank branches and activities lies in the political support of the then president of H.M. Ershad and his party during 80's. As mentioned earlier that the expansion of the Grameen Bank activities in the rural area, become of one of the 18 point programme of the then president. This is where "Political Will" matters.

With the fall of President Ershad in 1990, the expansion of Grameen Bank borrowers received a setback; its members actually decreased in early 90's. The Grameen Bank was turning towards other Commercial enterprises such as Grameen Textiles. Grameen Phone etc. This is alleged that these enterprises were exploiting the cheap labour in Bangladesh and helping Multinational Companies to take billions of dollar profit Out of the country particularly through Grameen Phone by the Norwegian Company, Telenor having 62% of shares of Grameen phone.⁴ There are reports of other major failures of Gramccn Bank in implementing Deep Tube-well project.⁵ Besides Grameen Bank had either failed or made limited success in other collective enterprises, such as investing in irrigation machines, rice hullers, oil mills, and power looms, leasing markets; and leasing land for cooperative farming. The intent of these collective enterprise loans is to take advantage of improved technology and economies of scale, but they have had limited success, primarily because of difficulty in managing large groups and unfamiliarity with the enterprises.⁶

⁴ The Daily Star, Dhaka Feb 20, 2007.

⁵ The Daily Ittefaq, Dhaka May 13, 2000

⁶ See Mahboob Hossain's Research Reports "Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh (1988), International Food Policy Research Institute. Bangladesh Institute of Development Studies Dhaka.

Evidence suggests that the success of Grameen Bank in Bangladesh has been over estimated. As mentioned earlier that activities of the Grameen Bank and other NGOs created unprecedented market for foreign aids and grants at the international level. They have developed interlocking relationship not only with global elite, but also with local top bureaucratic elite. Several studies show that a substantial part of the NGO (nearly 25 million US dollar a year) fund as high as 70% of the NGO fund goes to salary of foreign staff leaving as low as of 5% to 10% for the poor after meeting local staff expenses.⁷ In a recent study it is revealed that donors and development partners hardly looked behind what's the methodology lies behind of almost 97% recovery of loans, what's the exploitation rate and how human rights violation held, when the borrowers have to refund the loan by selling out their households. As mentioned earlier that officers of the Grameen Bank can take coercive measures to recover the Bank's dues. Unfortunately, such powers are denied in case recovery of Commercial Bank's loan operating under Banking Companies Act of Bangladesh, rather such Bank are indeed helpless in respect of recovery of their over two billion dollars loan (as on 20 Feb 2007) from a few rich loan defaulters in Bangladesh. This dual policy raises several questions as to why poor borrowers' due of the Grameen Bank be treated as arrears of land revenue and are they subject to torture and why is the same principle not to be applied in case of rich borrowers' dues of scheduled Bank in Bangladesh? The target group of Grameen Bank's micro-credit program is mainly the self-employed lower working class or so-called "landless person".

Here the definition of "landless person" is very intriguing and misleading and clear distortion of contemporary realities socio economic settings of Bangladesh. In the language of the Grameen Bank Ordinance, 1983: "landless person" is defined as: "Landless person" means any person who or whose family owns less than fifty decimals of Cultivable land or who or whose family owns property both movable and immovable, the

⁷ See for details, comments by Abul Hassan M. Sadeq, M. Kabir Hassan and Dewan A.H. Alamgir, "Micro Finance Services and Poverty alleviation in Bangladesh. A comparative analysis of secular and Islamic NGOs", presented at the Fourth International Conference on Islamic Economics and Banking held on August 13-15, 2000 at Loughborough University, UK.

value of which does not exceed the value of one acre of cultivable land according to the prevailing market price in the union in which the person normally resides". Thus it is clearly shows that the main criterion for membership in Grameen Bank's disbursing loan is a ceiling on land holding of no more half an acre and no less in real practice and a floor on the level of income. It follows then that contrary to popular notion, Grameen Bank's micro-credit operation does not cover the real landless people or hard core poor at the grassroots level in the rural areas of Bangladesh. Thus there is a wide gap between myths and reality.

In recent study on "Micro-credit", a New Version of Feudal Economy," prepared for Social Development Project, funded by World Bank and Government of Bangladesh in Dhaka, it is revealed that Grameen Bank like other Micro-Credit Providers (MCP) charge interest rate on a credit as high as 54.95% per annum, if the hidden cost for documentation of membership fee, obligatory provision for blocked amount are taken into consideration.⁸

From different studies on Bangladesh we find that in Trading, the wholesalers' profit margin is 1% to 10%, retailers make 15% to 25%, and Manufacturer's profit margin is 10% to 15%, Commercial Banking profit margin 14% to 16%. There is some exceptional business which deals with abnormally high profit. We don't take those exceptional cases into account. The fact is that there is hardly any regular business that can generate 54.95% profit except the Micro-credit of Grameen Bank.

Rural Development Scheme (RDS) of IBBL

RDS is being implemented by IBBL since 1995. Many elements of micro finance could be considered consistent with the broader goals of Islamic banking. Both systems advocates entrepreneurship and risk sharing and believe that the poor should take part in such activities. At a very basic

⁸ Let us give an example of typical transaction. For a credit of face value Tk.10,000/= (US\$130 approx.), Micro-credit Provider disburses Tk 9000/= keeping obligatory Tk.1000/= as blocked amount during the loan period then another Taka 300 as non-refundable and membership fee, given minimum of 10% interest rate for each 100 days, interest become Tk. 1000 in 100 days. Repayment schedule is Tk.110 day X 100 days. Borrowers have to pay Taka 1000/= as interest + Taka 300 member fee + Taka100 interest blocked amount= 1400-35 (Paid back to borrower)= Taka1355/= only. This profit Taka 1355 for actual disbursement of Taka 9000 for 100 days means interest rate is 54.95 per annum (see Mannan, *ibid*, p.612).

level the disbursement of collateral free loans in certain instances is an example of how Islamic banking and microfinance share common aims. Thus Islamic banking and micro credit programmes may complement one another in both ideological and practical terms. This close relationship would not only provides obvious benefits for poor entrepreneurs who would otherwise be left out of credit markets, but investing in micro enterprises would also give investors in Islamic banks an opportunity to diversify and earn solid returns. Hence the Islamic banks in other countries also have played a role in the development of micro finance programmes. Such as National Bank of Egypt, Bank Rakayet of Indonesia, three commercial banks in the West Bank and Gaza initiated microfinance operations, and several other banks appear poised to do so as well, including one in Lebanon, two in Yemen, and three in Jordan and so on.⁹

Objectives

The main objectives of the Scheme are: (a) To extend investment facilities to agricultural, other farming and off-farming activities in the rural areas. (b) To finance self-employment and income generating activities of the rural people, particularly the rural unemployed youths and the rural poor. (c) To alleviate rural poverty through integrated rural development approach. (d) To extend investment facilities for hand tube-wells and rural housing, keeping in view the needs of safe drinking water and housing facilities of the rural dwellers. (e) To provide education and Medicare facilities to the down-trodden people.

Target Group

- a. Able bodied & industrious rural poor having age between 18 to 50 years and the permanent resident of the project area.
- b. Farmers having cultivable land maximum 0.50 acres and the Sharecroppers.
- c. Persons engaged in very small off-farm activities in the rural areas.
- d. Destitute women and distressed people.
- e. Persons having liabilities with other banks/institutions are not eligible for investment under the Scheme.

⁹ Rahul Dhumale and Amela Sapcanin, "An Application of Islamic Banking Principles to Microfinance" Technical Note, World Bank, Mimeo. P.1.

Sector, Period and Ceiling of RDS investment :

Sl.	Sector of Investment	Duration	Ceiling of Investment (Tk.)	Equivalent USD (\$1.00 = Tk.70.00)
1	Crop Production	1 year	15,000/-	214
2	Nursery and commercial production of Flowers & Fruits	1 year	30,000/-	429
3	Agriculture Implements	1 to 3 years	30,000/-	429
4	Live stocks	1 to 2 years	30,000/-	429
5	Poultry & Duckery	1 year	20,000/-	286
6	Fisheries	1 to 2 years	30,000/-	429
7	Rural Transport	1 year	10,000/-	143
8	Rural House Building	1 to 5 years	20,000/-	286
9	Off-firm activities	1 year	30,000/-	429

The clients are provided investment maximum Tk. 10,000/- at the first time and the good performers are given enhancement, upon his requirement, by Tk. 2000 to Tk. 5000 in every next term up to the ceiling of a particular sector.

Integrated Development Approach: Modus Operandi of RDS:

The cardinal principle of the Scheme is the 'Group Approach', Allah loves those 'who conduct their affairs by mutual consultation' (Al-Quran 42:38). For all decision-making activities, this mutual consultation is given high priority. The salient features of the Group formation are the following:

- Small Groups to be formed consisting of 5 members preferably of similar professions/ occupations.
- The members of the Group select their Group Leader and Deputy Group Leader to co-ordinate the Group activities. After formation of the Group, the Branch Manager visits the Group and has discussion with the Group members and then he gives formal recognition of the Group through issuance of Pass Books.
- A Centre is formed by minimum 2 to maximum 8 Groups. The group leaders under a particular centre select the Centre Leader and Deputy Centre Leader from amongst themselves to co-ordinate the Centre activities.

- ❑ The Centre has to conduct regular weekly meeting. The weekly meetings are to be organised in a particular place, day and time as decided in the meeting of the Centre.
- ❑ Centre meetings are recorded in a Resolution Book alongwith signature of the members (members who do not know signature must learn it). Attendance in the Centre meeting is the first requirement to become a dependable client member of the Scheme.
- ❑ The Centre meetings are conducted by the Field Officers with the following agendas: (a) Discussion on different Islamic topics, moral values, social rights & responsibilities, (b) Collection of Investment Instalments, Personal Savings, Centre Fund etc., (c) Appraisal & approval of Investment proposals, etc. The Centre meeting are started by recitation from Al-Quran and concluded by Dua.
- ❑ Investment client are selected in the Centre meeting and supplied with the application forms and other related papers. On finalisation of the investment application, the list of the selected clients, supported by their applications, are submitted to Branch Manager duly signed by the Group Leader, Centre Leader, Field Officer and Project Officer.

Each member of the Group has to provide guarantee against investment of other members of his Group. If any member of a particular Group does not comply with the principles or rules of the Group, then other members make him compelled to observe Group discipline, otherwise they held responsible to recover the defaulted amount and/or loss, if any. Such defaulter member (s) are expelled from the Group for breach of Group discipline and will never be allowed any investment facility or any other benefit in future from the Bank.

Rate of Return :

The rate of return is determined by the authority from time to time. At present, the rate of return is 10%. Timely repayment is encouraged by offering 2.5% rebate.

Security Requirements

Generally, collateral security is not required against investment under the Scheme, as the Scheme has been drawn taking into account the social welfare objective of the Bank for upliftment of the socially down-trodden

and economically backward and weaker section of the population of the society. However, Group discipline should be strictly followed and complied with so that only the right persons are selected and included as members of the Group.

However, each member of the Group gives personal guarantee for other members of the same Group and the members are jointly and severally liable and responsible for payment of investment.

Modes of Investment

The Branch selects any of the following modes depending upon the sector and purpose of investment : a. Bai-Muajjal b. Hire-Purchase Shirkatul Meelk (HPSM) or Leasing c. Bai-Salam d. Murabaha TR e. Mudaraba f. Musharaka.

Savings Plan

- a. The members of the Group have to open Mudaraba Savings Account (RDS) in their individual names with the Branch from the very inception of the Group activity.
- b. This Mudaraba Savings Account is non-cheque account, which induces the clients to make a habit of compulsory savings.
- c. This savings may, however, be withdrawn by the member if he does not have any other liability with the Branch in any way.
- d. The weekly compulsory savings is minimum Tk.10.00.

Centre Fund

Each member of the Group has to deposit minimum Tk.2.00 per week in the Centre Fund. This Fund is kept by opening a Mudaraba Savings Account in the name of the respective centre. This Fund is utilised for the welfare of the members by way of Qard as per decision of the Centre in the weekly meeting. This account is operated by Centre Leader & Deputy Centre Leader jointly. This fund is refundable.

Supervision, Follow-up and Monitoring

The investment under the Scheme is fully supervised. The Branch has to take the responsibility for the investment as well as recovery. To ensure 100% recovery the Field Officers make very close and intensive supervision over the clients. Moreover, the group approach is very helpful in this process - Clients are motivated, induced and pressed by the fellow members in recovering the investment.

One each Field Officer is appointed for 400 investment clients and one or more Assistant Officer/Officer is engaged in the Branch as Project Officer to supervise the activities of the Field Officers. One official from each Zonal Office is assigned to supervise RDS activities of the Branches under the Zone. The RDS Zone Officers visit the Branches under their respective Zone atleast twice in a year. Head Office Officials also visit the activities in the Branch level once in a year. Moreover, weekly, monthly, quarterly and annual statement of RDS activities of the Branches are prepared and sent to the higher authority to monitor and evaluate regularly.

Micro Enterprise Investment Scheme

To satisfy the graduated clients who already availed highest limit of investment under off-farm activities, a special scheme has been formed from Tk. 30,000/- to Tk. 200,000/- has been introduced in the name and style of Micro Enterprise Investment Scheme (MEIS). Local small traders may also be provided with investment facilities under this limit.

The existing Field Officers and Project Officer explore the possibilities of investment in the area under the aforesaid Schemes and recommend to the Branch for sanction. If the Branch is designated to handle the proposal under the above Schemes, the Branch may sanction within the business discretionary power of the Branch Incumbent, but if it is beyond the discretionary of the Branch incumbent, the Branch may send the same to Zonal Office/ Head Office for sanction. The entire Scheme has been chalked out in such a way so that all the persons within the command/ target area may be brought within the fold of Bank's Investment Scheme for productive economic activities.

Support project of RDS by Islami Bank Foundation (IBF)

Development is basically a multi-dimensional process. No progress can take place unless appropriate steps are taken for the uplift of education, income generation and providing Health & Medicare services. The Bank, being a profit earning financial institution, can hardly afford time and attention to the areas and sectors other than income generating activities. Education and Health & Medicare are still not profit yielding commercially viable sectors especially in the rural areas. Islami Bank Foundation, a non-profit service oriented sister organization of Islami Bank, provides support programs to RDS. A good performed RDS

member is provided, if he deem require, hand tube-well for safe drinking water and the articles for sanitary latrine on Quard-e-Hasana after two years of his/her enrolment. In the rainy season, the RDS members are encouraged for plantation. The Bank gives each of the RDS member one small plant free of cost on condition to plant at least three. During the natural calamities like flood, storm etc. the Bank also distribute relief among the affected RDS members. Beside the financial activities, Bank has also program to develop their moral values and to get them aware about their social rights and responsibilities. For the purpose, in the weekly centre meetings the Field Officers deliver lectures on different important topics. They also speak on health & hygiene to develop their health consciousness.¹⁰

Performance of RDS

Islami Bank Bangladesh Limited launched its Rural Development Scheme (RDS) in 1995. In the mean time, as on 31.12.2007, 129 Branches of the Bank have been operating the Scheme in their respective areas. These Branches are working among the poor in 10023 villages covering 926 unions under 220 thanas of 61 districts of the country. Present number of members is 516725. Since beginning of the scheme, the members are provided investment facilities of an amount of Tk. 13969.01 million against which present outstanding is Tk.2884.66 million. Rate of recovery under the Scheme is more than 99%. Besides the regular investment program, RDS provided with hand tube-well and sanitary latrine to the successful RDS members on quard from the fund given by Islami Bank Foundation. A total of 6242 tube-wells & 3551 sanitary latrines have so far been distributed at a cost of Tk.12.12 million & Tk.3.51 million respectively.¹¹

Future Program: (Vision & Mission 2020)

The Management has taken up a 5-year action plan up to 2010 for RDS. As per said plan, number of village to be covered by the year 2010 is 13,170 and about 1.23 million members (i.e. 1.23 million families) are expected to bring under the fold of RDS. Bank's investment will rise to the tune of Tk. 11.83 billion by the end of 2010. We have a vision of reaching out to all the villages of the country through RDS program by

¹⁰ IBBL, Rural Development Scheme (RDS), (Dhaka: Public Relations Department, Head Office, October 2006), PP.6-33.

¹¹ IBBL, Rural Development Division, Head Office. Dhaka.

the year 2020 if we can expand our branch network to each and every Upazilla (thana) head quarter by that time. We have also conceived a tentative plan of 'Integrated Area Development' for the villages. According to the plan, all the villages will be served by the Bank under its normal Banking services including RDS. The non-financial services in the field of health & sanitation and primary & elementary religious education shall be rendered by Islami Bank Foundation (IBF) – a 100% owned subsidiary of the Bank. Infrastructure development program shall be taken jointly by local individuals/beneficiaries and IBF.

A Comparison between RDS and Grameen Bank

Bangladesh Bureau of Statistics (BBS) survey on poverty, during 1999 to 2004, shows that income disparities between the richest and poorest 5% in the population had increased from 18 times in 1990 to 84 times in 2004. Per capita income rise was only 5.0% for the poor while it was 20% for the rich. Over all poverty situation is decreasing marginally; that's why the gains appear to be meaningless by the very fast growing gap of income and economic opportunities between the rich and the poor. The number of the landless poor is rising fast. It was 28% in 1972, reaching at present 54%. Gradually, increasing income opportunities, higher living standards and accumulations of wealth are getting concentrated mainly in the hands of those who are above the poverty line or are considered to be rich in comparison to the poor. In spite of the spectacular growth and spread in micro credits, still the reign of poverty is ranging from 23% to 35%.¹² This suggests that poverty alleviation need to be addressed with an ideological model like RDS.

To examine the relative impacts of RDS of IBBL compared to GB following grass-root level experiences have been found in a study.¹³

From RDS

- (i) Either consciously or unconsciously, none of the existing clients of the RDS expressed their intention to leave the RDS and join GB in the near future. In order of importance, three important reasons for their answers are as follows:

¹² Dr. Mahmood Ahmed, "Impact of Rural Development Scheme on Poverty Alleviation: *A Case Study*", Paper presented in an International Conference of IDB held in Dhaka, April 21-23, 2007, Mimeo.

¹³ M.A. Hamid and S.M. Habibur Rahman, "The Role of Islamic Bank in the Development of Small Entrepreneurs: An Empirical Investigations" (Rajshahi: Department of Economics, Rajshahi University) 2000, Mimeo.

- (a) RDS is nearer dwelling houses and that it delivers the goods (investment) at their door-steps.
 - (b) GB gives undue pressure on the weekly installment payment ; and
 - (c) RDS avoids interest (which is *Harm* in Islam).
- (ii) The RDS clients have themselves noted the following three experiences while working with the RDS:
- (a) It speaks about the Qua'ran and the *Hadith* and gives advice to avoid interest ;
 - (b) It is flexible in the case of weekly installment payment; and
 - (c) RDS workers provide investment money at their doorsteps .
- (iii) They expect the following from the RDS:
- (a) Increased volume of investable funds and more than one type of finance simultaneously in a single year;
 - (b) Want special financial assistance for such purposes as house construction, sanitary latrine, tube wells for drinking pure water, medical treatment and daughters' marriages.
 - (c) Want training facilities (particularly for women) for tailoring, handicrafts, fish culture and the like.

From Grameen Bank

- (i) Of the 100 members of GB interviewed, 25 per cent expressed their willingness to leave GB and join RDS if opportunities were created. Among others, the basic reasons for their answers were:
- (a) RDS is Islamic in character, it does not deal with interest ;
 - (b) It gives more benefits; and
 - (c) GB very often gives undue pressure on weekly payments even when they are in genuine difficulty.
- Those who did not intend to join the RDS gave the following (among others) reasons:
- (a) They are already with GB;
 - (b) RDS gives loans in kind, but they need cash; and
 - (c) It is troublesome to be with and unknown institution.
- (ii) Three important experiences of the GB clients are:
- (a) They have grown family type relations with GB workers;

- (b) They can get more than one type of loan from the GB simultaneously; and
- (c) GB sometimes give undue pressure on weekly payments even when they are in genuine difficulty.

The operations of RDS show that its relative impacts are positive which indicates the superiority of RDS over GB.

Moreover, Islamic *Shariah* model of micro-finance like RDS seems to be more effective, than GB, in income generation and poverty alleviation as it gives Islamic teachings to the members to lead the life according to tenets of Islam which provides moral values and spiritual strengths to be more disciplined, professional, hard working and to take care of others, maintain competitiveness in good deeds and productive activities, lead an honest life and not to waste any thing particularly, time, money and energy. All these qualities also contribute, it has been observed, to lead integrated social life based on Islamic brotherhood an *Ummatic* concept. Since Islam prohibits interest, there exists a sheer abhorrence against interest-based system in the society; the exploitative NGOs are being countered by the Islamic micro-finance program like RDS. Islamic *Shariah* is the basis of banker-customer relationship in RDS, while interest acts as a major deficiency factor in banker-customer relationship. The distinguishing features of Islamic banking established an ideological and improved relationship with its customers¹⁴. It has been observed that all these factors immensely contributed in efficiency, reduction of cost of production and family expenditures which reinforce the higher savings and capital accumulation than other members of secular NGOs working side by side with the RDS operating in rural Bangladesh.

¹⁴ Mahmood Ahmed, "The Banker-Customer Relationship in Islam", Bangladesh Journal of Political Economy, Vol. II, No. 2B (Jan. 1991), PP. 157-166.

A comparative picture of Grameen Bank and RDS of IBBL

Particular	Grameen Bank	RDS
Origin	Brainchild of Dr. Mohammad Yunus	A scheme of Islamic banking system.
Effectiveness	Less effective model in poverty alleviation as it had to remain confined in micro credit alone.	More effective model in poverty alleviation as the clients of RDS gradually enjoy the more investment opportunities of IBBL.
Nature of credit	Interest based	Shariah based
Power & Privilege	Enjoys special power and privilege violating the Constitution of Bangladesh	Acts within the constitution and other laws of the land including Islamic Shariah
Nature of disbursement	Cash money provided to the clients	Proposed goods supplied to the clients
Minimum Amount	Minimum amount is Tk 5,000/= per client.	Minimum amount is Tk.10,000/= per client.
Rate of profit	Rate of interest 20% (reducing) and no provision of rebate is there.	Rate of profit 10% (flat) out of which 2.5% (flat) is refunded as rebate for timely adjustment.
Weekly Recovery	Entire dues recovered weekly instalment basis in 48 weeks started from the next week of disbursement.	Entire dues recovered weekly instalment basis in 44 weeks started after 3 weeks of disbursement. This 21 days grace period given to let them generate income from the investment.
Insurance/Risk fund	Insurance premium deducted from the client @ 3% of the loan amount during disbursement for covering non-recovery risk due to death of client.	No deduction is made from the amount so disbursed and no additional charges for insurance. Provision for non-recovery maintained @ 1% of outstanding investment by the Bank itself out of the income earned.

Particular	Grameen Bank	RDS
Waiver	In case of death of the client or husband of the female client, entire dues are waived, No waiver is allowed other than the cause of death.	Waiver is allowed due to death of the client or the earning member of the family and also against unforeseen losses due to genuine ground like natural disaster, accident, illness of serious nature etc.
Graduation of the client	Micro-credit clients are provided investment starting from 5,000/- to a highest limit of Tk. And when a client avail maximum limit of investment, he/she will be offered investment equivalent to 1.5 times of his/her savings.	(a) The Clients are provided investment facilities up to Tk. 30,000/- under RDS. They are also provided with investment equivalent to 80% of their savings in addition to above limit, if required. (b) The clients who exhausted the above highest limit, he/she is provided with higher investment to a maximum limit of Tk. 200,000/- under MEIS (Micro Enterprise Investment Scheme). (c) The clients who avail the highest limit of MEIS, he/she is provided with general credit line from our mainstream banking.
Savings of the beneficiary	Compulsory savings collected against a fixed rate of interest (8%)	Compulsory savings collected on Mudarabah principle at 65:35 (Client:Bank) ratio.
Support Program	Clients are not provided any interest-free financial services.	Clients are provided with profit-free loan for installation of hand tube-well and sanitary latrine.

Particular	Grameen Bank	RDS
Non-financial services	There is no non-financial service for the micro-credit beneficiaries.	(a) The members are taught on different social, moral, religious and health issues in the weekly centre meetings which help to develop their morale and consciousness. (b) In the rainy season every members are provided with one each sapling free of cost to encourage them in plantation. (c) Tk. 1,000/- is provided for burial purpose of a dead members.
Integrated Rural Development Approach	The model designed only to provide loans to the poor.	Besides providing investment to the poor, RDS has been operating aiming to develop model villages by extending investment facilities to all the viable economic activities in the area in view to create more employment opportunity.
Decisions	Clients memorise 16 decisions	Clients memorise 18 decisions
Donors' Fund	Received aid, loan and grants from the international donors	No donation is received.

Conclusion

RDS of IBBL seems superior to Grameen Bank. Rural area of Bangladesh is very prospective field for the development agencies. There is abundant scope of human resource development as well as socio-economic development. Tremendous opportunity of micro-investment program is there in the rural Bangladesh. Recovery rate in micro-investment is also very high (about 100%) in comparison to the big investments in the urban areas. But the micro-investment activity requires very high operating cost and it becomes very difficult to meet up the operating cost of the program by satisfying cost of fund at the rate of 7 to 8 percent. A low cost fund may make a boom in the micro-investment activities in rural areas of the country. Beside the investment program, it is essential to train-up the beneficiary-members on different trade course like Poultry, Dairy, Fishery, Hatchery, Tailoring, Handicraft making, Cloth dying etc. There also lies the necessity to work in the field of education and health. Such as, giving regular stipend and lump sum grant for books & education materials to the meritorious but poor children of the RDS members; formation of free-Quranic school (Madrasha), library, free (or low cost) medical checkup & health counseling centre etc. These charitable programs require non-refundable huge fund, which may be explored from the donor agencies. Many NGOs running their micro credit program on conventional basis (based on interest) along with many non-financial welfare oriented social services in the field of individual skill development in the aforesaid off-farm activities and social services like health & sanitation, supply of safe drinking water, education program etc. with the financial assistance from the western world.

But Islami Bank Bangladesh Limited is running its Rural Development Scheme with its own fund based on Islamic Shariah, but at a very low profit in comparison with other conventional NGOs. Due to paucity of sufficient financial resources, we are handicapped in running non-financial services like elementary school for the children of RDS member, free medical check-up for the poor women members and free distribution of tube-well costing Tk.20,000 to 25,000 in each installation in some areas. Financial Assistance for running the aforesaid non-financial services from IDB or other rich countries could expedite the development of rural Bangladesh reducing poverty level and increasing the literacy rate within the foreseeable shortest period.

Appendix – 1*18 POINT PROGRAMME OF PRESIDENT ERSHAD*

1. To achieve rural development
2. to increase agricultural production in order to achieve self sufficiency in food
3. to take steps for further land reforms
4. to expand the activities of Grameen Bank in rural areas;
5. to increase individual production
6. to encourage industries in the private sector and to create atmosphere for investment;
7. to develop cooperative system and cottage industries;
8. to drive away the gap between the rich and the poor through proper distribution of national income
9. to introduce development and production-oriented educational system
10. to create opportunities for maximum employment.
11. to ensure minimum medical care for everybody
12. to take steps for the establishment of Islamic ideology and values in national life.
13. to eliminate corruption;
14. to decentralize the system of administration and to hand over power to the elected representatives;
15. to check population explosion;
16. to transform 'politics' into `politics of development' and to secure political freedom through economic emancipation;
17. to reconstruct the Judiciary in order to ensure justice at all levels;
18. to ensure the socio-economic rights and status of women.

Source: Dr. Syed Serajul Islam (1988), Bangladesh State and Economic Strategy, (Dhaka: UPL), P.195.

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