

Islami Bank Bangladesh Ltd

A Profile

by A Staff Correspondent

THE Islami Bank Bangladesh Ltd. is the first interest-free bank in South-east Asia which is committed to run all its activities as per Islamic principles.

The bank, since its inception on March 30, 1983, has a specific goal towards raising the standard of living of low-income group, development of human resources and creation of avenues for self employment through various programmes.

The bank is a joint venture multi-national company with 64 per cent of its equity being contributed by 10 overseas government institutions, Islamic Development Bank and two distinguished personalities of Saudi Arabia.

The authorised capital of the bank is Tk 50 crore with a paid-up capital of Tk 16 crore. The reserve fund of the bank stands at Tk 26 crore as of December 31, 1993. It has a network of 76 branches in the country.

Among its various programmes, the small transport scheme provides loans for educated youths to operate three-wheeler auto-transporters 'mishuk' and baby taxi. So far Tk 1.25 crore has been invested under this scheme.

The bank also has a programme 'Doctor's Investment Scheme' to make provision for self-employment of unemployed qualified doctors and to extend modern medicare facilities in the rural areas. So far investment facilities of Tk 4.45 crore have been extended to 45 doctors and doctors' groups.

The Small Traders Scheme provides loans to small traders facing shortage of finance under this scheme. A small trader is given highest Tk 30,000 without providing any security. As much as Tk 7.50 crore has been invested among 1500 small traders across the country by now.

Other than these, there are Agricultural Implements Investment Scheme, Social Invest-

ment Scheme, Hawkers' Investment Scheme and Poultry Scheme for people belonging to disadvantaged category.

Through its sister organisation, Islami Bank Foundation, the bank operates some welfare oriented schemes. One of these welfare oriented programmes is the Income Generating Scheme. This programme aims at training rural health workers; funding poultry, pisciculture, cottage industry, small trading; providing rickshaws, sewing machines and rearing milch cow for productive self-employment. So far Tk 74.31 lakh has been spent to implement the scheme.

Under an educational scheme, the foundation extends scholarship to the poor and meritorious students and grant for the purchase of books, provides assistance to educational institutions. So far Tk 1.59 crore has been spent through this scheme.

The foundation has also spent Tk five million through a health scheme and set up a Tk eight million Islami Bank Hospital with 60 beds. Humanitarian assistance programme has extended support worth Tk four million to poor disabled persons, for marriage of poor girls and to families affected by river erosion.

Under an emergency relief operations programme, the foundation provides help to people affected by natural disasters. So far Tk 1.75 crore has been spent for this purpose. It also has a scheme to set up service centres in coastal areas and offshore islands with facilities for vocational training for economic development and a sales centre 'Monorom' in the capital city to encourage poor women to produce handloom, handicraft items.

The bank now has a total deposit of about Tk 9000 million and investment of about Tk 6500 million.

GRAMEEN Bank (GB) today represents the largest rural credit programme in Bangladesh. The end of October, 1993 marked the tenth year of its operation as an independent financial institution. Since its inception GB has successfully expanded its operations nationwide, covering 56 districts out of 64. By the end of June 1994, the Bank has already disbursed Tk 38,058.5 million as general and collective loans. The total number of borrowers of the Bank as of June 30, 1994 stood at 1.93 million out of which the number of female borrowers was about 94 per cent. As on that date the total number of branches was 1042, covering 34,389 villages. A total amount of about Tk 2,819.94 million was mobilised as savings under its mandatory saving programmes, i.e. group fund and emergency fund. In spite of rapid expansion the Bank has been able to strictly maintain its quality of loan operation. Its recovery rate was about 98 per cent.

Special Identity

Since, its inception an enormous social learning process has taken place and this has in turn led to many new

Grameen Bank — an Update on its Recent Developments

experiments. The institutional development that has taken place at GB today is the result of this experience. The GB pilot project implemented in Chittagong and Tangail between 1976 and 1982, demonstrated its strength and was gradually extended to other districts with similar success. In October 1983 the project was transformed into an independent and specialised bank by a Government Ordinance. The GB borrowers have bought up 88 per cent paid-up capital of the bank while 12 per cent has been provided by the government. Today Grameen Bank has a special identity in the banking world — it has not only made banking a viable proposition for the rural poor in Bangladesh, it is also owned by them.

The Spectrum of Loans

Today GB has a diversified credit programme tailored to meet a broad range of its clientele demand. For the purpose of simplicity, GB's credit port-

folio has been classified into eight major categories. These are: i) Processing and manufacturing; ii) Agriculture and forestry; iii) Livestock and fisheries; iv) Services; v) Trading; vi) Peddling; vii) Shopkeeping and viii) Collective enterprises.

Upto the end of June 1994, the GB borrowers have taken about Tk 38 billion (US\$ 1035.80 million) for about 584 different income generating activities. The table below shows how GB's credit operations have expanded in 1993 to make it the largest credit programme in the country today.

Employment

Generation of self-employment is one of the most important objectives of Grameen Bank. Dr Hossain in his evaluation found that about 33 per cent of the GB loanees had no

income earners for the family. It is noteworthy that one-fifth of the female borrowers reported having no principal income-earning occupation at the time of the survey. Some of them may have taken a loan on behalf of the husband or the male head of household, but some may have been engaged in livestock raising or cottage



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Financial Sector Reforms

Continued from page 14

form period is mainly responsible for the above phenomena. One may be interested in assessing the comparative movement of financial variables of NBCs and PCBs over the reform period. The profitability and productivity of PCBs are observed to be higher than NBCs. The higher level of operational efficiency of PCBs (as compared to NBCs) does not stand significant considering the business mix of PCBs. In regard to branch expansion, PCBs, bypassed totally the rural areas. Their deposit mobilisation and deployment of credit efforts were mainly concentrated in urban areas, large account holders and mainly trade sector. On the other hand, NBCs are still having a high proportion of rural branches with small deposits and credit. Therefore, considering the differences in business mix of PCBs and NBCs, the higher level of operational efficiency of PCBs than NBCs does not matter significantly.

The ownership reform measures initiated in 1982-83 and subsequent regulatory reform measures taken in 1989 though brought financial discipline and gave autonomy to banks, but could not bring allocative and operational efficiency of the banks. Rather, post-reform period observed either stagnation or deterioration in all respects excepting deposit mobilisation (with has rather a bad impact, because credit is not increasing proportionately). On the whole, PCBs could not demonstrate

better performances over NBCs. The proponents of financial liberalisation, however, argued that it was not the financial liberalisation itself, but the macroeconomic instability, improper sequencing of liberalisation measures etc that undermined the effectiveness of liberalisation. Therefore, the macroeconomic and proper sequencing of reform measures (alongwith financial discipline) are now recommended as prerequisites for financial liberalisation.

It is claimed that Bangladesh has achieved macroeconomic stability in the sense that inflationary pressure is low. To have properly meaningful macroeconomic stability, the economy must also be growing at a desired rate (alongwith low inflation). Since economy is not growing or overall investment activity is not speeding up, financial sector in Bangladesh is not developing. This is because demand for financial services come from real sector, but when real sector is stagnant, demand for financial services is low and as a result financial development is low. Therefore, for the development of financial sector of Bangladesh, development of real sector (alongwith, low inflation) is a must.

Not only real sector stagnation, lack of financial infrastructure is also responsible for unsatisfactory growth in banking sector. Particularly, for increasing credit (on which improvement of both allocational and operational efficiency

largely depends), legal system and information system, should be substantially improved, and mode of finance should be diversified. At the same time, screening and monitoring functions (regarding credit proposals) and overall fund management of the banks should also be improved. In the mean time, Bangladesh Bank has established credit information bureau, new bankruptcy law has been proposed, financial loan court act has been introduced and one credit insurance scheme for small borrowers has been planned.

Financial autonomy and discipline are considered as important preconditions for banking development. Therefore, whatever achievements have been earned so far due to adoption of financial sector reforms should be preserved and extended for which Bangladesh Bank's appropriate effort and action is necessary. At the same time, Government of Bangladesh and private sector should put all efforts to breakthrough real sector's stagnation from which demand for financial services would come and consequently, allocative and operational efficiency of the banks is likely to improve, which against would accelerate economic growth of the country.

The authors are Director General and Faculty Member of Bangladesh Institute of Bank Management respectively. The views expressed here are their own.

employment before taking loan from GB.

This new employment was generated mostly for female members, half of whom reported having no primary occupation before joining the Bank; at the time of the survey, this proportion had been reduced to 21 per cent. Thus about one-third of the female members who had been unpaid domestic workers had become

Socio-economic Impact

There is substantial evidence that GB's poverty alleviation strategy through its credit operations has very quickly produced a positive impact on the lives of the poor in terms of higher income and empowerment of the poor rural women. Grameen Bank's impact on the socio-economic aspects has been extensively documented by the evaluation studies undertaken by the BIDS (Bangladesh Institute of development studies) individual researchers from home and abroad, external aid agencies and multilateral agencies like the world Bank.

Capital Accumulation

Dr Mahub Hossain observed that the most direct impact of GB credit was on accumulation of capital, both working and fixed. This fact has been corroborated by Fuglesang and Chandler in his book (Page 170-177) "Participation as Process — what we can learn from Grameen Bank, Bangladesh". Dr Hossain as an

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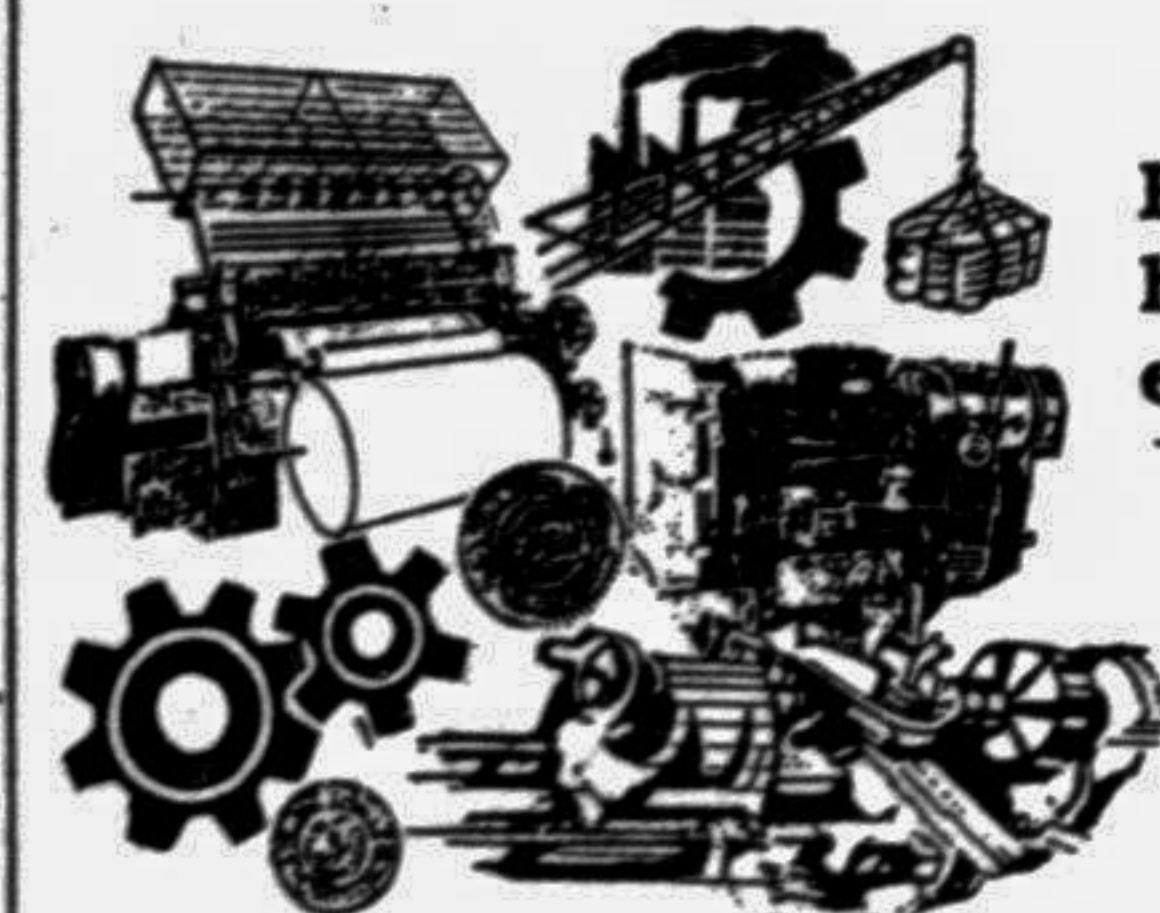


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