

Islamic Microfinance in Bangladesh

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Bangladesh: At A Glance

- Third largest Muslim countries with population **size 165 million**: More than 90% are Muslim
- Muslims are **traditionally religious**. Capital city Dhaka is called the City of Masjid
- More than 30% population live below poverty line. 18% are living in **extreme poverty**
- Vast human resources have **remains unutilized** due to lack of education, training & capital

Economy of Bangladesh

- GDP **growth 6%+** during last 10 years
- Per capita income USD1600
- Country is basically an agrarian one with vast majority living in **rural areas**
- **Agriculture sector** is unable to provide further employment
- As such **urban migration** of rural unemployment happening
- Economy is **transitioning** towards industrial and service economy

Birth of Microcredit

- Microcredit was conceived in Bangladesh in **1960s** by Akhter Hamid Khan in the banner of Cooperative Movement and **1970s** by Prof. Muhammad Yunus
- Grameen Bank was the outcome of the success of *Jobra* village experiment
- Hundreds of NGOs including BRAC was **inspired by microcredit**
- Microcredit has become part of development & **poverty alleviation** programs

Growth of Microcredit Industry/1

- In 1990s hundreds of NGOs & Microfinance providers got **large-scale expansion** using Grameen-style microcredit approach
- Considering huge market MFI's growth-strategy was based on '***franchising approach***'
- WB & Government was inspired with the Grameen-style **wholesale MFI**: Est. PKSF
- **Foreign donor** agencies become willing to fund microcredit program

Growth of Microcredit Industry/2

- Large number of MFIs experienced **overlapping** and more **defaulters** in repayment
- MFIs have turned their policy towards **profit-earning** rather than serving the poor
- Competition of MFIs compelled the government to establish **Microcredit Regulatory Authority**
- Grameen Bank & Dr. M. Yunus got **Noble prize**

Impact of Microcredit/2

- MFIs including Grameen Bank are the **dominant sources of loans** for the poor (72.38%).
- MFIs have proved that micro borrowers are **creditworthy and bankable** who pay regularly with recovery rate more than 90 percent.
- Microcredit's contribution to savings and investment has translated itself into **contribution to poverty reduction**

Impact of Microcredit/2

- By receiving microfinance **many women** have been able to raise their empowerment through involvement in IGA
- Some MFIs conduct non-formal education, health and other social programs that contribute to increase in **school enrollment**
- MFIs do not only create self-employment for millions of the poor, these institutes also **generate thousands of jobs** for young gradates

Impact of Microcredit/3

- MFIs have been able to effectively **organize the rural poor** and made them more conscious of their own potentials
- NGOs have also successfully blended the credit components with **appropriate technology**.
- NGOs have complemented credit program with **awareness building** along with training

Impact of Microcredit/4

- NGOs are **more innovative** than government agencies when it comes to assisting the rural poor.
- NGOs are **more flexible** in their approaches and usually have better and intimate knowledge of local conditions
- NGOs have a higher degree of capacity to reach the **intended target groups** and tend to maintain close contact with the poor.

Limitations of Microcredit/1

- MFIs have been able to reach among half of the poor of the country, but failed to reach the **hard core poor**
- Higher dependence of microfinance providers on **donor funds**
- **High interest rate** and operational cost
- **Without collateral** no access to microcredit
- MFIs could not have reached effectively to the people of economically **backward regions**

Limitations of Microcredit/2

- MFIs have no sufficient fund for those who are graduated and **need large loan** to develop SMEs.
- Microfinance has **created debt cycles** to pay the installments of loan by making fresh loan from money-lenders
- MFIs has mainly focus on **delivering credit** where the poor also need financial services covering the savings, loans, insurance, credit, payments, pension etc.

Limitations of Microcredit/3

- Most MFIs are severely criticized for their **weak governance** and inefficient management
- Most MFIs have not yet included representatives from among the clients of **decision-making** in the micro finance program operation.
- Most NGOs/MFIs **lack skilled manpower** and research works in addressing emerging issues of microfinance.
- MFIs products are **not conducive** to religious values

Emergence of Islamic Microfinance/1

- **Islamic Microfinance** has been emerged as an alternative of conventional microcredit to religious Muslim people.
- **One study shows-**
- 80% Muslims in Bangladesh prefers Islamic microfinance
- 80% says they will not apply for interest-based microcredit if IsMF is available

Emergence of Islamic Microfinance/2

- 45% Muslim say they are ready to pay high cost if IsMF is available
- 32% Muslim never applied for interest-based credit
- **Islami Bank Bangladesh** Ltd., the largest private bank in Bangladesh first introduced IsMF in 1995
- Some NGOs also introduced IsMF
- IMF outreach is only 1%

RDS Program of IBBL

- WB suggests 1.00 million small businesses are potential borrower of microfinance of them only 7% have access to formal financial institution
- IBBL has targeted the remaining 83% under Rural Development Scheme (RDS) in 1995
- IBBL has got huge expertise of financing
- IBBL has no funding problem
- IBBL introduced RDS as a part of CSR program
- IBBL got CSR Award from central bank for RDS

Objectives of RDS

- To **alleviate poverty** through employment creation and IGA utilizing Islamic microfinance
- RDS also provide social services-
- *a. Humanitarian assistance*
- *b. Education*
- *c. Capacity building & training*
- *d. Healthcare*
- *e. Environment protection*

Target Group

- Borrowers are selected within a 10km radius consisting 4 to 6 villages
- Able bodied & industrious permanent resident rural poor aged between 18 to 50
- Farmers having maximum 0.50 acres of land
- Persons engaged in very off-farm activities
- Destitute women and distressed people

Performance of RDS

No. of branches of RDS	252
No. of villages (out of 87,000)	19,418
No. of Centers (each center 35-40)	28,960
No. of members	1.0 million
% of women members	83%
No. of borrowers (already availed)	582,852
Percentage of recovery	99.54%

Impact of RDS Program

- 32% savings increased
- 30% income growth in 3 years
- 38% income growth in agriculture
- 42% income growth in small business
- 94% women involved in economic activities
- 82% increase of decision-making by women
- 10% increase of access to healthcare
- 10% increase of using sanitary latrine
- 85% women clients wear hijab
- 85% clients avoid Riba (interest)

RDS Clients Response/1

- **Self-confidence** developed
- **Economic solvency** enhanced
- **Communication skill** developed
- **Knowledge on business** developed
- **Religious practice** improved
- 91% are not happy with investment size
- 85% are not happy with investment period

RDS Clients Response/2

- 79% are not happy with gestation period
- 86% have got no training
- 70% felt that there is no space for meeting
- 72% felt that meeting time is too short
- 34% complained about fake vouchers
- 11% drop out clients
- 16% women said that they have no control over money

Reasons for Scaling Up of RDS

- Positive **cultural** environment
- Conducive **policy** environment
- Organizational **capacity** of IBBL
- **Dedicated** management with vision
- RDS covers those poor who are left out from CMF due to **religious** reasons
- A new **market niche**

Center for Zakat Management (CZM)

- A **faith-based** voluntary organization
- Zakat fund distributed to **Grass Roots Organization** (GRO) consisting of 25-30 extreme poor families rather than individuals
- Each family is supported by **USD 500** in 5 years
- Each family is provided capital for doing business & human dev. Services e.g. health, education, water, sanitation etc.

CZM's Poverty Alleviation Strategies

- Composite approach
- Targeting extreme poor
- Group-based financing
- Shariah principles for investment
- Inclusiveness
- Grass-roots organization
- Supervised financing
- Women & family focused
- Participatory planning
- Access to public services

CZM's Financial Intervention

- Integrating Zakat, Awqaf, Sadaqa etc.
- Capital transfer with ownership
- Sustainable Revolving Fund
- Income Generating Activities
- Savings & capital accumulation
- Profit sharing among the group members
- Cooperative business
- Entrepreneurship development
- Market promotion
- Technology transfer
- Risk management

CZM's Human Development intervention

- Healthcare services
- Proper sanitation
- Supply of Safe water
- Education for all
- Nutrition development
- Skill development
- Access to information
- Development of social capital
- Environment protection
- Moral development

Operation Modalities/1

- Monthly **income grows** without liability
- Revolving Fund/capital **grows incrementally**
- Each family do **weekly savings**
- Investors' profit to GRO is **shared by all** equally
- Family focused: Most GRO **led by Women**
- In addition to Capital transfer, social services including training, healthcare, child education, nutrition, sanitation, safe water, management services etc. It costs **BDT 20,000 (USD 250)**

Operation Modalities/2

- **Supervised** by CZM deployed managers & field staffs
- Promoting faith-based **social capital** & spirit of brotherhood
- Transfer of **technology**, market promotion
- **Disaster management** & environment protection
- **Risk management** fund
- **Unproductive families** got survival support

Evidence of Successes/1

- Refer to **Jeebika Karnafuli Project**
- Transferred capital: BDT 9.00 million
- Accumulated capital: BDT 16.50 million (in 5 years)
- Monthly income Growth: Tk. 7000 to 25,000 (\$ 60 to \$300)
- Asset accumulation: BDT 35,000 + capital & Asset building like boat, nets, house, riksha
- Reduction of Interest based Debt: 100%
- Children Education: 100% enrollment

Evidence of Successes/2

- Adult Education: 100% literacy
- Safe Water ensured : 100% covered
- Hygienic Sanitation ensured: 100%
- Beggars: 100% turned in to workers
- Safe delivery ensured : 100% of GRO members
- Healthcare Services: 100% covered
- Drug addiction: 100% free from drug

Evidence of Successes/3

- Children's Nutrition: Improved
- Housing condition: No cottage
- Profession changed: Labor turned in to trader
- Management Capacity: Increased
- Bank Account Management Capacity: Increased
- Improvement of Social Capital: Increased
- Moral Motivation & Religious practice: Improved substantially

Lessons Learned/1

- Zakat can be effectively utilized as **microfinance** in groups
- Community-focused **Group Approach** can work effectively
- **Composite approach** covering social safety net is essential
- **Family focused** approach is workable in IMF

Lessons Learned/2

- **Revolving fund** can be created with transferred capital
- **Supervised financing** with Zakat fund is workable
- **Social capital** building with religious values
- **Sustainable capital** source ensured
- **Blending Zakat, Awqaf/Sadaqa, CSR fund** etc is more effective for poverty alleviation

Lessons Learned/3

- **Islamic commercial banks** can successfully provide microfinance
- Islamic banks have **major advantage** over non-bank MF providers
- Islamic banks have **no fund problems**
- They are equipped with **expert manpower**
- They have **organizational network**
- Islamic banks can **blend the microfinance** program with Zakat, Awqaf & CSR program

Lessons Learned/4

- Recently IBBL has **joined hands with CZM** for implementing Zakat-based projects
- **Supplementing Government's** poverty alleviation program
- Corporate **business houses** are potential sources of fund
- Contributing achieving **SDGs**

Zajakallah khairan for patient hearing