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 the 1960s by Akhter Hamid Khan in the banner of Cooperative Movement and the 1970s by Prof. Muhammad Younus.
- 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. Younus 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 graduates.
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 microfinance 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

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<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>No. of branches of RDS</td>
<td>252</td>
</tr>
<tr>
<td>No. of villages (out of 87,000)</td>
<td>19,418</td>
</tr>
<tr>
<td>No. of Centers (each center 35-40)</td>
<td>28,960</td>
</tr>
<tr>
<td>No. of members</td>
<td>1.0 million</td>
</tr>
<tr>
<td>% of women members</td>
<td>83%</td>
</tr>
<tr>
<td>No. of borrowers (already availed)</td>
<td>582,852</td>
</tr>
<tr>
<td>Percentage of recovery</td>
<td>99.54%</td>
</tr>
</tbody>
</table>
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)
• 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