



Sudan Academy for Banking and Financial Sciences

Center for Research, Publishing & Consultancy (CRPC)

IN COLLABORATION WITH

Islamic Development Bank – Jeddah

Islamic Research and Training Institute (IRTI)

PROCEEDINGS OF

'2nd International Conference on Inclusive Islamic Financial Sector Development

**Enhancing Islamic Financial Services for
Microenterprises**

09th – 11th October 2011, Khartoum - Sudan

**Rural Development Scheme (RDS) of the
Islamic Bank Bangladesh Limited (IBBL)
and the conventional Microfinance
Institutes in Bangladesh:
A comparative analysis**

By:

Prof. Abu Bakr Rafique, Ph.D.

Pro VC, International Islamic University Chittagong, and
Member Secretary, Shari'ah Supervisory Committee, Islami Bank Bangladesh Limited

Tawfique Al-Mubarak
Qatar Faculty of Islamic Studies
Doha, Qatar

Abstract:

The Rural Development Scheme (RDS) of the Islami Bank Bangladesh Limited (IBBL) was launched in 1995 to cater the needs of poor mass of Bangladesh through Islamic microfinance projects. It is indulged in a severe competition from its conventional giant counterparts like Nobel Peace Prize awarded Grameen Bank, and Bangladesh Rural Advancement Committee (BRAC), the largest NGO in the world. Yet, RDS has so far proven a remarkable growth rate of 12 percent. This research examines the performances of RDS throughout the years, and provides a comparison with its major counterparts in terms of success and failure. It also analyzes RDS's contribution to the society and the impact it has kept so far in achieving its goals and objectives.

Key words: Rural Development Scheme (RDS), microfinance, Islamic microfinance, poverty alleviation

Introduction:

Inception and activities of the Rural Development Scheme (RDS):

Launched in 1995, the Rural Development Scheme (RDS) of the Islami Bank Bangladesh Limited (IBBL) – the first Islamic Microfinance Institute of the nation – aims to develop the rural economy, solve problems related to underemployment and unemployment, and establish model villages that are gradually freed from widespread poverty and destitution. It promotes overall development of the poor people towards transforming them as self-reliant through improving the socio-economic conditions of the poor, landless labor class and the marginal farmers. The RDS is not an MFI by itself, but uses the infrastructure and branch network of its parent, the IBBL for its microfinance operations. Its stated objectives (RDS, 2006: 5-6) are, primarily:

- To extend investment facilities to agricultural, other farming and off-farming activities in the rural areas;
- To finance self-employment and income generating activities for the rural people, particularly the rural unemployed youth and rural poor;
- To alleviate rural poverty through integrated rural development approach;
- To extend investment facilities for rural housing, keeping in view the needs of housing facilities of the rural dwellers;
- To provide educational services, facilities for hand tube-wells, sanitary latrines and rural housing to ensure safe drinking water, proper sanitation and decent living.

1. Key Features of RDS

1.1. Geographical outreach:

RDS operates from the existing branch networks of IBBL, which selects suitable villages within 16 kilometers radius of the branch. The criteria used in selecting a village are: (a) easy communication; (b) availability of agriculture and other off-farm activities; (c) abundance of low-income people; and (d) predominance of Islamic values and ideas (RDS, 2006: 6). Until July 2009, RDS's outreach was up to sixty-one out of sixty-four districts in the country through 139 Branches of IBBL.

1.2. Target group:

The Branch conducts detailed Baseline Survey to identify the target group and verifies possibility of economic activity in the area after initial selection of a project area which may consist of four to six villages. The RDS maintains strict means-test criteria to identify the potential beneficiaries. The eligible beneficiaries are restricted to (i) farmers having cultivable land of a maximum of 0.50 acres; (ii) sharecroppers with the consent of the landowners; (iii) able-bodied & industrious rural poor having age between 18 to 50 years and the permanent resident of the selected area; (iv) persons having an abandoned pond where hatchery cultivation is possible; and (v) destitute women and distressed people. Persons having liabilities with other banks/institutions are not eligible for financing under the Scheme (RDS, 2006: 6).

1.3. Group and center formation:

RDS, like other NGOs and MFIs, follows the group format, which is based on the Qur'anic concept of *Shura* (Al-Qur'an, 42:38). The target people are organized in groups of five - preferably comprising people of similar occupation, but not from the same family. Initially two members will be provided with investment facilities, and the remaining members will be eligible upon regular payment of installments for at least one month by the two members. It takes a minimum of two and a maximum of eight such groups to set up a center that is put under the direct supervision of a Field Officer (FO). Each group selects a group leader and a deputy group leader. The group leaders in a center select the center leader and the deputy center leader who are responsible for overall discipline and performance of the center. At times, the centers are named after prominent Islamic personalities (RDS, 2006: 8-11).

1.4. Regular weekly meetings:

The center has to conduct regular weekly meetings on a fixed date and time in the presence of the FO to collect compulsory savings and weekly installment payments. Center meetings are recorded in a Resolution Book along with signature of the members (members who do not know how to sign must learn it). Attendances are strictly maintained in the center meeting, and it is considered the first requirement to become a dependable client of RDS. Weekly meetings begin with discussing Islamic ideals and morals for a better way of living. It is followed by discussions on proposals for new ventures that are expected to lead to self-employment and generate income for the clients. Proposals are submitted for approval with recommendation from the members and the center leader. Every attempt is made to resolve disputes, if any, among members. The meeting is followed by physical inspection of at least two client-locations to see whether the goods financed have been actually purchased and are in possession of the client (see RDS, 2006: 10-11).

1.5. Security of investments in the form of group:

Each member of the group is required to provide a guarantee against defaults and negligence of other members of his/her group. However, there is no security taken in the form of collateral from the members. If any member of a particular group does not comply with the principles or rules of the group, then the remaining members are expected to compel him/her to observe group discipline. In case of default, they are held liable and responsible for recovery. A defaulting member is invariably expelled from the group for breach of group discipline and is never allowed any financing facility or any other benefit from the Bank in future (RDS, 2006: 11-12).

1.6. Savings Plans:

RDS members are required to open a *mudharabah* savings account, which is non-cheque-able, with the IBBL branch from the very inception of the group activity. The compulsory savings of a minimum BDT 10.00 per week is intended to inculcate a savings habit among members. The deposits may be withdrawn by a member if he/she does not have any other liability with the Branch (RDS, 2006: 15-16).

1.7. Investment Plans:

Investments are restricted to *bai-muajjal* (deferred-payment sale) mode in practice, though RDS intends to use various Shariah-compliant modes like *mudharabah*, *ijarah* and *bai-salam* (Obaidullah, 2008: 17). As mentioned earlier, there is no collateral required for financing. A request for financing is considered eight weeks after the date of enrollment of an individual as a member of the group. The initial financing is kept in the range BDT 8,000 to 10,000. The highest ceiling for financing under the scheme is BDT 30,000, for nursery and commercial production of fruits and flowers and four other sectors (see Table 1.1 below).

However, large amount of investments are offered to the ‘graduates’ of RDS only, who have already availed the highest limit of financing under off-farm activities. Their investments are catered under a special scheme – Microenterprise Investment Scheme (MEIS) – under RDS, under which financing is provided from BDT 30,000 (US\$406) to BDT 200,000 (US\$2710).

Table 1: Ceiling in investments under the RDS:

Sl.	Sector of Investment	Duration (year)	Ceiling of Investment (BDT.)	Equivalent US\$ (\$1 = BDT 73.8)	Condition
1	Crop Production	1	15,000/-	203	For 21 crops (see Appendix 3)
2	Nursery and commercial production of Flowers & Fruits	1	30,000/-	406	Depending upon the time required for different categories of fish production
3	Agriculture Implements	1 to 3	30,000/-	408	Client’s equity (10%)
4	Live stocks	1 to 2	30,000/-	406	
5	Poultry & Duckery	1	20,000/-	271	Business in 343 types of non-agricultural commodities
6	Fisheries	1 to 2	30,000/-	406	Depending upon the time required for different categories of fish production
7	Rural Transport (Rickshaw, van etc)	1	10,000/-	135.5	To be paid in weekly installment
8	Rural House Building	1 to 5	20,000/-	271	The successful old client will be eligible
9	Off-firm activities	1	30,000/-	406	Business in 343 types of non-agricultural commodities (RDS, 2006: 35-39)

Source: Adapted from RDS, (2006: 7); and Obaidullah, (2008: 17).

1.8. Centre fund:

Each member of the Group is required to deposit a minimum Tk. 2.00 per week in the Centre Fund, which will be saved in a Centre Fund (*Mudarabah* saving) Account with the IBBL branch. This is in addition to the savings plan. This Fund will be utilized for the welfare of the members by way of *Qard* as per decision of the Centre in the weekly meeting. Obaidullah (2008: 18) describes it rightly as '*microtakaful*' – a very unique concept among the MFIs. The *mudharabah* account is refundable, and it is jointly operated by the leader and deputy leader of a center.

1.9. Corporate Social Responsibility (CSR) issues:

With the help of Islami Bank Foundation (IBF), a non-profit service oriented sister organization of the Islami Bank Bangladesh Limited (IBBL), RDS operates programs to cater the needs of rural people's education, healthcare and medicare services. RDS runs elementary religious schools, mass education centers, libraries and cassette clubs under the education program, and works towards rural immunization, installation of sanitary latrines, tubewells and other health and medicare services under the health and medicare program. A detailed section has been dedicated to describe the corporate social issues related to RDS in the next part of the paper.

1.10. Islamic awareness among the clients:

One of the salient features of the RDS is creating Islamic awareness among the clients and member. M. M. Rahman's (2008) survey figures out that more than 21 percent of RDS clients have started saying daily prayers and another 24 percent have started to recite Qur'an regularly after joining RDS. Next part of the research deals with the positive contributions of RDS, which will discuss this issue in details.

2. RDS and conventional MFIs: A comparative viewpoint

RDS started its journey only in the mid nineties, whereas other conventional NGOs like BRAC, ASA, Grameen Bank, Proshika – the 'big four' – were more than a decade and half ahead of it. Nevertheless, RDS's performance was never less than the other conventional NGOs. Obaidullah (2008: 23-24) have studied the various dimensions of the conventional NGOs and RDS, which shows that RDS has performed marginally better or at

least as good as the three conventional leaders in terms of repayment record. Some striking facts about the operational efficiency of RDS are discussed below, as the research shows:

1. Its growth rate is as high as 12.57 percent as compared to six-seven percent for others.
2. Its dropout rate is only five percent as compared to around fifteen percent for Grameen and ASA. BRAC has a slightly better rate with eight percent. It also has the lowest overdue loans as a percentage of total outstanding loans.
3. In terms of operational efficiency – considering total disbursements per staff as a measure – is far ahead of others. It fares better than BRAC in terms of total members per staff. The situation has further improved during the year 2006-07.
4. The rate of profit charged by RDS is much lower compared to others. There is also no membership fees charged, passbook costs, which other MFIs often charge. Obaidullah also mentioned that the effective rate for good clients is as low as less than fifteen percent as compared to a minimum of thirty-five percent for other MFIs.
5. RDS is also an exceptional MFI in the sense that it fosters the need of ethical development, as we have already mentioned earlier, and will be discussed in a later part of this research.

From the research, it is quite evident that RDS, though quite young compared to the conventional NGOs, is going ahead with a very good pace. Despite some barriers RDS has to face as an Islamic MFI, it is highly potential to lead the market in the near future. The following table (table 2) gives a very clear picture of the differences of performances between the major conventional NGOs and the RDS:

Table
RDS and three major conventional NGOs in Bangladesh: A comparison

Sl. No.	Areas of performance	RDS	Grameen Bank	BRAC
1	Year of Establishment	1996	1983	1972
2	Districts	61 (2010a)	64	64
3	Villages	11,482 (2010a)	81379 (2011)	69421
4	Branches	158 (2010a)	2565 (2011)	2705 (2009)
5	Female member (mil.)	0.430 (2010a)	8.044 (2011)	---
6	Male member (mil.)	0.094 (2010a)	0.325 (2011)	---
7	Total member (mil.)	0.524 (2010a)	8.37 (2011)	8.12 (2011)
8	Member per branch (no.)	3316.08 (2010a)	3262.77 (2011)	1893
9	Total staffs / Field Officer	1632 (2010)	22169	49405 (2009) ¹
10	Disbursement (mil. TK.)	31748 (2010a)	812748 (2011)	524035 (2011) ²
11	Recovery (mil. TK.)	18754.93 (2009)	722607 (2011)	37500
12	Outstanding loan (mil. TK.)	5110 (2010a)	71707.2 (2011)	44822 (2011)
13	Overdue loan (mil. TK.)	43 (2010b)	846.4 (2011)	900
14	Overdue % of outstanding	0.8 (2010)	1,18 (2011)	4.4
15	Profit / Interest rate (flat) %	10	22.5	16
16	Average investment size (mil)	0.0153 (2009)	0.0126	0.0183 (2009)
17	Rate of recovery %	99 (2010a)	96.88 (2011)	98% (2011)
18	Growth rate %	12.57	6-7 (2003)	7 (1997)
19	Drop out rate %	5	15 (2002)	8 (1996)
20	Total Member/Total Staff	321.08 (2010)	377.5 (2011)	---
21	Disbursement/Total Staff	6.39	2.07	---
22	Membership fees	<i>Not Required</i>	Required	Required
23	Cost of pass book	<i>Not Required</i>	Required	Required

Figure in the parentheses indicates respective year of the information.

Sources: Modified and updated from Obaidullah, M. (2008: 24), IBBL (2010a: 105), IBBL (2010b); GB (2011), BRAC (2011)

3. Performance analysis of RDS

The previous part of this paper has proven to some extent that RDS has been a good competitor to the conventional NGOs in Bangladesh. It has also played roles in positively

¹ The figure includes the total number of staffs working for BRAC, and not only in the Microcredit section (BRAC, 2009b).

² The figure shows the cumulative disbursements for the DABI (economically active poor) and PROGOTI (Small & Medium enterprises) (BRAC, 2011).

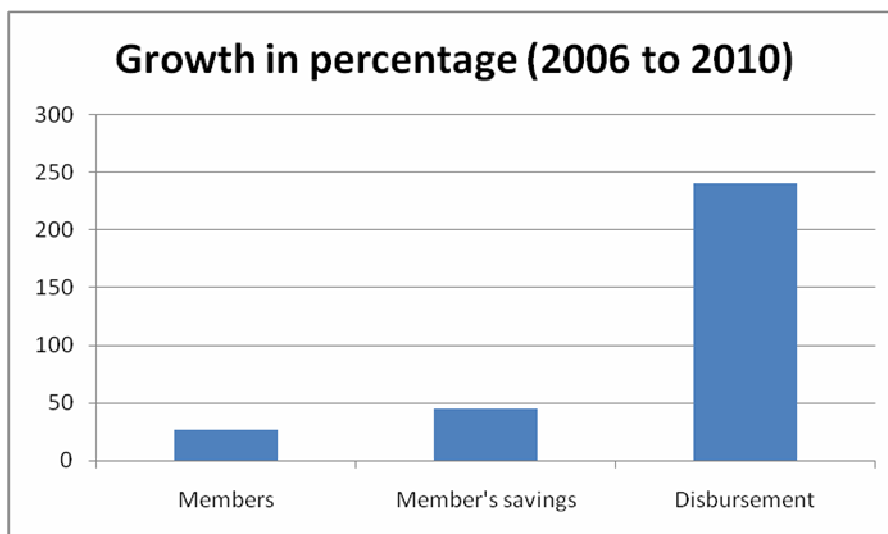
changing its clients' commitments towards religiosity and improved human development. This part of the research is basically an extension of the previous part with detailed illustration of some of the key performances of RDS in the social, economical and spiritual uplift of the member clients.

3.1. Financial and socio-economic performance of RDS

3.1.1. Growth rate:

Researchers have proven that the RDS is performing tremendously in terms of growth and economic sustainability. Due to its rising popularity, growth of membership, and savings thereof, loans disbursed and recovered, RDS holds a very strong position in the market and promises to lead an exemplary model of an Islamic MFI. The table below shows that RDS's average growth rate in the last five years (2004-2009), in terms of members, is 36 percent; and in terms of savings from the members almost 40 percent; and disbursement growth is tremendously high at very close to 50 percent. These can be illustrated in the following chart (Figure 1):

Figure 1: Growth rate of RDS from 2006 to December, 2010:



Source: Author's source, calculated from Table 3.

The following table (3) also shows the growth rate of RDS from 1997 to 2009, which proves its positive penetration in the market. However, it is true that RDS is still small in size compared to other major conventional NGOs and MFIs (see Table 2).

Table 3**RDS's performance in the past few years**

Year	No. of Borrowers (In thousands)	Growth of Borrowers (In %)	Member Savings (In Millions)	Growth of Members Savings (in %)	Cumulative Disbursement (In millions)	Growth of Disbursement (In %)	No. of Employee (In hundreds)	Growth of Employees (In %)
1997	8	-	3.50	-	60.35	-	n.a.	
1998	15	85	7.99	128	131.86	118	n.a.	
1999	41	172	22.97	187	326.74	148	296	-
2000	74	81	56.05	144	714.93	147	439	48
2001	100	35	99.07	77	1323.87	85	453	3
2002	107	7	166.83	68	2029.67	53	498	10
2003	130	22	228.73	37	2923.60	44	639	28
2004	163	25	323.10	41	4216.77	44	731	14
2005	217	33	459.06	42	6033.30	43	868	19
2006	409	88	724.22	58	9300.00	54	1368	58
2007	517	21	1053.56	45	13969.01	50	1819	32.96
2009	492	13	1489	13	24239	55.8	1632	(10.28)
2010	523	6	1775	19	31748	31	-	-

Source: Modified and upgraded from Parveen (2009: 123), and IBBL (2010a: 105).

3.1.2. Changes in Family Income

A research by Rahman (2008) shows that RDS's effort to increase clients' family income by investing their borrowed money to different income generating activities was quite successful. Table 4 shows that on average clients' income have increased by more than 33 per cent from the time they joined RDS until 2006¹. The highest income change (BDT. 6763 per year) was observed for small business which implied that clients preferred investing money to business sector, which was followed by income from services (BDT. 4615 per year). The crop sector income has also significantly increased recognizably.

¹ The survey was done in 2006.

Table 4
Annual Income Generation of the Households by Sources

Source of Income	Households' income (BDT./year)		Change of Income	
	Present	Joining	Taka	Per cent
Crops	13118	10993	2125	19.33
Fruits selling	1629	977	652	66.73
Vegetable	2109	1464	645	44.06
Livestock	4070	2841	1229	43.26
Poultry	1669	1195	474	39.67
Small Business	32061	25298	6763	26.73
Labour Selling	13617	11003	2614	23.76
Service Income	14827	10212	4615	45.19
Others	9927	5751	4176	72.61
Total	93027	69734	23293	33.4

Source: Rahman, M. M. (2008: 13)

3.1.3 Human Development and Socio economic change by RDS:

During the survey conducted by Rahman for his research (2008), clients acknowledged the positive changes in their skills, social and economic condition after joining RDS. Results also showed that micro-investment program had brought positive changes in their socioeconomic status. Significantly changing the members' self confidence (80%), economic solvency (78%), communication skills (79%) and knowledge on business (76%) are highly gratulatory. RDS has proven to bring about a human development shift in the rural areas of Bangladesh. Table 5 shows a clearer picture:

Table 5
Human Development and Socio-Economic change by RDS:

Serial	Types of change	Increased		No change	
		Frequency	Percentage	Frequency	Percentage
1	Economic Solvency	775	77.97	219	22.03
2	Islam Practice	240	24.14	754	75.86
3	Social Dignity / Status	211	21.23	783	78.77
4	Self Confidence	800	80.48	194	19.52
5	Business knowledge	720	72.43	274	27.57
6	Communication skills	785	78.97	209	21.03
7	Knowledge on business computation	755	75.96	239	24.04
8	Confidence on education	596	59.96	398	40.04

Source: Rahman (2008: 19)

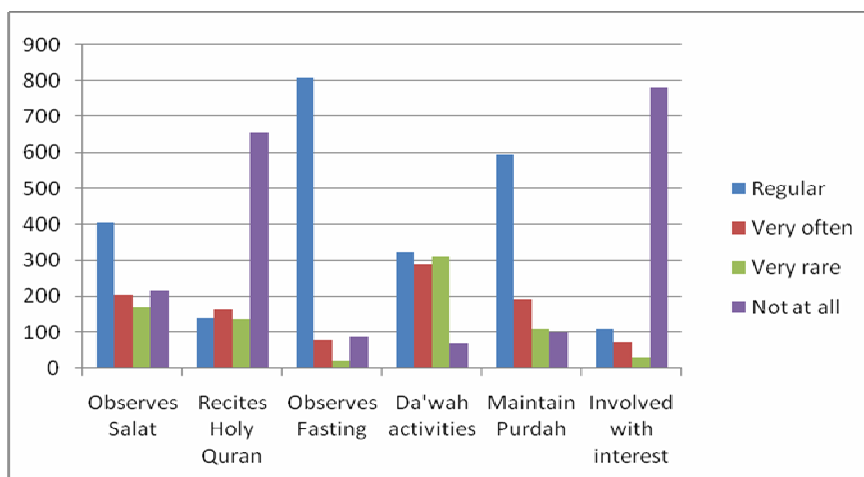
3.2. RDS's contribution in increasing religious commitment and awareness among the clients and staffs:

Religious and ethical development of the clients was one of the important objectives of RDS. Unlike other conventional MFIs and NGOs, RDS aims to build bridge between the

material and the spiritual developments of the clients, which is core of Islamic worldview. It is widely thought by many economists and development researchers that the Islamic system of *purdah* (*hijaab* or covering) is a major barrier to development, poverty alleviation, women’s rights and gender equity. It is also a fact that Dr. Muhammad Yunus mentioned this as a major obstacle while establishing Grameen Bank (see Canlas, 2009: 6).

Clients’ present religious performances have been demonstrated in Figure 2 and Table 6. Result shows that most of the clients observe fasting, while almost 85 percent clients maintained *purdah*. Although, 85 percent clients avoid taking interest, however this cannot be relied on, as 15 percent clients have involvement with other interest based NGOs. It is also true that many among the clients are not still clear about the difference between interest and profit.

Figure 2: Religiosity of the RDS clients:



Source: Author’s source, adapted from Table 6.4.

Table 6: Performance of religious activities among the RDS clients:

Statements	Regular	Very often	Very rare	Not at all
Score (no.)	10 (0)	6 (4)	4 (6)	0 (10)
Saying prayer	405	204	170	215
Know how to recite Holy Quran	643	-	-	351
Reciting Holly Quran	139	164	136	655
Fasting	807	79	21	87
Inviting towards Islamic activities	324	289	311	70
Involvement with dowry	033	-	-	961
Maintain <i>Purdah</i>	596	191	109	98
Involve with interest	111	71	29	783
Misunderstanding with husband	049	29	11	905
Involvement with social activities	007	305	372	310

Note: Figure in the parentheses are the score for dowry, interest and misunderstanding with husband

Source: Rahman (2008: 10)

Increasing religious awareness among the clients:

Research has also proven that RDS was successful to create religious awareness among the clients. For instance, more than 21 percent of the respondent clients have started praying after joining RDS programs. Similarly, 24 percent people have started reciting Holy Qur'an, and another 8 percent have stopped transactions with interest. The results have been put in the following table (7).

Table 7: Increased awareness among the RDS clients after joining RDS:

Indicators	At Present	At Joining	Change Status	
	Frequency	Frequency	Frequency	Percent
Saying prayer	779	643	136	21.15
Know how to recite Holy Quran	643	600	43	7.17
Reciting Holy Quran	339	273	66	24.18
Fasting Regularly	907	880	27	3.07
Inviting towards Islamic activities	924	870	54	6.21
Involvement with dowry	033	-	-	-
Wearing Hijab	896	885	11	1.24
Not involve with interest	883	814	69	8.48
Misunderstanding with Husband	089	-	-	-
Involvement with any local crime	007	-	-	-

Source: Rahman (2008: 14)

Besides, there was a rising awareness of Islam among the RDS staffs, as a result majority of them believes that RDS is not only a microfinance service, but rather it's the duty of the IBBL towards achieving *Ridha-Allah* (Allah's satisfaction). The results were the outcomes of a survey conducted in 2008 among 36 RDS staffs. The following table (8) shows other major reasons for RDS:

Table 8: Major reasons for IBBL to maintain RDS:

Reasons	Level of importance					
	(Highest) 1	2	3	4	5	(Lowest) 6
For Allah's satisfaction	19	8	4	3	1	1
It is social responsibility of Islamic bank to have Microfinance	11	9	8	5	2	1
Microfinance will create good relation between bank & society	6	11	5	6	7	1
To create job opportunity	3	7	11	8	1	6
Profit rate is higher in Microfinance	0	2	6	7	16	5

Source: Bin Hossain, Siwar, and Al-Mubarak. (2008)

3.3. RDS's concerns for Corporate Social Responsibility (CSR):

The RDS program of the IBBL has also kept mentionable remark in the CSR measures. Although, it is primarily funded by the non-profit service oriented sister concern of IBBL – RDS's parent organization, the major role is played by RDS. This support project was

established with the objective to provide mass education, health and medicare services for the integrated development of the villages covered by the RDS, with special emphasis on a) Providing general elementary and moral education to the children of the areas covered, and establish libraries towards eliminating illiteracy, b) creating health awareness among the people, and opportunities for primary health care, and c) to encourage the people to use safe water for drinking, sanitary latrines.

Under this project, RDS runs programs in any of the two categories, namely:

1. Educational Programme, and
2. Healthcare and Medicare programme.

The educational programmes include a) elementary religious schools, b) mass education centre, c) libraries, and d) cassette clubs. Elementary religious schools are aimed at creating religious awareness among the rural people and especially to cater the children in an Islamic framework and enlighten them to develop proper Islamic understanding. These schools are often placed at a masjid, or a schools or any suitable place in the village. The mass education centres are especially focussed to provide basic reading and writing skills to the rural people so that they can at least ‘sign’ their names. Besides the schools and mass education centres, RDS have put up libraries to enhance the reading habits of the local community; and cassette clubs were to provide them an opportunity for recreation (see RDS, 2006: 24-30).

The healthcare and medicare programmes include preventive programmes like providing tube wells, sanitary latrines, immunisation programmes, and health awareness programmes; and the curative programmes include establishing healthcare centres and providing easy access for the RDS clients to take treatments at the Islami Bank Hospitals nearby.

RDS also offers environmental care services. For example, in the rainy season, the RDS members are encouraged to go for plantation. For every three plantations, IBBL provides one small plant free of cost to each of the RDS members. During natural calamities like flood, storm etc. the IBBL distributes relief among the affected RDS members. Besides, during the recent cyclone SIDR, in 2007, RDS provided special waiver from instalments to the affected people (see Parveen, 2009: 119).

The stance that RDS has taken to initiate an Islamic MFI (IsMFI) and the challenges faced throughout the time is certainly paid with its high success and grand applauses from around the corner. RDS is likely to create an example of an IsMFI to the world, with its microfinance, socio-economic and overall human development programmes.

Conclusions and recommendations:

Microfinance, with the growing popularity in Bangladesh, has so far been existent for the last three decades, yet the change and shifts in terms of poverty alleviation and better lifestyle is still tremendously low. More than 40 percent people are still under the poverty

line (WB, 2007), and many still do not have access to healthcare, sanitation, safe drinking water and basic nutrition.

These issues are rising with the depression and the recent economic turmoil. However, researches have proven that far reaching effects of the 'high interest rate' of the credits from the conventional MFIs, deprivation from the rights of 'human development', excessive women empowerment, and most notably distance from developing a 'balanced life' have all equally contributed to the current crisis (see Sadeq *et al.*, 2000).

On the other hand, RDS as IsMFI, faces problems of sponsorships, investments, resources, and mechanisms (see Rahman, 2008: 20) besides fighting the human psychology of 'interest-profit' war. There are still a very large number of clients who do not have a clear understanding of interest (*riba*) and profit. Above all, as an IsMFI, RDS's ventures are also limited and needs scrutiny from the Shari'ah perspectives. This is a grave challenge for RDS towards being a leading IsMFI in the world.

A personal interview with a researcher on microfinance programs in Bangladesh has also revealed other common problems faced by the MFIs, Islamic or conventional, which includes client's debts from multiple MFIs, debts being utilized to pay for 'dowry' – which itself is illegal, husband's pressure to take loans from different MFIs and misuse of the funds for non productive investments, and most importantly usage of the funds for their basic family needs (Personal interview, 2009).

Despite many other problems, RDS is going ahead quite fast, with growth rate of more than 10 percent. RDS is unique among all other MFIs in terms of rebating 2.5 percent for duly payment of installments. It has positively contributed in creating human capital, providing the clients with basic human needs as Shari'a objectives, and developing balanced personalities. Yet, it is true that there are still long way to go, and wide rooms to improve, in terms of developing mechanisms, guiding the clients towards better investments, creating jobs as a mean of poverty alleviation, and educating the rural mass towards shifting them to real 'human capitals'.

For investments, RDS offers projects under *mudarabah*, *musharakah*, *murabahah*, *bai' mu'ajjal*, *bai' salam* and *HSPM* or *ijarah*. However, *qard hasan* (benevolent loan) is the best way to invest for poverty alleviation programs. It is also true that with such little sources of revenue and income, it is not possible to take on *qard hasan* projects right now. However, a better alternative is to create job opportunities besides providing investment opportunities. In terms of creating jobs, the employees will not have to bother about timely installments, nor would they be suffering from investment decisions as they may lack skill and ideas. The clients will also be able to plan their income, as the salary will be fixed, and not variable like in businesses. Besides, there will be no risk of loss. In small enterprises, only one microentrepreneur is benefitting, however, in a small or medium (or even large) enterprise a handful number of people benefits.

Jobs which are feasible to fit the local conditions would be more preferable to the employees than moving out for their jobs. For example, opening a 'fish processing factory'

in a coastal area will avail a large number of people with job, contribute to the local economy as well as exports, and increase skills of the employees through their work experience which they may utilize to create their own business later on.

An overall observation of the RDS's performance leads to conclude that it can soon reach a global arena to prove itself as a leading IsMFI, and wide open the opportunities to replicate it in other Muslim nations. It needs to keep its development progress on track, and with the help of Allah, it will one day establish itself to the world as a unique model of IsMFI.

Bibliography and references:

Al-Qur'an al-Kareem

Bin Hossain, Tareq, Siwar, Chamhuri, and Al-Mubarak, Tawfique. (2008). "Determination Of The Efficiency Ways MicroFinance For Islamic Bank To Eliminate Poverty: An Empirical Investigation." *Working Papers in Islamic Economics and Finance No. WIEF0826*, University Kebangsaan Malaysia (UKM), Selangor, Malaysia.

BRAC. (2009a). *BRAC annual report 2008*. Dhaka: BRAC.

BRAC. (2009b). "BRAC at a glance," (June 2009). Available at:

<<http://www.brac.net/index.php?nid=16>> Access Date: 5th September, 2009.

BRAC. (2011). "BRAC at a glance," (March, 2011). Available at:

<<http://www.brac.net/content/stay-informed-brac-glance>> Access Date: 21st June, 2011.

Canlas, Ruben D. Jr. (14th May, 2009). *Thinking Micro: Poverty alleviation through microfinance, social capital and gender equality in Bangladesh*. USA: Carnegie Mellon University.

Grameen Bank. (10th August, 2011). "Grameen Bank Monthly Update in USD: July, 2011" 2011-07 (379). Available at: <http://www.grameen-info.org/index.php?option=com_content&task=view&id=453&Itemid=527> Access Date: 13th August, 2011.

Grameen Bank. (9th September, 2009). "Monthly report in USD," 2008-09 (356). Available at: <http://www.grameen-info.org/index.php?option=com_content&task=view&id=453&Itemid=527> Access Date: 20th September, 2009.

Islami Bank Bangladesh Limited (IBBL). (2009a). "Concept and Ideology: Rural financing." Available at: <http://www.islamibankbd.com/rural_financing.php> Access Date: 22nd July, 2009.

Islami Bank Bangladesh Limited (IBBL). (2009b). "Performance of RDS." Available at: <<http://www.islamibankbd.com/rds/performance.php>> Access Date: 9th September, 2009.

Islami Bank Bangladesh Limited (IBBL). (2010a). *Annual Report 2010*. IBBL: Dhaka.

Islami Bank Bangladesh Limited (IBBL). (2010b). "Performance of RDS." Available at: <<http://www.islamibankbd.com/rds/performance.php>> Access Date: 9th August, 2010.

- Karnani, Aneel. (2007). "Microfinance misses its mark". *Stanford social innovation review*, (summer), 34-40.
- Khalily, M. A. Baqui. (13th May, 2009). *Bangladesh Microfinance Statistics 2007*. Presentation paper delivered at a talk organized by Credit and Development Forum (CDF) and Institute of Microfinance.
- Mannan, M.A. (2007). *Alternative Microcredit 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) on April 17-19, 2007, Brunei Darussalam.
- Morduch, J. (1998). *Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh*. Unpublished Paper, Department of Economics and HIID, Harvard University and Hoover Institution, Stanford University.
- Obaidullah, M. (2008). *Role of Microfinance in poverty alleviation*. Jeddah: IRTI.
- Obaidullah, M. (n.d.). *Islam, Poverty and Microfinance "Best Practices"*. Available at: <<http://www.imad.in/>>. Access Date: 12th August, 2009.
- Parveen, J. A. (May, 2009). "Sustainability Issues of Interest-Free Microfinance Institutions in Rural Development and Poverty Alleviation: The Bangladesh Perspective." *Theoretical and Empirical Researches in Urban Management*, 2(11), 112-133.
- Personal Interview with Mr. Wasim Azam Khan. (10th August, 2009). Interview taken by Tawfique Al-Mubarak at the Markfield Institute of Higher Education, Leicester, UK.
- Rahman, M. M. (2007). *Impact of Rural Development Scheme (RDS) of IBBL on the Rural Poor's Livelihood in Bangladesh*. Dhaka: Islami Bank Training and Research Academy (IBTRA).
- Rahman, M. Mizanur. (2008). *Rural People's Moral and Ethical Development through Islamic Micro-finance Program and its' Impact on their Poverty Alleviation*. Paper presented at the International conference on Islamic Banking and Finance: Ethics and Financial Practices in Global Perspective, organised by the National Centre for Excellence in Islamic Studies, University of Melbourne, November 19-20, 2008, Melbourne, Australia.
- Rural Development Scheme (RDS)*. (2004). Dhaka: Islami Bank Bangladesh Limited.
- Rural Development Scheme (RDS)*. (October 2006). Dhaka: Islami Bank Bangladesh Limited.

Sadeq, A. H. M., Hassan, M. Kabir and Alamgir, Dewan A.H. (2000), *Microfinance Services and Poverty alleviation in Bangladesh. A Comparative Analysis of Secular and Islamic NGOs*. Paper Presented at the Fourth International Conference on Islamic Economics and Banking: Islamic Finance-Challenges and Opportunities in the Twenty-First Century, organized by International Association for Islamic Economics; IRTI-IDB, The Islamic Foundation UK and the Loughborough University, held on August 13-15, Loughborough University, UK.

World Bank. (2007). "Bangladesh: Strategy for sustained growth." *Bangladesh development series* (18). Dhaka: The World Bank office.