

Social justice: The rural development scheme (RDS) in Bangladesh

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Abstract: Socio-economic development of a country can be measured by ensuring social justice. It requires the expansion of development facilities in urban and rural areas. Given the triumphant march of urbanization, the rural areas are lagging behind in every field of development. Consequently, the rural development has become essential especially for countries like Bangladesh having huge population living in rural areas. Islami Bank Bangladesh Limited (IBBL) has been playing an important role in developing social justice by creating economic opportunities for the rural population. The bank established a *Sharī'ah*-based Microfinance programme named Rural Development Scheme (RDS) in 1995 with the objective of alleviating rural poverty by providing micro-investment to the agricultural and rural sectors. Presently, the scheme is being implemented in about 18,810 villages which has helped the people economically. The scheme has also been contributing to the moral and ethical development of the rural people. This paper assesses the activities of RDS programme and analyses its role in the development of social justice in the country. The study has been designed to identify the problems and prospects of the programme and thus recommend the ways to improve its effectiveness.

Keywords: Social justice, rural development, IBBL, RDS, economy, Bangladesh.

Introduction

Social justice, according to the Oxford Dictionary, is “Justice in terms of the distribution of wealth, opportunities, and privileges within a society.” Socio-economic development of a country can truly be measured by ensuring social justice. It requires the expansion of development facilities equally in urban and rural areas and among the people of all strata in the society. However, the vigorous pursuit of urbanization has resulted in the rural areas lagging behind in

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every field of development. Thus, the rural development has become a challenge for countries like Bangladesh having huge population living in rural areas. Besides many Conventional Microcredit (CM) institutions, several Islamic financial institutions are conducting Islamic microcredit programmes in Bangladesh to reduce the inequalities of income and wealth based on Islamic doctrines of socio-economic justice and ethics with the advocacy of economic empowerment through entrepreneurship, risk sharing and financial inclusion. Islami Bank Bangladesh Limited (IBBL) has been playing such a role in rural development in Bangladesh. It established a *Shari'ah* based microfinance programme named "Rural Development Scheme (RDS)" in 1995 with the objective of providing small and micro investment to the agricultural and rural sectors for generating employment and raising the income of the rural poor. The scheme is being implemented through 251 branches in around 18,810 villages under 64 districts of Bangladesh. It has established 28,740 centres involving some 940,989 members of whom 79% are female. For this investment, RDS adds a flat 12.5% profit rate on the purchasing prices of the commodity and provides 2.5% rebate for timely payment. This can be compared with the CM institutions that charge between 20 to 30% interest for the investment. Besides financial activities, this scheme has a special plan to contribute to the welfare, moral and ethical development of the rural people. As such, field supervisors organise a weekly meeting involving all the clients where Qur'an and *Sunnah* based moral and ethical issues are discussed. This paper assesses the activities of RDS programme with a view to analysing its role in the development of social justice. The study also identifies the basic problems and prospects of the programme. It finally recommends the ways to improve the programme for a sustainable development of Islamic microcredit in Bangladesh.

Social justice, economic justice and Islamic economics

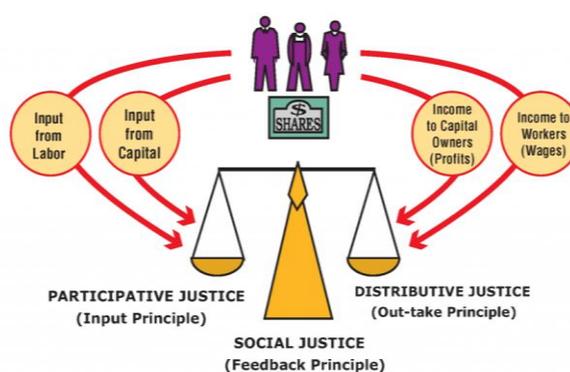
"Social justice" is the appropriate scale with which the socio-economic development of a society could be measured. It is "about assuring the protection of equal access to liberties, rights, and opportunities, as well as taking care of the least advantaged members of society" (Rawls, 1999: 23-25). Social justice is the

promotion of challenging injustice and valuing diversity. All people share a common humanity and have a right to equitable treatment, support for their human rights, and a fair allocation of community resources... People are not be discriminated against, nor their welfare

and well-being constrained or prejudiced on the basis of gender, sexuality, religion, political affiliations, age, race, belief, disability, location, social class, socioeconomic circumstances, or other characteristics of background or group membership” (Robinson, n.d.).

The UN document states that “social justice may be broadly understood as the fair and compassionate distribution of the fruits of economic growth” (Department of Economic and Social Affairs, 2006: 7). The term “social justice” was seen by the UN “as a substitute for the protection of human rights” (Department of Economic and Social Affairs, 2006: 52). The International Labor Organization (ILO, 2010: 5) called that “universal and lasting peace can be established only if it is based upon social justice.” Social justice provides a way of assigning rights and duties in the basic institutions of society to define the appropriate distribution of benefits and burdens of social cooperation (Rawls, 1999: 4). The relevant institutions include education, health care, social security, labour rights, employment, infrastructures etc. to ensure fair distribution of wealth, equal opportunity and equality of outcome. It is equated with the notion of equality or equal opportunity in society. Social justice naturally incorporates economic justice, as the economic institutions determine the earning sources of individuals, distribution of wealth, and exchange of goods and services among the members of society. To Kelso and Adler (1958: 64-99), there are three interdependent principles: Participative justice (the input principle), Distributive justice (the out-take principle), and Social justice (the feedback principle).

Figure 1: The Three Principles of the Kelso-Adler Theory of Economic Justice



Islam, allowing private ownership of property, strictly maintains that the wealth-gap should be within a reasonable limit. It does not permit some people to live in luxury while millions live in abject poverty. Islamic social justice includes three

basic things, namely: (1) just and equitable distribution of wealth, (2) securing basic necessities of life and (3) protection of the weak from economic exploitation by the strong.

Islam takes very effective measures for ensuring social justice that includes *Zakāt* (an obligatory form of alms-giving), *Waqf* (Islamic endowment), *Sadaqāt* (voluntary charity), laws of inheritance and bequest, monetary atonements, and compulsory contributions in the form of taxes and levies. To prevent accumulation of wealth in few hands, Islam prohibits *Ribā* (interest), hoarding, bribery, gambling, speculative transactions, fraudulent practices, embezzlement and every acquisition of wealth through illegal means. Islam strongly instructs the wealthy to fulfil the needs of the poor and destitute (Qur'ān, 70: 24-25). Thus, Islam inspires the rich to allocate their surplus wealth for the poor. *Abu Zarr Ghiffari*, a close companion of the Prophet (SAW), holds the view that it is unlawful to keep any surplus wealth after meeting one's personal needs and it must be spent to meet the needs of deprived members of the Muslim *Ummah*. In his view, so long as there is even one person who is unable to meet his basic needs, surplus wealth of the rich must be collected by the state and spent on poor. *Ibn Hazm*, a great Muslim jurist, says:

It is the duty of the rich that they should meet the needs of the poor and the destitute of their village or town. And if the treasury is not sufficient to meet their needs, then the state has the right to take their surplus wealth, if necessary by force, to meet the needs of the poor in the community.

Interests of the weaker classes of the society like women, orphans, slaves, labourers, tenants etc. have been protected through detailed legislation in Islam. Islam maintains that fair wages should be fixed before employing the labourers and that should be promptly paid before their sweat dries up. Interests of consumers have been protected by ordering a ban on exploitive business malpractices like hoarding, monopoly, speculation, and short-weighting. The Qur'ān enjoins: "Give full measure and full weight, in justice... (Qur'ān, 6: 152). Thus, principles of socio-economic justice have been the fundamental principles of Islamic economic system.

Islamic banking and Islami bank Bangladesh limited

Islamic economic system forms the basis of the Islamic Banking system which is based on the principles of Islamic social justice. "Islamic finance is equity-based,

asset-backed, ethical, sustainable, environmentally and socially responsible. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare” (World Bank, 2015, 31 March).

The key principles of Islamic Banking include: 1) Prohibition of interest (*Ribā*) on transactions; 2) Financing linked to real assets; 3) Prohibiting engagement in immoral or ethically problematic businesses (e.g., arms manufacturing or alcohol production); 4) Lining returns to risks (World Bank, 2015, 31 March). The aim of Islamic economics is not only the elimination of interest-based transactions and the introduction of *Zakāt*, but also the establishment of just and balanced social order free from all kinds of exploitation (Molla, Moten, Gusau and Gwandu 1988; Chapra, 1992).

The concept of Islamic banking dates back to the early 1930s, but actual practice began a bit later. The first attempt to establish an Islamic bank was made in Pakistan in the 1950s. In the early 1960s, Islamic banking practices achieved a greater success in Egypt with the establishment of Mit Ghamr Savings Bank. Nasser Social Bank was established in Cairo in 1971 with the objective of granting interest-free loans. In the following years a number of Islamic banks were opened throughout the Muslim countries. Dubai Islamic Bank was established in 1975, Faisal Islamic Bank in Egypt in 1977, United Arab Emirates Islamic Investment Company in 1978, Kuwait Finance House in 1979, Bahrain Islamic Bank in 1979, Qatar Islamic Bank in 1981, Bank Islam Malaysia in 1983. The Islamic Development Bank (IDB) was founded in 1975 in the Kingdom of Saudi Arabia. Islamic banking system has been growing very fast over the past decade at 10-12% annually and now it comprises of more than 400 institutions tasked with estimated financial assets roughly US\$2 trillion (World Bank, 2015). The World Bank remarked:

Islamic finance has emerged as an effective tool for financing development worldwide, including in non-Muslim countries... and that it has the potential to help address the challenges of ending extreme poverty ... As the 2008 global financial crisis ravaged financial systems around the world, Islamic financial institutions were relatively untouched, protected by their fundamental operating principles of risk-sharing and the avoidance of leverage and speculative financial products (World Bank, 2015).

Bangladesh's signing the Charter of IDB in 1974 opened the door for the establishment of Islamic bank in the country. In January 1981, President Ziaur Rahman, while addressing the third Islamic summit conference, stated: "Islamic countries should develop a separate banking system of their own in order to facilitate their trade and commerce" (IBBL, n.d.). In this regard, Islami Bank Bangladesh Limited (IBBL) was established on March 13, 1983, with an authorized capital of TK. 500 million (USD\$ 12.5 million) as a Public Limited Company under the Companies Act of 1913 with the mission "To establish Islamic Banking through the introduction of a welfare oriented banking system and also ensure equity and justice in the field of all economic activities, achieve balanced growth and equitable development in through diversified investment operations particularly in the priority sectors and less developed areas of the country. To encourage socio-economic upliftment and financial services to the less-income community particularly in the rural areas" (IBBL, n.d.). It was incorporated as a joint venture multinational bank with 63.92% of equity contributed by IDB and the rest by other financial institutions from Saudi Arabia, Bahrain, Jordan, Kuwait and Qatar. To date, IBBL is considered the largest private bank in Bangladesh with 301 branches, making effective programmes and positive changes to its socio-economic indicators, and developing infrastructure.

Rural development scheme (RDS) of IBBL

Bangladesh is a developing country with 25.6% of the population living in poverty (BBS, 2014). Since independence, poverty alleviation has become a challenging issue for the country perhaps because the majority of the rural population is prejudiced. It is estimated that Urban residents are 30% more literate than their counterpart in the rural areas. According to BIDS survey, per capita income in rural area is 13,720 BDT while in urban areas it is 22,721, per capita personal consumption in the rural area is 12,675 while in urban areas it is 21,140 (Khan, 2005: 7). The poverty rate in the urban area is 36%, while in the rural area, it is 48% (Khan, 2005: 29). An approximate number of rural poor is about 38 million.

Taking this scenario into consideration, several financial institutions conduct microcredit programme in the country. This was pioneered by Grameen Bank, which has now been implemented worldwide as an effective poverty alleviation programme. These conventional micro-credit programmes provide interest-based credit and sometimes the rate is exorbitantly high. Charges for institutional

sources range from 15 to 22% and for the non-institutional sources from 33 to 120% (Mahmood, 2006:32). Under these circumstances, capital-building is almost impossible for the rural poor. Thus, the vast population remained poor due to lack of education, employment, productive assets, skills and collective efforts to develop rural economy. Consequently, the IBBL has launched “Rural Development Scheme-RDS” in 1995 to alleviate rural poverty by providing *sharī’ah* based micro investment to the poor.

Salient features of RDS

The fundamental features of RDS of IBBL are as follows:

1. The main objectives of the scheme are:

- To extend investment facilities to agricultural, other farming and off-farming activities in the rural areas.
- To finance self-employment and income generating activities of the rural people.
- To alleviate rural poverty through integrated rural development approach.
- To extend investment facilities for rural housing.
- To provide educational services, safe drinking water, sanitation and Medicare facilities to the down-trodden people (IBBL, 2015).

2. The scheme aims to ensure various types of facilities and services for the downtrodden people as a part of Integrated Development Approach. The following areas have been covered under the scheme:

- Humanitarian assistance programme.
- Education programme.
- Capacity building or training programme.
- Health and medicare programme.
- Environment protection programme (IBBL, 2015).

3. The scheme started as a pilot scheme in the rural areas of certain districts under the supervision of nearby branches of IBBL. The scheme is being gradually extended to all the districts through different branches of the bank (IBBL, 2015).

4. Each branch selects villages within 10 kilometres of the branch premises based on easy communication; availability of agriculture and other off-farm activities and abundance of low-income people. After primary selection, branch conducts a baseline survey to identify the target group people and the varieties of economic activities in those areas. The branch has to ensure the availability of at least 400 target group people in the selected area (IBBL, 2015).

5. The target groups of the scheme are:

- Able-bodied and industrious rural poor aged between 18 to 50 years.
- Farmers having cultivable land maximum 0.50 acres and the sharecroppers.
- Persons engaged in very small off-farm activities in the rural areas.
- Destitute women and distressed people (IBBL, 2015).

6. The scheme provides its clients investment maximum of BDT 10,000/-(\$145) at the first time and the good performers are given enhancement by BDT 2,000 to BDT 5,000 in every next term up to the ceiling of a particular sector. The purpose, period and ceiling of investment are shown in Table 1. The rate of return is 12.5%. Timely repayment is encouraged by offering 2.5% rebate.

Table 1: Purpose, period and ceiling of investment

SL	Sector of Investment	Duration	Ceiling of Investment (BDT)
1	Crop Production	1 year	25,000/-
2	Nursery and commercial production of flowers and fruits	1 year	50,000/-
3	Agriculture implements	1 to 3 years	50,000/-
4	Live stocks	1 to 2 years	50,000/-
5	Poultry and duckery	1 year	35,000/-
6	Fisheries	1 to 2 years	50,000/-
7	Rural transport	1 year	20,000/-
8	Rural housing	1 to 5 years	50,000/-
9	Off-firm activities	1 year	50,000/-

Source: (IBBL, 2015).

7. There exist Security Requirements which are as follows:

- Collateral security is not required.
- Each member of a group gives a personal guarantee for other members of the group and the members are collectively responsible for payment of investment.
- Deed of agreement
- Usual charge documents
- Required number of signed cheque.

8. The scheme provides for two types of Savings Plan:

- The members of the group have to open Muḍāraba Savings Account (MSA-RDS) in their individual names with the branch. Required number of signed cheque.
- The weekly compulsory savings is minimum Tk. 20.00 only.
- Able members can open Muḍāraba Special Savings (MSS-RDS) by depositing minimum Tk. 100/- only per month

9. Centre Fund:

- Each member of the group has to deposit minimum Tk. 5.00 per week in the Centre fund.
- This fund is kept by opening a Mudaraba Savings Account in the name of the centre.
- This fund is utilized for the welfare of the members by way of Qarḍ.
- This account is operated by centre leader and deputy leader jointly. It is refundable.

10. The branch selects any of the following modes depending upon the sector and purpose of investment: *Bai-Muajjal* (a sale for which payment is made at a future fixed date or within a fixed period) and *Mushārakah* (a contract of partnership in which all the partners contribute capital, participate in the management, share the profit/loss in proportion to their capital or as per pre-agreed ratio).

11. Sanction and Disbursement are as follows:

- Based on the list submitted by the field officers, the investment committee of the branch scrutinizes the applications and sanctions the investment at branch level.

- After sanction, the branch complete documentation formalities and disburse the amount.
- Investment under RDS in Bai-Muajjal mode, where actual cost, quality or suppliers of the goods cannot be determined earlier, proposed goods are purchased to the debit of suspense A/c (Purchase A/c). After purchase of goods and handing over to the clients, investment is made by adjusting Purchase A/c.
- In all the cases, branch must ensure strict adherence to the banking and Shari'ah norms.

12. The cardinal principle of the scheme is “group approach”. For all decision-making activities, mutual consultation is given priority. The operational procedures, in brief, are as under:

- Select villages within 10 kilometre radius from the branch.
- Conduct a base line survey to identify target group people.
- Small groups to be formed consisting of 5 members preferably of similar professions.
- The members of the group select their leader and deputy leader to co-ordinate the group activities. The branch manager gives formal recognition of the group by issuing pass books.
- A centre is formed by 2 to 8 groups. The group leaders select the centre leader and deputy leader from amongst themselves to co-ordinate the centre activities.
- The centre conducts regular weekly meeting.
- Centre meetings are recorded in a resolution book along with signature of the members. Attendance in the centre meeting is the first requirement for being a dependable client.
- The agenda of the centre meetings are:
 - ✓ Discussion on different Islamic topics, moral values, social rights & responsibilities
 - ✓ Collection of investment instalments, personal savings, centre fund etc.
 - ✓ Appraisal and approval of investment proposals, etc.

- Investment clients are selected in the centre meeting. The applications of selected clients are submitted to branch manager.
- Each member of the group has to provide guarantee against investment of other members.
- Clients are allowed to take initially BDT 10,000/-(US\$ 145). The amount would gradually be increased up to BDT 1,00,000/- (US\$1,449).
- The investment amount along with the profit has to be paid back by the clients in 45 equal weekly installments.

13. The mechanism for supervisions, follow-up and monitoring are:

- The branch is responsible for the investment and recovery. Field officers make intensive supervision over the clients. The group approach is very helpful in this process- clients are motivated, induced and pressed by the fellow members in recovering the investment.
- Each field officer is appointed for 400 clients and one or more assistant officer/officer is engaged in the branch as project officer.
- One or more officials in each zonal office are assigned as RDS zone officer to supervise the RDS activities of the branches. The zone officers visit the branches at least twice in a year.
- Head office officials also visit the activities at the branch level once a year.
- Weekly, monthly, quarterly and annual statement of RDS of the branches are prepared and sent to the higher authority to monitor and evaluate the activities regularly.

14. Investment under MEIS:

- 'Micro Enterprise Investment Scheme (MEIS)' has been introduced in 2005 to satisfy the graduated clients who are already availed highest investment limit under RDS.
- The ceiling of MEIS investment is BDT 50,000/-(US\$725) to BDT 300,000/- (\$ 4348).
- The existing field officers and project officers will propose for investment under MEIS and the branch manager will approve the proposals.

- The scheme has been chalked out in such a way so that all the persons within the target area may be brought within the fold of bank's investment for productive economic activities.

15. In terms of the performance of RDS, it is on record that 251 Branches of IBBL have been operating the activities of RDS in 18,810 villages of 64 districts among 940,989 members with an investment amount of BDT 123,447.24 million. The rate of recovery is more than 99.14%.

16. IBBL launched a new scheme in 2012 under the name of "Urban Poor Development Scheme (UPDS)" to ensure equity and justice in the field of all economic activities. The objectives of UPDS are:

- To alleviate urban poverty through investment in income generating activities
- To improve the livelihood of urban poor specially the slum dwellers
- To improve the health and education status of urban poor specially the children and women
- Help to improve the environment of the poor
- Reduce the level of crime through the development of ethical and religious values.

Basic differences between the conventional microcredit programmes and RDS

There are some basic differences between the Conventional Microcredit Programme and Islamic Microcredit Programme such as RDS of IBBL. Some important differences are shown in Table 2.

Table 2: Basic differences between the conventional microcredit programme and Islamic microcredit programme (RDS of IBBL)

Indicators	Conventional Microcredit Programme	RDS of IBBL
Basic principle	Based on man-made principles	Based on Islamic <i>Shari'ah</i>
views of poverty	Any individual having per day income less than US\$ 1.0	Any individual having less than <i>Nisāb</i> (no <i>zakāt</i> is due on wealth) amount of income
Sources of Fund	External, client's savings	External, client's savings, <i>Zakāt</i> ,

Indicators	Conventional Microcredit Programme	RDS of IBBL
		<i>Awqāf, Ṣadaqah</i>
Financing	Based on interest	Based on Islamic modes of finance such as <i>Mudārabah, Mushārahah, Bai-Muajjal</i> and free from interest
Financing the poorest	Extremely poor are left out	Extremely poor are targeted by integrating <i>Zakāt</i>
Fund Transfer	In cash	In goods
Target group	Women preferred	Any member of family
Collateral	Required	Collateral-free
Deduction	At the beginning but the interest is calculated on total amount	No deduction
Interest/profit rate	Between 20 to 30%	12.5% profit rate with rebate of 2.5% for timely payment
Ethical development	No contribution to ethical development	Special contributions to moral and ethical development
Objective	Maximising profit without restriction	Maximising profit subject to <i>Shari'ah</i> restrictions
Relationship	Creditor-Debtor relationship	Partner, investor/trader, buyer/seller relationship
Risk	Risk free as interest is pre-determined	Profit-loss sharing between RDS and client
Dealing with defaults	It can charge additional money in case of defaulters Group/centre pressure	No provision to charge extra money from the defaulters Group/spouse guarantee, and Islamic ethics
Result	Bank's interest is prominent, no effort to ensure growth with equity	Due importance to the public interest, ensures growth with equity
Work incentive	Material	Material and spiritual

The role of RDS in establishing social justice

The RDS has remarkably been contributing to the establishment of social justice by developing socio-economic condition of rural poor, creating employment opportunities for them and most importantly prioritising their moral progress. This contribution can be summarized as follows:

- i. There are more than one million small businesses in Bangladesh as potential borrowers, but only 7% of them have access to formal financial institutions (Parveen, 2009: 117). IBBL created RDS programme in order to capture this market and address the gap that the government, CM programmes and NGOs failed to address. Being the first Islamic and interest-free scheme, RDS attracted the religious Muslim poor, while collateral-free made it easily accessible to them. The number of centres, groups, members, investment amount, and recovery rate are witnessing the widespread popularity, rapidity in expansion and success of the programme. RDS introduced the first Islamic microcredit model in the country and abroad without financial support from the government or external donors. Unlike CM programmes, the RDS earns a very nominal profit from the programme. In every indicator of progress of microfinance institutions, RDS has a remarkable status. This provides anecdotal evidence that there is a high demand for RDS products and if this growth continues, it can have positive implications for the rural poor's livelihood and their economic development. Table 3 provides a comparative report on the progress of microfinance programmes in Bangladesh following the data of Bangladesh Microfinance Statistics Report 2013 (Credit and Development Forum, 2013), which evidently supports the idea of the high growth of RDS and its success.

Table 3: Comparative analysis of the progress of microfinance programmes in Bangladesh

Items	Branch (as on December)			Members (as on December)		
	2012	2013	Growth over 2012 (%)	2012	2013	Growth over 2012 (%)
MF-NGOs	14,759	15,135	3.70	23,871,924	23,464,946	-3.50
Grameen Bank	2,567	2,567	0.00	8,373,893	8,543,977	2.03
PDBF	357	390	9.24	735,622	828,191	12.58
RDS	207	240	15.94	733,520	836,227	14.00
Grand Total	17,890	18,332	2.1	33,714,959	33,673,341	-1.93

Items	Borrowers (as on December)			Loan Disbursement (as on December)		
	2012	2013	Growth over 2012 (%)	2012	2013	Growth over 2012 (%)
MF-NGOs	18,415,896	18,933,795	0.94	379,493.08	440,815.27	16.16
Grameen Bank	7,536,504	6,738,588	-10.59	118,608.80	126,026.30	6.25

Items	Borrowers (as on December)			Loan Disbursement (as on December)		
	2012	2013	Growth over 2012 (%)	2012	2013	Growth over 2012 (%)
PDBF	468,349	523,416	11.76	5,539.60	6,263.40	13.07
RDS	474,766	532,235	12.10	14,529.75	19,522.61	34.36
Grand Total	26,895,515	26,728,034	-2.42			15.75

Items	Recovery Rate (as on December %)			Distribution of Members' Net Savings (as on December)		
	2012	2013		2012	2013	Growth over 2012 (%)
MF-NGOs	98.21	94.91		78,725.95	100,599.18	27.78
Grameen Bank	98.31	99.69		79,162.40	92,211.00	16.48
PDBF	98.00	98.00		2,229.00	2,789.50	25.15
RDS	100.00	100.00		3,322.52	4,377.98	31.77
Grand Total	98.16	98.47		163,439.87	199,977.66	22.36

Items	Distribution of Outstanding Loan (as on December)					
	2012	2013	Growth over 2012 (%)			
MF-NGOs	230,722.51	263,668.22	12.20			
Grameen Bank	80,321.50	84,385.00	5.06			
PDBF	3,616.40	4,197.40	16.07			
RDS	10,390.71	13,730.92	32.15			
Grand Total	325,051.12	365,981.54	10.55			

Note: MF-NGOs = Microfinance (non-governmental organisation); PDBF = Palli Daridra Bimochon Foundation; RDS = Rural development scheme.

- ii. Unlike other microcredit programmes, RDS has incorporated ethical development activities in its microcredit programme. Field supervisors are responsible to organise a weekly meeting involving the clients where moral development related issues- on the basis of *Qur'ān* and *Sunnah*- are discussed. RDS through its ethical programmes and informal education contribute to create social awareness about different environmental and national issues. Research result shows that the recovery rate of RDS is almost 100% and most of the clients do fasting, almost 85% women clients maintain *purdah* (covering the head), about 85% clients avoid interest (Rahman, Jafrullah &

Islam, 2008: 153). RDS programme also provides training and non-formal education to the clients to enhance their level of skills in performing income generating activities. Thus, the RDS programme is developing religious-moral values, socio-economic and educational-cultural awareness among its clients which ultimately contributing to social justice.

- iii. The RDS programme is styled following the concept of Grameen Bank which is a Nobel Peace Prize-winning microfinance organisation. However, the scheme uses Islamic modes of investment. Under this model, the bank does not provide the loan in cash, rather goods to the clients, which ensures the investment in income generating activities. In the CM programmes, the investment is handed over in cash and thus there is possibility of using money in non-productive activities. RDS investment is allowed for the purpose of production of crops, off-farm activities like service, trading, processing and manufacturing, shop keeping, peddling and rural transport like rickshaw, Rickshaw-van, cart etc., irrigation equipment, hand tube well, housing materials, in all covering about 343 types of economic activities. Thus, the collateral-free RDS investment is more effective in alleviating poverty by creating income generating activities in the rural areas. These income-generating activities on the one hand, increase their income directly and, on the other hand, it increases their ability for more investment in new income generating activities as well as enhances their purchasing ability. More purchasing ability would enable them to spend more on food, health, education, nutrition, and thus, leading them to a higher quality of living. Beneficiaries from RDS were also able to increase their net savings by more than 32%, the highest growth in comparison with CM programmes according to Bangladesh Microfinance Statistics. Several studies (Bhuiyan et.al., 2011; Parveen 2009) show that the household income and asset of RDS members remarkably increased (See Table 4).

Table 4: Changes in assets and income of RDS members

Category of Activities	Change in Asset Possession (in Taka)		Changes in Household Income	
	Before Joining RDS	3 Years After Joining RDS	Before Joining RDS	3 Years After Joining RDS
Agriculture	35,112	101,785	17,470	22,595

	Change in Asset Possession (in Taka)		Changes in Household Income	
Business	25,957	87,762	46,513	60,505
Others	30,932	94,773		

Source: Jinan, Tasnimun (2008: 73-93); Rahman, M. Mizanur (2010: 119-138).

- iii. The beneficiaries of RDS are mainly rural poor having limited access to education, institutional credit and productive resources. Due to their inability to meet the collateral requirement, the rural poor cannot start up productive activities even though they may have the adequate skills for pursuing income-generating activities. In such circumstances, RDS programme supports the poor to have access to finance without providing collateral. Only member of a group gives personal guarantee for other members of the group and the members are collectively responsible for payment of investment. Thus, anyone can enjoy easy access to avail RDS investment. CM programmes mainly target women with the vision of women empowerment. In practice, the women clients are not necessarily the users of the funds. It has been reported that male household members usually tend to control the funds which create tensions within the households and even increases violence against women (Rahman, 1999). While male members tend to utilize such funds usually on non-income generating activities, the women are consistently being pressured to repay the loan instalments by the loan provider institutions and thus, increasing the likelihoods of loan defaults leading families to spiral further into poverty. On the contrary, RDS focus on the family as a whole and every member of a family can avail the investment equally male or female as Islam believes the family as the cornerstone of society and a divinely ordained institution. Consequently, the RDS investment is easily accessible for all and both recipient and spouse are responsible for the repayment of the loan.
- iv. As a collateral-free funding, the RDS investment is strongly managed, monitored and supervised by the authority, which in turns, results in the proper utilization of the fund in creating employment opportunities by the rural poor. It starts after an eight-week observation of the group members in terms of regular attendance in weekly meetings, centre meetings, and deposit of their personal saving. At the group and centre meetings, members are offered support services such as skill training, environmental awareness and

entrepreneurship development to ensure the success of the potential new investment. During the eight-week process, all the investment applications are carefully reviewed. Two members from each group selected by the group members are considered for investment and investment products (not cash) are handed over to the clients. The investment starts with Tk. 10,000 and based on good repayment, it increases by Tk. 2,000 to 5,000 in every succeeding term depending on the sector. The rest of the group members become eligible for financing after observing member who received loan has duly paid 2/3 instalments. The rate of return (based on profit-loss sharing method) is at 12.5%, however timely repayment is rewarded by 2.5% rebate, thus a successful member will pay 10% profit to the bank. This rate of return is remarkably lower than the rate of CM programmes in Bangladesh. Moreover, members of the centre also have to open a Mudaraba savings account and to deposit Tk. 20 per week. Savings can be withdrawn once members have fulfilled their liabilities towards the bank. This ensures the sustainability of the fund. And to promote the act of *Zakat*, members are encouraged to deposit a minimum of Tk. 5 per week to the *Qard-al-Hasan* fund, which is given to the extremely poor, for members who are unable to repay their instalments timely or toward the rural development (building latrines, tube wells etc.). The receiver of the *Qard-al-Hasan* is only liable for the repayment of the principle without profit. This innovative approach encourages the act of giving and ensures the inclusion of extremely poor in the programme to become self-reliant. Investment proposals are strictly scrutinized which ensures investment in the most profitable and productive projects. It leads to the further employment of the poor and has considerable socio-economic effects in the long run. This kind of operational mechanism has proved to be very successful in benefiting many of the rural poor. It makes RDS programme one of the most successful schemes in Bangladesh in alleviating rural poverty.

- v. It is a practice of CM programmes to deduct an amount from the loan before disbursement for different reasons such as group and emergency funds. But the interest paid by the beneficiary is calculated on the total amount. Furthermore, there is a risk that the fund might be diverted to non-productive uses as the fund reduced after deduction. In RDS, there is no such deduction and the fund is directly used to purchase the goods and these goods are given to the beneficiary and thus the risk of diverting fund is minimized.

- vi. One of the important features of RDS is using the Islamic financial sources such as *Zakāt*, *Waqf*, *Ṣadaqah* etc. The *Zakāt* management in Bangladesh is still very poor and thus these potential Islamic resources could not be efficiently utilised for the rural poor and needy people. Several studies show that *Zakāt* can play a vital role in alleviating poverty in Bangladesh (Ahmed, 2010). Here are also potentials to have a vast amount from other Islamic financial sources such as *Waqf*, *Ṣadaqah*, if the wealthy Muslims are properly motivated. RDS takes the initiative to use the fund of Islamic sources for poverty alleviation which enriches the programme with a very special characteristic. Many small funds from these Islamic sources are combined together and managed in the most profitable way through RDS, obviously contributing to reducing rural poverty as well as social justice.
- vii. CM programmes usually do not pay attention to the poorest of the poor, on justification “extending microfinance to the extremely poor not only does not saves them, but also, because of the disability for repayment, makes them more indebted and will make them poorer in the future” (Dhumale, & Sapcanin, 1998: 189). But in RDS programme, the poorest are targeted under the scheme of *Qard-al-Ḥasan*.
- viii. To add to the accumulation of human, social and natural capitals of the poor, RDS provides, in addition to the financial services, humanitarian assistance programme, education programme, capacity building and training programme, health and Medicare programme, and the environment protection programme. These programmes contribute to socio-cultural and environmental awareness among the rural poor.
- ix. Men have been the main decision makers within the family relating to crop production, employment, housing, child education etc. A study revealed that after joining RDS programme, women’s participation in the decision making process has dramatically increased. It is evident that women’s involvement in the programme increased women’s empowerment within the household and the community. Facilitating women with access to and control over economic resources have significantly improved the stability and financial means of participating households. They not only generated new income, but also impacted positively the entire wellbeing of their household, and possibly the community and entire society (See Table 5).

Table 5: The outcome of investment in business and agriculture activities by men and women

Decision Making Areas	Investment in Business and Agriculture Activities					
	Before Taking Invest			After Taking Invest		
	Man Only (%)	Woman Only (%)	Man in Consultation with Woman (%)	Man Only (%)	Woman Only (%)	Man in Consultation with Woman (%)
Crop Production	98	-	2	54	-	46
Labor employment	100	-	-	14	2	84
Housing	60	26	14	2	2	96
Children's care	-	82	18	-	66	34
Child education	80	2	18	2	2	96
Village meetings	98	2	-	14	84	2
Child marriage	66	-	34	-	-	100
Rural activities	88	-	12	44	-	56

- x. Health is one of the basic needs of human being. A study by Main Uddin (2008: 72) provided a good picture on the linkage between RDS and access to health services, safe drinking water and sanitary latrine. It indicated that after joining RDS, due to the increase in family income, beneficiaries' access to health care and tendency of using sanitary latrine increased by 10%. Also to promote further improvements in the health sector, IBBL through its non-financial investments under RDS, provided hand tube wells and sanitary latrines to successful members from *Zakāt* fund. As of December 2008, a total of 6,844 tube wells and 3,838 sanitary latrines have been built (Haque and Yamao, 2011: 104). Thus RDS produced multiplier benefits for the beneficiary's households and livings.
- xi. In the case of CM programmes, the main motives of the employees are monetary. This is in stark contrast to the work incentives of employees of RDS which, before all, are religious and only subsequently monetary. In other words, in RDS, the staffs view their work as a part of religious duty. This spiritual sense makes them sincere, honest and client-friendly, which in turns, makes the programme a very successful and effective one in the country.

Problems and prospects of RDS programme

In spite of having remarkable success in reducing rural poverty and thus establishing social justice, the RDS programme also has some problems which are diverse in nature. The basic challenges and prospects of the programme are discussed below:

- a. Lack of financial viability is one of the main shortcomings of RDS. A study (Bhuiyan et. al., 2011) shows that as of 2009, only 27% of disbursements have been financed from savings while the rest from debt, IBBL's other investments. The financial viability of RDS is thus dependent on the financial viability of the IBBL's commercial means. The high dependency on debt could make the business of RDS risky. The programme has been incurring high operational costs too. In 2009 the operating cost was 75%. The net profit has gradually been decreasing. In 1996, the profit was 62.91% and in 2009 it stood at 7.88%. In order to make RDS programme financially viable, IBBL will need to consider other financial and human management means to strategically minimize its operational and transaction costs.
- b. For a sustainable programme in the long-run, adequate funding is required. In order to extend RDS service to a greater number of rural poor, a large volume of fund is needed. As there is lack of knowledge about Islamic micro-financing among the donors and *Zakat-Waqf-Sadaqah* payers, many are not interested in funding such programmes. IBBL should spread the concept of Islamic micro-financing among prospective national and international donors, *Zakāt-Waqf-Sadaqah* payers, development agencies and make them understand the importance of financing such a model for poverty alleviation with a view to raising the fund for a sustained successful project.
- c. Capacity building is needed at all levels for a successful microcredit programme. Though RDS programme operating in 64 districts, the number of client is not as high as many CM programmes. Currently, RDS has about 1 million clients while Grameen Bank has about 10 million. To expand the activities of RDS at a large scale, it needs to strengthen its capacity. There should be a comprehensive guideline for Islamic microfinance. It is observed that field supervisors are not well trained to motivate the rural people for income generating activities. Frequent training should, therefore, be organised to improve field supervisors' knowledge, skill and ethical values with developed operational tools and manuals. Although participation in

religious activities has been improved after joining RDS, there is still scope for improvement of these activities, especially knowledge about interest, its consequence, and how to get rid of it. In the weekly meetings, effective lectures may be organised covering wider issues.

- d. For any microfinance programme to be successful, a favourable policy environment should be offered by the government. Still now, there is no set rule for Islamic microcredit programmes like RDS in Bangladesh. Without setting policies to support Islamic microcredit, the expected success of RDS is not possible. Thus, a good policy environment supported by the government is needed to offer better services to large number of rural poor. Government's role should ensure stability and viable Islamic microcredit programmes in the country.
- e. A study by Rahman et. al., (2008: 158-159) shows that the 90.65% clients of RDS had problems with investment size. They viewed that the investment amount was insufficient to conduct a productive income generating activities smoothly. 86% clients mentioned the training facilities to upgrade their skill were not satisfactory. 85% clients mentioned their problems in receiving the investment payments lately. This was followed by the very short gestation period for repaying the investment. 78% clients mentioned that they had to start to repay even before investing the money. Rural poor are not enough aware of modern technology. They usually use the traditional method of farming, resulting in low production. Therefore, effective training with modern technology should be provided on farm/off-farm activities, credit management, environmental pollution, legal rights etc. Necessary technical support may also be provided to the rural entrepreneurs.
- f. RDS is a welfare-oriented programme rather profit. It has definite target people in rural Bangladesh prioritizing the most vulnerable poor, widows and divorcees. The study by Rahman et. al., (2008: 158-159) shows that only 2% of clients are divorcees and widows. The selecting criterion is the person should have land less than 50 decimals. But study shows that 35% of clients have more than 50 decimals of land, and are basically not poor. Therefore, regulations should strictly be followed in selecting target people. The result shows that all the clients have not invested their borrowed money in income generating activities. Some of them have utilised it in house repairing, children's marriage, furniture purchase etc. Therefore, proper monitoring and

supervision should be carried out so that they use the fund in income generating activities. The rural poor usually invest in seasonal crop production and sometimes they are unable to repay before the end of season. Therefore, a product-based periodic investment may be developed. Besides, crop cultivation is depended on nature and there is the possibility of natural damage. Hence, farmers may require supplementary investment to re-plant their crops. Therefore, a supplementary investment system may also be developed.

Conclusion

Poverty alleviation and just distribution of wealth are preconditions for establishing social justice in the society. Microcredit is now a well-established poverty alleviating programme which is being implemented across the world. Bangladesh as a country with about 170 million population and about 30% living in poverty, keenly need to reduce rural poverty and minimize the rich-poor or urban-rural wealth gap for establishing social justice. Many microcredit institutions working in Bangladesh provide interest-based credit to the rural poor, prioritizing the women. These institutions do not care about their ethical developments, which is essential in all aspects of life. Besides, the extremely poor are left out from the interest-based microcredit programmes and the interest rate is also exorbitantly high. In these circumstances, IBBL, as one of the fastest-growing and best-performing banks in Bangladesh based on Islamic *sharī'ah*, introduced first Islamic microcredit programme RDS, now which has become a very successful microcredit programme in Bangladesh remarkably contributing to reduce rural poverty. The programme is welfare-oriented rather profit based on Islamic *sharī'ah*. It targets the extreme poor members, who are left out by the CM programmes. It is collateral-free and provides the investment not in cash but in goods. The programme has no deduction, while CM programmes deduct an amount before disbursement. Any member of a family can receive the investment, while women are given priority in CM programmes. The interest rate of CM programmes is between 20 to 30%, while RDS executes 12.5% profit rate based on profit-loss sharing method with 2.5% rebate for timely payment. RDS arranges weekly programmes for ethical and moral development of the client. Several studies remarked that the RDS, from its inception, has successfully been contributing to alleviate poverty and thus ensuring social justice. Though the

programme has been proved as a very successful one, it has still now several shortcomings to be overcome to make it as an effective tool for ensuring social justice. It should be made financially viable with strong resources and fund. *Zakāt*, *Waqf*, *Ṣadaqah* should be made key sources of RDS fund. The concept of Islamic microfinance should widely be expanded among the development agencies, *Zakāt*-payers and the mass people of society by arranging various seminar, symposium or conferences to enrich RDS fund. A comprehensive guideline should be developed for Islamic microfinance. Field supervisors should be well trained to motivate the rural people for income generating activities. In the weekly meetings, effective lectures on moral development and religious issues should properly be organised to make the rural people conscious about ethical practices, socio-environmental pollution, legal rights, nutrition, and health issues. Selection procedure and concerned regulations should strictly be maintained so that the benefits of the fund would go to the proper targeted poor in the rural areas of the country. Clients' problem with the size of investment, repayment method, disbursement timing, and training should be taken into consideration. IBBL can create new investment mode and scope for RDS investment by further research and study to make the programme sustainable in the long run. Finally, a supportive legal environment should be developed by the policymakers for such kind of projects for the sustainable socio-economic development of the country.

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