

Economic Development of Bangladesh: The Role of IBBL

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Abstract: *This paper presents the role of Islami Bank Bangladesh Limited (IBBL) to the recent economic development in Bangladesh. The study analyses published texts, articles, websites and annual report of this bank through a content analysis. Key findings of this study manifest the contribution of this bank in different areas of economic development in Bangladesh like generating employment, earning foreign remittance, strengthening rural economy, promoting ecology and green banking, boosting industrialization, developing the SMEs, assisting in foreign trade (import-export), developing the housing sector etc. This study also identifies IBBL's significant contribution to the national exchequer. This paper contributes to the field of economic development of Bangladesh and the role of IBBL behind it and fills the gap of literature in this specific area.*

Keywords: Economic Development, Bangladesh, Islami Bank Bangladesh Limited (IBBL)

1.0 Introduction:

A bank is a financial institution, where people deposit their money and also use this institution as a source of possible finance. Banking in the form in which it exists nowadays is comparatively of recent origin [1]. Before the advent of modern banking, direct finance, where the owner of capital would deal directly with the user of capital, was the customary mode of transference of funds from savers to investors. Today, banks are organizations engaged in any or various functions

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i.e., receiving, collecting, transferring, paying, lending, investing, dealing, exchanging, and servicing money /claims to money both locally and internationally [2].

Bangladesh is a country suffering from immense social, political, economic and environmental issues and these issues need to be addressed for the overall development of this country. However, the economic development is one of the prime factors, which can resolve many of its current problems. The growth of business sectors and the open market economy has created a great opportunity for Bangladesh towards development. The contribution of the banking sector is playing significant role in the economic development of this country. However, the emergence of Islamic banking in Bangladesh has added a new height in the banking sector. The role of IBBL seems to be overwhelmingly surpassed all the banks in Bangladesh during the last one decade.

Economic development refers to changes that affect a local economy's capacity to create wealth for local residents [3]. Economic development for Bangladesh can be identified through number of indicators, including GDP growth, poverty issues, employment, healthcare, environment, education, trade and commerce etc. This study clearly identifies that during last 29 years, IBBL has been contributing to improve Bangladesh economy through making positive changes to most of its economic indicators.

The core question addressed in the study was: What role IBBL has been playing towards the economic development in Bangladesh? This study contains a few steps. Firstly, the introduction of this paper has been placed; secondly, the relevant literature has been reviewed; thirdly, the research context, Bangladesh has been presented; fourthly, the origin and development of Islamic banking and the commencement of IBBL's journey has been briefed; fifthly, methodological framework of this study and its relevance has been explained; sixthly, the role of IBBL in different business sectors of Bangladesh has been described; seventhly, noted the limitations and finally, summarised and concluded the paper.

2.0 Relevant Literature review:

Historically, banking system has significant role in the economic development (4). On one hand, banks give the security of savings of the general people; on the other hand, lend money to the entrepreneurs

to start a new business or expand an existing one, which ultimately generate employment within an economic territory. Modern banking system is involved in numerous financial services activities starting from lending money to exchange money nowadays [5].

The aim of Islamic economics is not only the elimination of interest-based transactions and the introduction of the *Zakah* system, but also the establishment of just and balanced social order free from all kinds of exploitation [6]. The principles of Islamic economics recommend interest-free and equity-based financing through the Islamic banking system. A great scholar on Islamic economics, Ahmad says that elimination of interest does not mean zero-return on capital [7]. Rather, Islam forbids a fixed predetermined return for a certain factor of production i.e. one party having assured return and the whole risk of an entrepreneurship to be shared by others. Instead of interest, Islamic economics introduced profit and loss sharing based banking transaction that spreads the risk between borrower and the lender, which made Islamic banking fundamentally different from the conventional interest based banking.

Referring to the existence of Islamic banking amid conventional banking system and economy, Sarkar expresses that Islamic banking system can provide efficient banking services if they are supported with appropriate banking laws, and regulations [8]. Islamic banks are facing immense national and global challenges, when it is making financial transactions, trading or as a working partner. However, if appropriate laws and regulations persist in a society or at the global level, Islamic banks can manifest its performance appropriately.

Two prolific writers of Islamic finance, Ahmad and Hassan remark that Islamic banks in Bangladesh came into existence with certain objectives, in line with the philosophy of Islamic economics that imply a direct and specific responsibility on their part to play an effective role in the socioeconomic development of the country [9]. Islamic banks in Bangladesh following the Islamic philosophy of banking, performing better than many conventional banks, gained widespread support from the customers and contributing significantly in the socioeconomic development of Bangladesh.

Defining economic development, Pokrant refers to the raising of the productive capacity of a country through the introduction of policies designed to enhance the productivity of land, labour and capital, raise

standards of living and reduce or alleviate poverty of the inhabitants of the country [10]. Though there are a number of definitions exist, it is generally understood that economic development refers to the standard of living of the citizens improved through alleviating poverty and increased productivity. Also Kifle, Olukoshi, Wohlgemuth support this idea that there is a strong relationship between poverty alleviation and economic development [11].

Hassan views that the successful launching and operation of Islamic banks in Bangladesh has established that banking without interest is feasible. He also observes that Islamic banks have brought together many new depositors and entrepreneurs under the banking system [12]. It has been found that these depositors and entrepreneurs have got the opportunity to practice *Shariah* based banking and fulfil their religious obligation. Alam describes the reasons behind the success of IBBL and narrated that in addition of *Shariah* compliance, senior officials of the bank also keep a regular contact with customers and bank managers frequently visit them in their places of business. Referring to the chief of the Investment Department of the IBBL, Alam commented that though this bank initially faced some challenges, the situation is getting better than before [13].

3.0 Contextualizing the Proposed Research:

Bangladesh is a country, where IBBL operates, suffers from immense economic, social and environmental challenges. These challenges are described below:

Economic challenges in Bangladesh: Bangladesh has been facing severe economic challenges. Total population of this country is 149 million; out of which approximately 50 million live below the national poverty line [14]. The Bangladesh economy suffers from half a billion dollar trade deficit in recent years [15]. Having an annual budget of USD 20 billion [16], the country is struggling to meet the basic needs for its citizens. Due to widespread poverty, 40 percent children and 30 percent mothers suffer from moderate to severe malnutrition [17]. Despite liberal policies, Bangladesh economy has been suffering due to a number of factors including poor infrastructure, absence of skilled labour and mid-level technical expertise, an underdeveloped legal system, constraints originating from the limited size of domestic market, the law and order situation, bureaucratic red tapping and weakness of institutions [18]. Moreover, widespread corruption in public sector is also hampering the growth of Bangladesh economy.

Social challenges in Bangladesh: The country has also been suffering from severe social challenges. Bangladesh is a country where 40 percent of the people go to bed hungry every night; another 40 percent of the people are chronically malnourished and stunted; it is a country where too many mothers die at childbirth, where too many infants die before they reach their first birthday [19]. Disabled citizens are great burdens in many families, especially in rural Bangladesh [20]. Care of these disabled citizens on government funds appears to be impossible in a poor country like Bangladesh. Acid attack on women is another major issue, which is mainly due to the refusal of marriage proposal and failure to give dowries to the husbands. The rise in acid attacks needs to be understood not only in relation to existing gender inequality, but also within its complex and shifting socioeconomic, political, and cultural processes as they intersect with neoliberal development policies and globalization [21].

The banking sector of Bangladesh plays a vital role in the economy and can address some of the above challenges. Islamic banking system is becoming popular since 1983 over the conventional banks. In addition to the six Islamic banks in Bangladesh, almost all the banks (except Janata Bank) are having Islamic banking windows including the foreign banks. Most of the Islamic banks are performing well. IBBL is playing the leading role in the banking sector for last one decade due to its excellent performance. This bank also received widespread acceptance among its consumers through its quality services as well as through the wellbeing initiatives towards the society by the Islami Bank Foundation.

4.0 Origin and development of Islamic banking system and the commencement of IBBL's journey:

Islamic banking refers to a banking activity that is consistent with the principles of the *Shari'ah* (Islamic jurisprudence) and its practical application through the development of Islamic economics [22]. Islamic banks have the following specialized characteristics: a) to achieve certain philosophical missions of Islamic banking (conforming with Islamic laws, practices and principles; b) to provide finance to those who have the talent and the expertise but unable to provide collateral to the conventional banks; and c) to create harmony in the society based on the Islamic concept to achieve economic, financial, and political stability. Dubai Islamic Bank, world's first fully-fledged Islamic bank, was established in 1975. In the same year, Islamic Development Bank was established as a follow-up of decision of

Conference of Finance Ministers of Muslim Countries. Today, Islamic banks and financial institutions are enjoying remarkable growth globally with estimated asset of US\$1.1 trillion in 2012, a significant jump of 33% from 2010 level of US\$826 billion [23].

Many conventional banks around the world opened Islamic banking windows. In Australia, both Westpac and National Australia Bank have taken steps to enter into Islamic banking parallel to their conventional system. Islamic banks are based on *Profit* and *Loss* Sharing (PLS) system, rather than *interest*. These banks are socially responsible while providing finance and are monitored by expert bankers side by side guided by the *Shariah* (Islamic law) *Board*. Islamic banks do not lend money to the tobacco industry, gambling industry, production of goods that damage physical or mental health or harmful to the environment or any product or service industry involve in unethical practices. These practices have close proximity to the SRI (Socially Responsible Investment) of the western world.

5.0 Methodological framework-Content Analysis:

For the purpose of this study, Content Analysis has been considered as the most appropriate research method. Content analysis is a method used to record the extent and issues of different contents like relevant materials and documents. To understand the roles and contributions of IBBL in Bangladesh economy, we explored the contents of the ‘Annual Report– 2010’ of the bank including relevant articles, books, periodicals and websites. Content Analysis engages the identification of particular issue within the texts, which can be classified under headings, and then analysed. Conducting a content analysis in the current study involves the following steps: choosing the documents to analyse, selecting the categories/sections within the annual report/manuals/documents and measuring the reliability of data/information.

6.0 Finding and Analysis:

The authors, through a detailed content analysis, found the pieces of information that have been placed below, which answers the research question, “What role IBBL has been playing towards the economic development in Bangladesh?”

6.1 Role Towards Employment Creation:

IBBL has significantly contributed in the employment generation in Bangladesh. The bank has employed over 10,000 people directly and a

few millions indirectly through financing in businesses including import-export, industrialization, SME financing and rural development projects. So, it can be apprehended that millions of families are directly and indirectly benefited from IBBL and these families are also contributing in Bangladesh economy in various ways. According to Rashid, Hasan and Ahmad, Islami Banks along with IBBL are providing satisfactory community service through job creation and ensuring consistency in service provisions [24].

6.2 Role in Earning Foreign Remittance:

Remittances by migrant workers' play a vital role in the economies of many labour-exporting countries [25]. Remittances help in macroeconomic development process in the home country as it provides significant sources of foreign currency, increase national income, finance imports and contribute to improve the balance of payment situation. Demand for migrant workers remittances to Bangladesh has now increased tremendously. During FY 2010-11, remittance inflow to Bangladesh was 82,992 crore taka (US \$11.53 billion). Because of clients' confidence on the IBBL's remittance management, it claimed 28% market share helping Bangladesh economy to become healthier.

6.3 Role in Strengthening Rural Economy:

To make the rural poor self-reliant, IBBL has initiated Rural Development Scheme (RDS). During FY 2010, RDS performance became better than ever, which is operating in 12,000 villages, 21,000 centres, among more than 500,000 members and will expand to all over the Bangladesh in the coming years [34]. The amount of cumulative disbursement through this Scheme stood at Tk. 3,184 crore (US \$400 million), up to December 2010. Through RDS, IBBL operates Humanitarian Assistance Program, Education Program, Capacity Building Program and Health & Medicare Program. A study conducted by Rahman, Jafrullah and Islam analysed many facets of the RDS and they conclude that IBBL's RDS is a successful project. They also identified that household income and expenditure of the RDS participants had increased significantly and clients had a positive opinion towards this micro investment program as it improved their overall standards of living [26].

6.4 Role in Promoting Ecology and Green Banking:

Green Banking is known as ethical, social or sustainable banking concerned with the social and environmental impacts of its

investments and loans. A truly green bank will reduce its carbon footprint by building more efficient premises, branches, implementing more efficient operational procedures promoting sustainable banking and increasing their investments in environment-sensitive industries. IBBL insists on going green to help the environment by promoting its Online Banking, Mobile Banking or the idea of socially responsible investment funds for sustainable/ eco-friendly project finance. IBBL's Green Banking practices are connected with both internal operation and product ecology. Referring to its green banking initiatives, Hassan and Latif express that Islamic banks can develop Islamic financial products (such as green product), which will contribute to the environment, such as energy efficiency finance or leasing of environmental technology [27].

6.5 Role in the Country's Industrialization:

As per investment policy of IBBL, top priority has been given towards the industrial development of the country. The bank's Investment portfolio is gradually being increased towards industrial finance along with commercial investment. IBBL's investment in industrial sector is substantially higher compared with those of other commercial Banks. Total investment for projects finance together with working capital stood at Tk.14,911 crore as on 31st December 2010 as against Tk.11,488 crore as on 31st December 2009 resulting in 29.80% growth. IBBL has invested in a wide range of businesses including in textile & garments, steel & engineering, agro based industries, food & beverage, poultry & hatchery, chemical & petroleum, printing & packaging, plastics & ceramics and hotels & restaurants. A study by Alam supports the above notion [28].

6.6 Role in the development of SMEs:

The role of Small and Medium Enterprises (SMEs) is indispensable for overall economic development of a country particularly for developing countries like Bangladesh. Since this sector is labour intensive, effective utilization of this sector can help increase national income, rapid employment generation, achieving Millennium Development Goals (MDGs), eradicate extreme poverty and hunger, gender equality and women empowerment. Considering the potential of the SMEs, IBBL has given due importance in the development of this sector. For example, total SME investment of IBBL reached to Tk. 78,456 crore (US \$11 billion) during 2010 which was 37.26% higher compared to Tk. 57,159 crore (US \$8 billion) during 2009. A study by Hamid

reveals that IBBL provides the idea about how small entrepreneurs can be developed through an Islamic way [29].

6.7 Role in International Trade:

IBBL plays significant role in the Bangladesh's international trade. IBBL is helping the economy by providing assistance in importing raw materials on one hand; helping the export businesses and earning foreign currencies for Bangladesh, on the other.

Import: During the year 2010, IBBL opened 46,736 import L/C for Tk.24,628 crore against 38,717 L/C for Tk. 16,123 crore in 2009 showing 53% growth in amount. Major items of import were raw cotton, yarn, fabrics, capital machinery, fertilizer, metal, motor vehicle, chemicals, edible oil, rice, scrap ship etc. **Export:** During the year 2010, IBBL handled 46,699 export bills for Tk.14,842 crore against 44,291 export bills for Tk. 10,642 crore in 2009 showing 39.46% growth in amount. Major export financed items were readymade garments, frozen foods & vegetables, jute & jute goods etc.

6.8 Role in Housing Investment scheme:

IBBL has taken massive initiative to invest under the Housing Investment Scheme for the eligible citizens in the major metropolitan cities. With limited income, upper middle class and middle class can take the advantage of this program. This program is popularly known as Hire Purchase under *Shirkatul Melk*. Investment through this mode is solving accommodation problems in the major cities and at the same time contributing to the economy through a wide range of backyard linkage industries including rod, cement, wood, tiles & fittings, equipment as well as employs a large number of construction related staff.

6.9 Contribution to the National Exchequer:

IBBL has been able to contribute huge amount to the government exchequer as income tax out of its profit. The bank paid the highest tax to the Govt. in the banking sector by paying corporate tax Taka 411 crore (US \$57 million) in the year 2010 and Taka 325.32 crore (US \$45 million) in the year 2009. This revenue income is significant for Bangladesh government compared to its total review income, which is an indicator for the economic development of the country.

7.0 Limitations:

Though IBBL is playing significant role in developing Bangladesh economy, but all relevant data could not be procured from the relevant

industries, who were financed by IBBL and contributed to the Bangladesh economy as well. Authors could do more in-depth study, if they had more time to work on this project.

8. Summary and Conclusion:

IBBL is one of the fastest growing and best performing banks in Bangladesh. Because of its excellent teamwork among the top management, staff, borrowers, depositors and other stakeholders as well as outstanding banking performance, this bank has secured a very strong position in Bangladesh banking sector. IBBL has invested in a wide range of areas that not only reduced the risk of investment, but also providing services to a large number of Bangladeshis in home and abroad. This study has portrayed clear a picture of IBBL's role in the economic development of Bangladesh. If this trend remains continued, IBBL's contribution will make significant impact on the social and environmental issues in the near future, in addition to the economic wellbeing of the country.

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