

**INVESTMENT METHODS OF ISLAMIC BANKING
TOWARDS
CONSUMER'S WELFARE AND POVERTY REDUCTION
PERSPECTIVE BANGLADESH.**

**A DISSERTATION PRESENTED TO
UNIVERSITY OF DHAKA**

FOR THE DEGREE OF MASTER OF PHILOSOPHY

PREPARED BY

**MD. TAWHIDUL ISLAM
B.S.S. (Hon's), M.S.S (ECONOMICS)
M.phil ROLL NO-401, SESSION 2003-2004
FACULTY OF BUSINESS STUDIES
DEPARTMENT OF BANKING
UNIVERSITY OF DHAKA
DATED ON SEPTEMBER, 2010**

RB

332.66

ISI

M.P.L.

449637

ঢাকা
বিশ্ববিদ্যালয়
গ্রন্থ

**INVESTMENT METHODS OF ISLAMIC BANKING
TOWARDS
CONSUMER'S WELFARE AND POVERTY REDUCTION
PERSPECTIVE BANGLADESH.**

A DISSERTATION PRESENTED TO
UNIVERSITY OF DHAKA

FOR THE DEGREE OF MASTER OF PHILOSOPHY.

Dhaka University Library

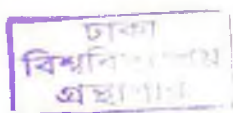
449637

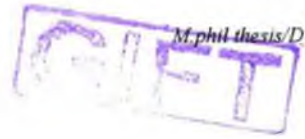


449637

PREPARED BY

MD. TAWHIDUL ISLAM
B.S.S. (Hon's), M.S.S (ECONOMICS)
M.phil ROLL NO-401, SESSION 2003-2004
FACULTY OF BUSINESS STUDIES
DEPARTMENT OF BANKING
UNIVERSITY OF DHAKA
DATED ON-SEPTEMBER- 2010





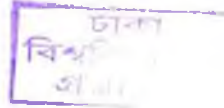
Supervisor

27 SEP 2010

27 SEP 2010

Dr. A. R. Khan
Professor and Founder Chairman
Faculty of Business Studies
Department of Banking
University of Dhaka.

449637



DECLARATION

I the undersigned do hereby solemnly declare that the total work of M.phil thesis has been carried out by me and not been previously submitted to any other local Public/Private University/foreign University/Research Organization for award achievement of the same.

The work I have presented does not breach any existing copyright and no portion of this report is copied from any work done earlier for a research degree or otherwise.

449637

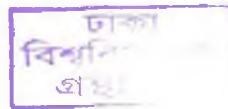
I further undertake to indemnify the Banking Department against any loss or damage arising from breach of the foregoing obligations.



(Md. Tawhidul Islam)
Signature of the researcher.

27.09.2010

Dated on



Acknowledgements

Since 2001, when I was a student of MSS in economics and studied about social research it was dream to me to do something for our society. But social research is not easy task like swimming into the ocean. What should be my research theme and what I should to do to arrive at my objective it was dark to me for long time. Finally I have studied huge research volumes and have decided to do something that will be supportive to our national poverty alleviation. We live in a developing country; low income, low savings, low capital, low investment, low productivity, low output and high unemployment are our regular features like a vicious circle. I have attempted to analyze that modes of investment of Islamic banking are supportive to decrease our national poverty. The consumer who takes the investment facility from any Islamic bank is capable to increase own and social economic welfare and finally participate to minimize our national poverty. Each advantage is possible if the said investment is to be a good investment financed by an Islamic bank.

At first, I express my deepest sense of gratitude to my distinguished supervisor Mr, Dr. Azizur Rahman Khan Professor and founder Chairman, department of banking, University of Dhaka. From beginning of the course work his pleasant guidance, proper suggestions, teaching techniques, handout supply, supervising and monitoring, criticisms, editing were too much cooperative to me to write down this thesis. I also deliver my so deepest grateful to him to inspire me to complete this large work within a certain period of time and undertaking, really I owe to him. I am enormously appreciative to Prof. Md. Muzahidul Islam, Ex-Chairman department of banking, University of Dhaka and a great deal thankful to the Chairman Professor Dr, Md, Rafiqul Islam, and Assistant Prof. Shibli Rubayeatul Islam of Dhaka University who were my teachers of this department. I have acknowledged their suggestions and tools of techniques how to complete a social research.

I am especially grateful to Prof. Dr. Aynul Islam, Prof, Dr. Mohammad Mamun, Prof. Dr. Abul Kalam Azad, Prof. Rahmat Ali Siddiqui etc those are related to the department of economics, Islamic University, Kushtia, I was studied economics by their deep knowledge. I also remember with so debt to Associate Prof. of BIBM Md Abdul Jalil who facilitated me about SME financing studies. I am extremely indebted to my external supervisors who will spend their valuable time to overview this thesis and will make valuable comments. Nevertheless, I will be subsequently delightful if this paper will be granted and evaluated so that it can be used for our national scarcity reduction purpose as a tools & techniques.

IN THE NAME OF ALLAH MOST GRACIOUS MOST MERCIFUL

LIST OF TABLES.

| TABLE NO | CAPTIONS | PAGES |
|----------|---|-------|
| 1 | Investment Avenues, Higher Limits and Duration. | 37 |
| 2 | Categories and the number of activities financed under RDS | 38 |
| 3 | Structure of the Banking System in Bangladesh. | 70 |
| 4 | Distribution of Bank Branches in Different Regions | 70 |
| 5 | Saving as percentage of Gross Domestic Product (GDP) | 91 |
| 6 | Investment as percent of Gross Domestic Product (GDP) | 91 |
| 7 | Small enterprise | 92 |
| 8 | Medium enterprise | 92 |
| 9 | Quantum Index of Production for Medium to Large Scale Manufacturing Industries. | 93 |
| 10 | Summary Information on SME Refinancing (up to June 2009) | 94 |
| 11 | a)Summary information on SME Refinancing from Bangladesh Bank | 95 |
| 11 | b)Summary information on SME Refinancing from IDA(up to June-09) | 96 |
| 11 | c)Summary Information on SME Refinancing from ADB (up to June 2009) | 97 |
| 12 | Size and Growth Rate of Manufacturing Sector | 103 |
| 13 | Year wise Disbursement and Recovery of heavy Industrial Loans | 109 |
| 14 | Number of Industries, Investment, Export and Employment of EPZs | 109 |

LIST OF TABLES.

| TABLE NO | CAPTIONS | PAGES |
|----------|---|-------|
| 15 | Products wise Enterprise, Investment and Employment in EPZs | 110 |
| 16 | Performance Feature of IBBL | 115 |
| 17 | Sector Wise Investment Disbursement & Recovery of IBBL | 116 |
| 18 | Profit rate of IBBL in Accounts (%) | 116 |
| 19 | Investment Balance of IBBL as per Economic Purpose | 117 |
| 20 | Performance Feature of SIBL | 118 |
| 21 | Sector Wise Investment Disbursement & Recovery of SIBL | 119 |
| 22 | Profit rate of SIBL in Accounts | 119 |
| 23 | Investment Balance of SIBL as per Economic Purpose | 120 |
| 24 | Performance Feature of Exim Bank Ltd | 121 |
| 25 | Sector Wise Investment Disbursement & Recovery of Exim Bank Ltd | 122 |
| 26 | Profit rate of Exim Bank Ltd in Accounts. | 122 |
| 27 | Investment Balance of Exim Bank Ltd as per Economic Purpose | 123 |
| 28 | Performance Feature of SJIBL | 124 |
| 29 | Sector Wise Investment Disbursement & Recovery of SJIBL | 125 |

LIST OF TABLES.

| TABLE NO | CAPTIONS | PAGES |
|----------|--|-------|
| 30 | Profit rate of SJIBL in Accounts. | 125 |
| 31 | Investment Balance of SJIBL as per Economic Purpose | 126 |
| 32 | Different Types of Scheme A/C | 136 |
| 33 | Investment A/c | 150 |
| 34 | GDP, GNI, Per Capita GDP and GNI at Current Market Prices | 163 |
| 35 | Medium Term Macroeconomic Framework: Key Indicators | 164 |
| 36 | Trends of Poverty based on CBN Method | 174 |
| 37 | Trends of Poverty based on Head Count Ratio and DCI. Method | 175 |
| 38 | Division-wise Incidence of Poverty (HRC) by CBN Method Investment A/c | 170 |
| 39 | Incidence of Poverty (CBN) by ownership of Land-2005 | 170 |
| 40 | Monthly Household Nominal Income, Expenditure and Consumption Expenditure by Residence. | 177 |

LIST OF CHARTS & FIGURES.

| NUMBER | CAPTIONS | PAGES |
|--------|---|-------|
| 1 | a)Investment decision in conventional Bank | 55 |
| 1 | b)Investment decision in Islamic Bank | 55 |
| 2 | Investment decisions both in conventional & Islamic bank. | 55 |
| 3 | Generalized investment decision model | 59 |
| 4 | The big push theory | 88 |
| 5 | The SME is beginning in Bangladesh | 99 |
| 6 | Number of SMEs | 99 |
| 7 | Weak governance limits growth potential | 99 |
| 8 | Contribution of SMEs | 100 |
| 9 | World SMEs | 100 |
| 10 | SMEs in Asia | 101 |
| 11 | SMEs in Europe | 101 |
| 12 | SMEs in America and Europe | 102 |
| 13 | World Bank Survey 2002 | 102 |
| 14 | Cyclical function in investment | 112 |
| 15 | Survey analyses, answer pattern measurement | 147 |
| 16 | Survey analyses, sample size measurement | 147 |
| 17 | Survey analyses, percentage measurement | 147 |
| 18 | Vicious circle of poverty | 173 |
| 19 | Poverty reduction level | 200 |
| 20 | Poverty reduction level | 202 |
| 21 | Profit distribution | 204 |
| 22 | Percentage of poverty | 205 |

LIST OF ABBREVIATIONS.

| | |
|--------|--|
| LDC | Less Development Countries. |
| SME | Small & Medium Enterprises. |
| RBI | Reserve Bank of India. |
| IDB | Islamic Development Bank. |
| NCB | Nationalized Commercial Banks. |
| PRSP | Poverty Reduction Strategy Paper |
| MTMF | Medium Term Macroeconomic Framework |
| GDP | Gross Domestic Product |
| FY | Fiscal Year |
| GNP | Gross National Product |
| GNI | Gross National Income |
| PCB | Private Commercial Banks |
| FCB | Foreign Commercial Banks |
| SB | Specialized Banks |
| MDG | Millennium Development Goals |
| HES | Household Expenditure Survey |
| FEI | Food Energy Intake |
| DCI | Direct Calorie Intake |
| HIES | Household Income & Expenditure Survey |
| BBS | Bangladesh Bureau of Statistics |
| HCR | Head Count Ratio |
| WB | World Bank |
| WTO | World Trade Organization |
| CIDA | Canadian International Development Agency |
| FDI | Foreign Direct Investment |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Program |
| IBBL | Islami Bank Bangladesh Ltd |
| SIBL | Social Islami Bank Ltd |
| SJIBL | Sahajalal Islami Bank Ltd |
| BB | Bangladesh Bank |
| PLS | Profit Loss Sharing |
| RDS | Rural Development Scheme. |

CONTENTS

| FOCUS | PAGES |
|---|-------|
| CHAPTER-1 | |
| <u>Elementary Section.</u> | |
| • 1.1 Introduction | 16 |
| • 1.2 Abstract | 18 |
| • 1.3 Background of the study | 20 |
| • 1.4 Objectives of the study | 21 |
| • 1.5 Plan of the report | 23 |
| • 1.6 Research Methodology | 24 |
| • 1.7 Review of Literature | 26 |
| • 1.8 Limitations | 40 |
| | |
| CHAPTER-2 | |
| <u>Conventional VS Islamic Banking.</u> | |
| • 2.1 Definition of conventional banking | 42 |
| • 2.2 Definitions of Islamic banking | 44 |
| • 2.3 Features & objectives of Islamic banking | 45 |
| • 2.4 Comparative study of features between conventional & Islamic banking | 47 |
| • 2.5 Comparative study of modes investment/ advance between conventional & Islamic banking | 49 |
| • 2.6 Investment decision model between conventional VS Islamic banking | 55 |
| • 2.7 Present banking structure of Bangladesh | 69 |

CONTENTS

| FOCUS | PAGES |
|--|-------|
| CHAPTER-3 | |
| <u>Investment Modes of Islamic Banking.</u> | |
| • 3.1 Investment methods of Islamic banking | 74 |
| • 3.2 Applicable of the ‘theory of big push’ on Islamic modes of investment | 86 |
| • 3.3 Investment on SME sectors | 92 |
| • 3.4 Investment on large sectors | 103 |
| • 3.5 Economic stability and Islamic banking | 111 |
| • 3.6 Few Islamic Banks: Performance overview | 115 |
| | |
| CHAPTER-4 | |
| <u>Consumer welfare under Islamic Banking</u> | |
| • 4.1 Social welfare services of Islamic banking | 128 |
| • 4.2 Welfare services by IBBL | 130 |
| • 4.3 Welfare services by SIBL | 134 |
| • 4.4 Survey analysis | 141 |
| • 4.5 Increasing level of consumer welfare under Islamic modes of investment | 150 |

CONTENTS

| FOCUS | PAGES |
|---|-------|
| CHAPTER-5 | |
| <u>Poverty reduction under Islamic Banking</u> | |
| • 5.1 Present economic features of Bangladesh | 157 |
| • 5.2 Poverty & its estimation | 165 |
| • 5.3 Poverty in Bangladesh | 170 |
| • 5.4 Measurement of the incidence of poverty in Bangladesh | 174 |
| • 5.5 Policy adopted by Government for rural poverty alleviation | 178 |
| • 5.6 Policy adopted by Government for national poverty alleviation | 185 |
| • 5.7 Survey analysis | 197 |
| • 5.8 Decreasing level of poverty under Islamic modes of investment | 201 |
| | |
| CHAPTER-6 | |
| <u>Problems Identification.</u> | |
| • 6.1 Summary of the findings | 208 |
| • 6.2 Identification of the problems | 210 |
| • 6.3 Conclusion | 212 |
| | |
| <u>Wrapping up</u> | |
| • Bibliography | i |
| • Appendix on the Islamic terms used. | vi |

CHAPTER-1

Elementary section

FOCUS:-

Introduction
Abstract
Background of the study
Objectives of the study
Plan of the report
Research Methodology
Review of Literature
Limitations

1.1 Introduction

Now a days world is understanding a number of economic troubles including poverty of a large population of mankind, socio-economic injustice, gross inequalities of income and wealth, high rates of unemployment's, economic instability, inflation and erosion of real value of monetary assets. All this maladies, in spite of being in conflict with the value system of Islam, are as established in the Muslim world as elsewhere. Nevertheless, the failure to provide a stable and just money and banking framework has been one of the major contributing factors. No economic system can sustain its strength and vigor or contribute positively to the achievement of its socio-economic goals without the support of reasonable and equitable money and banking system. It is possible to design such a money and banking framework in the light of Islamic techniques. Islamic banking system is such kind of technique that can change the economic inequalities from the society.

Banking plays a pivotal role in the development process of a country. It assists accelerate the pace of development by securing uninterrupted supply of financial resources to people engage in numerous economic activities. The tremendous development that the world economy has experienced in the last few decades was contributed by several factors among which growing institutional supply of loan able funds must have played the fundamental role. Both commercial banks and other development financial institutions provide short, medium, and long term credits to businesspersons and entrepreneurs who usually take the lead in ventures of economic developments. Islamic banking is illustrated as a system of financial intermediation that avoids receipt and payment of interest in its all transactions and conducts its operations in accordance with the objectives of an Islamic economy.

In recent years, the Islamic Banking movement has demonstrated an encouraging growth, Banking without interest, which was a theoretical concept for long time, is being practiced in many Countries, especially in Muslim countries, in view of non- interest banking along with conventional banking. There are also countries that have opted for switching from conventional banking to Islamic banking. Whatever strategy they use, the countries have a strong belief that the Islamic Banking can work effectively and completely along with the conventional banking in promoting the economic development in their respective jurisdiction. For the success of Islamic Banks with the ever encouraging results, government, legislators, monetary authorities and all concerned parties feel to be conversant with such banking activities and recognize the services by which these banks

have become capable of contributing to their local economy with their success in winning over a large number of depositors and in entering the various sectors of the national economy. The emergence of Islamic Banking in Bangladesh and other parts of the Muslim world has brought the issue of their relationship with regulatory authorities to the fore front. The importance of this issue is underlined by the worldwide interest in the supervision of banks following the crises faced by the banking sector during the past two decades and establishment of stringent rules for regulating traditional banks and their capital.

Islamic banking is based on the Islamic legal concepts of partnership and profit-loss sharing system. While Islamic banks engage in and provide all other forms of conventional banking services such as; safe keeping, transfer, letter of credit, remittance transfer and other off balance-sheet items. The credit operations of Islamic banks are said investment. When money is deposited with an Islamic bank, the bank in turn makes investments in different forms, approved by the Islamic Shariah with the intent to earn profits. Investment is the action of deploying funds with the intension and expectation that they will earn a positive return for the owner. Funds may be invested in either real assets or financial assets.

When resources are spent to purchase fixed and current assets for use in a production process or for a trading purpose, the investment is in real assets. On the other hand, the purchase of a legal right to receive income in the form of capital gains or dividends would be indicative of financial investments. SME financing is such type of financing that rural poverty can be declined by this financing. Most of the banks of Bangladesh have been practicing SME financing under their huge type of credit operations. There are few investment methods of Islamic banking which are applied in financial sectors to achieve economic development that would result keeping consumer welfare and finally reducing poverty.

Our goal of the study is to prove that consumer or beneficiary or borrowers can enjoy more satisfaction to avail investment facility from Islamic Banks than conventional banks due to interest free banking system. The consumers can achieve more social welfare to provide their funds to produce halah (not prohibited in Islam) goods. As the theory of big push if the investment position of Bangladesh will increase highly in a certain period of time the growth level will rise up speedily. On this regards increasing investment increasing capital increasing output will minimize unemployment so that our national poverty will be reduced. This study therefore makes an attempt to assess that the modes of investment by Islamic banking enable to reduce level of poverty perspective Bangladesh.

1.2 Abstract

Banks and Financial institutions are very much essential for the overall development of a country. As financial intermediary, a bank plays a crucial role in the any economy. The development of a country depends largely on the efficient functioning of its banking system. It helps to create entrepreneurship in the economy, mobilization of the resources, capital accumulation, and allocation of funds. In the era of globalization market economy and liberalization of trade, the importance of banking system as well as its smooth functioning is very important. Modern banking system tends to online banking system so that more prompt services can be ensured. The quest to embrace new technology to gain advantage in the market gives the bank a new shape called online banking. It has been using worldwide as a delivery channel to meet, acquire new customers and retain existing customers. This wind of change is also blowing over Bangladesh and now under practicing.

Bangladesh is a developing country and a member of LDCs. Our economic system is mixed. There are 47 different nationalized, foreign and private commercial banks are operating at present in the country. Among them seven domestic Islamic banks and one foreign Islamic bank have been operating. Moreover some private commercial banks have different Islamic banking branches. The prime operations of a bank are deposit collection, investment and foreign exchange business. Conventional banking system is interest based economic system; on the other hand Islamic banking deals their operations in interest free but profit and loss sharing system under the Islamic Shariah. Bangladesh is a country of third world. Poverty, illiteracy, unemployment, over population etc. are the common scenarios of our country which is cyclically moving as a vicious circle.

My aims are to find out any clues from banking sectors for poverty reduction. I think that modes of investment of Islamic banking can be the best instruments for national poverty reduction. I also have compared those conventional VS Islamic banking credit facilities so that consumers can take the decision which one is the best or not. I think that Islamic banking investment facilities will be best aspects to increase consumer welfare for its interest free banking system. Finally I have tried to prove that these kinds of banking arrangement will provide macroeconomic development so that our national poverty can be diminished. This paper is expected to find out the way of poverty alleviation of Bangladesh, on this regard the role of banking sector can able to do something.

The findings, however, will prove that investment methods of Islamic banking can make sure a vital role to reduce poverty by financing to business and developing sectors. Furthermore our target is to psychoanalysis SME financing in rural area so that rural poverty can be alleviated. SME banking has gained special prominence in recent years in developing countries because of the enormous entrepreneurial potential it can unleash if effectively used to finance the small and mid size business units. Most of the governments of the developing countries have been actively supporting the SME initiatives by undertaking policies that facilitate the growth of SME through institutional support and rural financing.

Some of the Islamic banks of our country have started SME financing under their lot of SME units. The beneficiaries of the consumers from the Islamic bank's SME financing would achieve economic welfare if the financed is invested in the respective sectors and properly supervised. It indicates the impacts of interest and dominance of profit loss sharing policy of Islamic banking for overcoming redundancy manpower, implying here two economic models one is for 'Investment Decision Model vs. Conventional & Islamic Banking' and another one is "The theory of big push". Proposed by Prof. Paul N. Rosenstein- Rodan.

In the chapter one I discussed about conventional banking and Islamic banking through in through and finally compared between conventional VS Islamic banking. I tried to show the logic that interest free Islamic banking is more supportive as instruments for national poverty reduction than interest based conventional banking system. In the chapter two modes of Islamic banking investment are discussed. The main summery of the theory of big push is said that developing country need to more investment in dominate sectors in a certain period of time so that all infirmity can be demolished. We have applied the theory of big push in Islamic modes of investment and showed the relationship that if the investment level increased in SME sectors under Islamic modes of investment then unemployment level will be minimized, thus GDP growth will be continued and our macroeconomic framework will be changed to develop. The boost investment should apply in SME sectors other than corporate business for rural development and sustain economic growth.

In the chapter four & five we have submitted our survey analysis to show the consumer welfare and poverty reduction under Islamic modes of investment. A few case study are included into these chapter resulted with increasing consumer welfare and declining poverty reduction. Our rural poverty level is higher than urban scarcity. The main message of this dissertation is that we should more invest in SME sectors to minimize rural poverty.

1.3 Background of the study

Bangladesh is a developing country of third world. Most of the populations are living in rural area. Our national economy depends on agricultural sectors. But the common phenomenon of rural area is non infrastructural development, ignorance, malnutrition, inadequate water & sanitation, superstition, redundancy, scarcity etc. The national economic features of Bangladesh are unemployment, high inflation, poverty, technological ignorance, non industrialization etc. Moreover low income, low saving, low investment, low capital, low output is the common feature of productive sectors like a vicious circle. So I decided to make a thesis paper which would be helpful for poverty reduction.

A huge number of research works are available about poverty. Many researchers have been shown different instruments for poverty alleviation. But none was found that modes of investment of Islamic banks can be the instruments for poverty alleviation. We have tried to analyze the way of poverty reduction in a different sense. Two questions are raised why people will choose Islamic banking rather than conventional banking and how it can be the instruments for poverty elimination. We have answered the question number one in the chapter two in terms of interest free banking system provided by Islamic banks. The answer of question no two is reviewed in the chapter three with the help of two models, one is for 'investment decision model' and another is for 'The theory of big push'. It is also shown that how consumers/clients/beneficiaries of Islamic banks can increase their own satisfaction so that it will increase the whole social welfare. I have tried best of my knowledge to explain the hypothesis with the help of two economic models.

In fine we can say that the background of the research of the poverty or poverty reduction strategy is not a new phenomenon but we explained it in the different sense which is the new aspects of the economy. We used banking sector for vital finance particularly to SME region for poverty alleviation. Bangladesh is developing country. The stock of natural resources like oil, gas, coal etc is so limited those are non-renewal. On this case we need to apply specific techniques for economic development. No country can achieved extend economy without rural development. The level of rural scarcity is higher than urban area. The government should sanctioned more to the ADP plan for rural development in SME sectors. Under Islamic modes of investment of Islamic banking if the consumers invest more into SME sectors our national poverty will be declined. The total objectives of the thesis are to poverty reduction but resulted with Islamic modes of investment are a new phenomenon.

1.4 Objectives of the Study.

Bangladesh is a developing country of third world but it has huge natural resources and over population to be stalwart manpower. One third of the people are cyclically moved under poverty as like of vicious circle. For a strong economic development, a developing country needs more and more financial investment into the productive sectors. To increase investment and output is the main line of attack to poverty alleviation.

The major characteristic feature of any underdeveloped countries like Bangladesh is the lack of entrepreneurial ability. Entrepreneurship is inhibited by the social system, which denies opportunities for creative facilities. “The force of custom, the rigidity of status and the distrust of new ideas and of the exercise of intellectual curiosity, combine to create an atmosphere inimical to experiment of innovation.” The small size of the market, lack of capital, absence of private property, absence of freedom of contract and law and order hamper enterprise and initiative.

The most pertinent obstacle to economic development of Bangladesh is the shortage of capital. This stems from the vicious circles of poverty analyzed above. Poverty is both a cause and a consequence of a country's rate of capital formation. In an underdeveloped country, the masses are poverty-ridden. The most of the people are mostly illiterate and unskilled, use outmoded capital equipment and methods of production. They practice subsistence farming, lack mobility and have little connection with the market sector of the economy. Their marginal productivity is extremely low. Low productivity leads to; low real income, low saving, low investment and to a low rate of capital formation.

Our banking sector is more advanced among the financial apparatus. Conventional banking system is based on interest basis which is counting as compound rates. It does not make a difference to finance to produce goods which are socially harmful or not (haram or halal). On the other hand Islamic banking is one type of banking which deals with the Islamic Shariah, interest is strictly prohibited here but profit and loss sharing business is followed. It does not finance to produce those types of goods which are prohibited by Islam. Islamic banks do not count interest rate as a compound basis as like other conventional banks. On this regard we think that features of investment policy of Islamic banking are better than that of other conventional banking. Islamic banks deal their investment operations under the different modes of investments.

It tends to the producers and consumers towards their optimum welfare so that being makes effective role for poverty alleviation. The specific objectives of this study are as follows:-

- 1).To analyze over all economic situation of Bangladesh, micro and macro economic conditions, scarcity, rural poverty, low investment, low output, unemployment, inflation, stagflation and findings way to overcome.
- 2) To find out the clues for how our national poverty can be reduced. The major problem of developing countries for economic development is the low investment. By increasing investment Bangladesh can minimize its level of poverty.
- 3). To scrutinize overall investment position of Bangladesh and come across how the level of investment can be enhanced. To analyze investment sectors, its possibility, advantages, way & steps, role of financial intermediations to increase investment particularly tasks of Islamic banks of Bangladesh.
- 4).To review the present situation of Islamic Banks of Bangladesh, analysis of their investment policies, modes, SME financing, recovery systems, beneficiaries and comparative performance.
- 5).To prove that interest free Islamic banking principles are superior to conventional bank's interest based principles for boost up investment. Increasing investment growing up output escalating growth rates assist to decline national poverty.
- 6).To establishes the logic that consumers get more satisfaction by financing Islamic bank's modes of investment which will supportive for poverty alleviation. To prove that a consumer of an Islamic bank gets more satisfaction about investment availing rather than of a consumer of any conventional bank. The welfare may arise concerning profit rate, banking service, customer relationship, portfolio management, existing business operations etc.
- 7) The major objective of this study is to alleviate of our national poverty. I think that modes of investment of Islamic bank can be the instruments for poverty alleviation. Such that investment system of Islamic bank increases the consumer satisfaction which is supportive to poverty reduction. We have collected a few practical case study and relevant data to demonstrate the above hypothesis.

1.5 Plan of the report

The whole thesis paper is alienated with six chapters. The chapter one provides Introduction, Abstract, Background of the study and Objective of the study, Plan of the report, Research Methodology, Review of Literature and Limitation of the study. I mentioned as best of work to deliver total summary of the thesis into abstract. Especially intention of the notion is briefly mentioned into the objective of the study. Each research must have some limitations, I narrate it with due excuse into limitation of the study.

The research methodology and review of the literature are conversed in the same chapter. The primary & secondary data collection procedures and other statistical methods of writing research report are discussed into the research methodology of this chapter. A huge number of thesis paper work done well about scarcity but for poverty alleviation of Bangladesh the role of Islamic banking modes of investment is so limited work. I hardly try to explain it with best examples and references from different books & journals.

The particulars of conventional banking & Islamic banking is narrated in chapter no two. Finally the present banking structure of Bangladesh is shown in this chapter. Islamic banking in the different countries is explained here which are operated best successfully. The main feature & objectives of Islamic banking and its source of funds are thrashed out in the same chapter. A comparative study between conventional and Islamic banking is discussed here. By this chapter it is noted that how interest free Islamic banking is superior to interest based conventional banking system and an investment decision model are quoted in this chapter.

The modes of investment are momentarily discussed in chapter no three. The probability of best economic sector for SME financing is mentioned in this chapter with huge figures and charts. The theory of big push is quoted here. Present economic performances of few Islamic banks are discussed in the same chapter. In a special case consumer welfare is explained in the chapter no four. Our main aims of thesis to find the clues for poverty alleviation of Bangladesh are presented in the chapter five. The MDG of UN and PRSP of Bangladesh government are in attendance with this segment. In the chapter six we analyzed summery of the findings and few problems identification. The wrapping up is made by bibliography & appendix.

1.6 Research Methodology

The Primary data: The study is prepared based on both primary and secondary data. The primary data were collected by interview and questionnaire methods from different borrowers/entrepreneurs of different Islamic banks and its relevant consumers. A structured questionnaire has been used to get data on consumer satisfaction about using Islamic bank's financing in their respective fields and its outcomes. Another structured questionnaire is explained for poverty reduction chapter. Moreover few personnel of some banks were interviewed to collect data and shared experience regarding their client's selection procedures and financing policy. A few case studies are discussed about consumer welfare and poverty reduction by practical data collection from few clients.

The Secondary data: Mainly secondary data were used over all the research body. The secondary data were collected from different divisions and departments of Islamic Banks. In addition of these, other necessary information have been collected from the daily news papers, relevant journals, reports, resumes, internet, annual report of the several banks, Bangladesh Bank's reports, publication of Ministry of Finance, Ministry of Planning and from other relevant institutions have also been taken into consideration.

The secondary data collection sources are at a glance:-

- Schedule Banks Statistics, duration 1990-2009
- Bangladesh Bank Bulletin
- Monthly Economic Trends
- Annual Report of Bangladesh Bank
- Annual report of different Islamic Banks
- Bangladesh Bureau of Statistics
- Statistical Year book
- Bangladesh Economic Review-2008 & 2009
- Functions of Banks & Financial Institutions-2009-2010
- Negotiable Instrument Act-1981
- The Companies Act-1913
- The Banking Company Act-1991
- The Bangladesh Bank Order-1972
- Publication of IDB
- Poverty Alleviation & Empowerment, BRAC publication
- MDG, UNDP Publication
- Bangladesh Development Series, WB report.
- Bangladesh Economic Review-2009/10

- Budget speech-2010-11
- Dhaka University Journal of Business Studies
- Islamic Economic Studies
- Asia-Pacific Journal of Rural Development-2006, CIRDAP
- Journal of banking & Financial services, DU.

Information has also been collected from other sources. To this end research works had been reviewed. Theoretically the study was founded on practice and existing literature and research studies conducted on Islamic banking in particular both at home and abroad. Information published by banks governmental organizations and private organizations were also analyzed. Existing theories on Islamic Economics and practice on Islamic banking were used for analyzing the information.

Investment Models: An investment decision model has also been presented in the chapter no two with necessary figures and analysis. After discussion both conventional and Islamic banking feature & objectives we have compared both investment policy and procedures. Some logics are expressed that why modes of Islamic banking investment is superior to conventional banking credit policy for poverty alleviation. By the investment decision model few test are examined like profit maximization test, elasticity of financing test, project efficiency test etc to prove that consumers are more benefited by financing under Islamic modes of investment rather than conventional banking credit system.

The Theory of Big Push: Another economic development model named 'the theory of big push' presented at this juncture in connecting with Bangladesh economic situation said by Prof. Paul N. Rosenstein-Rodan. In the chapter three I applied this theory on Islamic modes of investment. The summery of the thesis that developing country need to invest huge level on specific sectors in a certain period of time. According to this theory Bangladesh need to invest more and more to our leading SME sectors and rural project so that all infirmity in economy can broken down and poverty level will be declined. The investment facility should provide by Under Islamic modes of investment. The social welfare activities of Islamic banks are expressed in chapter no four. Using survey analysis the level of poverty reduction is discussed in the chapter no five.

In fine all the necessary tables, figures and charts have been prepared on the basis of collected data and various statistical techniques have been applied to analyses the model on the basis of obtainable information. Moreover various comparisons have been done through calculating different percentages and ratios and other related tools & techniques.

1.7 Review of Literature

We are living in a world predominated by capitalistic economic system, although many countries have superfluous embellishment of welfare economics. The capitalistic economic system results in the control and owning of the productive resources by a few people who act as the roots for all evils to the majority. Thus disparity and inequality of income become rampant in the society, every morning sees a gradual widening of the inequality, and in the long run the society becomes imprisoned of the capitalist. In this day of globalization and high technology, almost all countries have become prey to unemployment and consequential poverty.

The situation has necessitated the undertaking of pragmatic efforts by the government for alleviation of poverty, with little success in most countries. The failure might be attributed partly to the dominance of economic systems that can not guarantee elimination of inequality of income and wealth, alleviation of poverty because of the systems inherent weakness. Islam is the only way which provides an economic system stands for the overall economy. The operations of Islamic banks are the practical framework of Islamic economic system. Our motion is to analyze the modes of investment of Islamic banks and its successes. Bangladesh is a developing country having low productivity due to insufficient investment facilities from its limited sources of funds.

Economist Prof Paul N. Rosenstein- Rodan says that for economic development of any less-developing country needs to increase boost investment in a certain period of time so that all infirmity and stagflation can be broken down. In Bangladesh, the scope of corporate financing and syndicate financing is limited. With few big financing, a huge number of SME financing services should be taken for poverty alleviation from the rural and urban area of the country.

By SME financing a lot of innovative entrepreneurs will be created in the economy. Islamic banks of Bangladesh would be the supplier of source of funds on this regard using their different investment modes. Our aim to demonstrate that Islamic bank's financing policy supportive for poverty reduction of our country. SME operations are worldwide best economic development strategy of most of the countries.

Our goal of the study is to prove that consumer or beneficiary or borrowers can enjoy more satisfaction to avail investment facilities from Islamic Banks than conventional banking credit facilities due to interest free banking system. The consumers can achieve more social welfare to provide

their funds to produce halal (not prohibited in Islam) goods. As the theory of big push if the investment position of Bangladesh will increase highly in a certain period of time the growth level will rise up speedily. On this regards increasing investment increasing capital increasing output will minimize unemployment so that our national poverty will be reduced.

To provide our plan we have collected a huge number of books and journals but nothing was found similar to this study. A huge number of studies completed about poverty and poverty alleviation but in connecting with Islamic banking investment and its resulting poverty alleviation were not found. Researcher Md. Ataul Huq (article-Mosque oriented Development Model for a Developing Muslim Country-The case of Bangladesh, 1991), Tajul Islam (article-An Islamic Approach to Rural Development-a case for Bangladesh, 1991), and Professor Khursded Ahmed (article-Economic Development in an Islamic Framework, London), have tried to make a framework for poverty alleviation using Islamic modes of investment, we have quoted these. The Rural Development Scheme (RDS) adopted by IBBL is narrated in this chapter.

To the goal of poverty alleviation few Islamic banks have taken different steps for rural development activities using modes of investments we have collected these and discussed bellow:-

Concept of Rural Development and Rural Financing under Islamic Banking Framework

Concept of Development and Rural Development in Islam:-

The concept of rural development is an integral part of the development concept. The concept of development as used in the jargon of modern economic literature does not satisfy the characteristics as enjoined by Islam. While Islam adheres predominance to spiritual and moral aspects as the basis for any sort of development and success both in this world and the world hereafter, the secular concept of development considers the material and worldly aspects alone.¹

¹ The Text Book on Islamic Banking, 2003, Islamic Economic Research Bureau, p-198.

The Islamic concept of development has been derived from four key concepts such as:-

- Tawheed (unity),
- Rabubiyah (sustainer),
- Khalifah (representative) and
- Tazkiyah (purification).

These concepts together present a worldview of human life providing answers to some key questions. These are: why man is created, how he is related to this god, what is the relationship between man and man, and what is the status of man in this world and for that matter what changes is required to be brought about in him.

According to Prof. Khurshid Ahmad.² “The Islamic concept of development is comprehensive and includes moral, spiritual and material dimensions. Development, in Islam, is a goal and value oriented activity, devoted to the optimization of human wellbeing in all these dimensions. The moral and material, the economic and social, the spiritual and physical are inseparable. It is not merely welfare in this world that is the objective, the welfare that Islam seeks extends to the life hereafter and there is no conflict between the two.

The focus of the development effort and the heart of the development process in Islam is man. Development, therefore, means development of the man and his physical and socio-cultural environment. According to the contemporary concept it is the physical environment, natural and institutional- that provides the real area for development activates. Islam insists that the area of operation relates to man, within and outside him. As such human attitudes, incentives, tastes and aspirations are equally important as policy variables such as: physical resources, capital, labor, education, skill, and organization. Thus, Islam shifts the focus of effort form the physical environment to man in the social setting and enlarges the scope of development policy. Among the dynamic principles of social life, Islam has particularly emphasized optimal utilization of resources and their equitable use and distribution and promotion of all human relationships on the basis of Right and justice.

² Ahmed K. *Economic Development in an Islamic Framework*, London: The Islamic Foundation.

Islam commends the value of ‘shukr’ (thankfulness to God by availing of His blessings) and ‘Adl’ (justice) and condemns ‘kufr’ (denial of Allah His blessings) and ‘jilm’ (injustice). Under the above broader conceptual framework of development, the following two verses of the Holy Quran set the redistributive pattern of an Islamic economic system:

*“Resource should not circuit only among the wealthy of you”
“Of your wealth have the right of the poor and the needy.”*

The foregone discussion leads us to a conclusion that Islam stands for a development approach where free and uninterrupted operation of market ensures optimum utilization of resources and encourages a distribution pattern in which resources are circuted back from the well to do to the relatively weak. In order to do that a number of interventions are brought into effect. For example, fiscal and monetary policies, including commercial flow of invested funds, are to be designed in a way that resources are to be channeled to the relatively weak and disadvantaged sections of population. Also, there should be a legal and institutional set up so that wealthy people transfer regularly the due share of the poor and the needy. In addition to voluntary transfer of ‘what they have in excess of their need’ (afwa), the institution of Zakah and Ushr is the classical means of compulsory regular transfer of income/asset from the well-to-do to the poor. Further the provision of qard-al hasan (i.e. benevolent loan repayable without any return) is also an institutional obligation to make available funds to the needy. Thus, the above principles and provisions construct the building blocks for the rural development schemes under the Islamic banking framework.

Rural Financing : Conceptual Basis

There is no rigid and prototype framework for rural financing in an Islamic framework. Along with the essential precondition that the modes of financing must be interest-free, a salient feature of such a scheme might have the following elements. It should have programs that encourage side by side efforts of people from all economic strata helping and promoting growth it should have components, independent or integrated as a wider part of a program, directly benefiting the poor and needy. Finally, the instructional arrangement should be such that it ensures a constant flow and transfer of resources from the well-to-do the weak and disadvantaged.

The concept has strong relevance to the Islamic worldview of life. The transfer mechanism is built-in to the core spiritual pursuit in Islam. That is why admonition of Zakat has immediately followed that of prayer repeatedly in the Holy Quran. The above essential characteristic of a rural development scheme under the Islamic framework reminds us of the shortcomings of the currently practiced poverty alleviation programs in our country. First these programs in spite of being able to reach near 25% of the poor, not the hardcore poor, with micro credits generally not exceeding Tk 5,000/- lack achieving regular income asset transfer. Secondly, borrowers do not have access to their savings. These two shortcomings jeopardize severely the borrower's sustainability. Thirdly, failure to reach the hardcore poor has been a serious setback to the existing rural development programs, for the following reasons:

- (a) fear of low recovery as they may eat up the loaned money to meet their immediate consumption need; and
- (b) that they are out of reach as management cost surpasses returns to be generated from loaned money.

Both the reasons affect lender's sustainability. Fourthly, funds currently available for rural financing are mostly donor contributed which are an unsustainable source. An Islamic rural financing scheme with essential features built-in to its delivery system should be free from the above deficiencies.

Design and Delivery System of Rural Financing under Islamic Banking Framework

Theoretical Construct to rural Development/ Financing:

Initial conceptualization of rural financing schemes before actual experimentation had taken place was thought of to be mosque-centered. Scholars have seen the mosque a place of worship as well as center from where worldly life can be guided in line with the teachings of Islam.

Activities like education, health, sanitation and common welfare services can be organized basing the mosque. In fact, the whole range of social, political, economic and moral issues used to be discussed through the sermons of the Imam either in mosques or in any religious gatherings. Hence for all practical purposes mosque was used as the secretariat of the

secretariat of the Khalifah (the chief executive of an Islamic state). This was manifested in the multi faceted role played by a mosque. Akkas proposed a comprehensive scheme of a mosque-based rural development program in the early Eighties with its design and delivery system.³

He perceived rural development under a set of national development objectives comprising:

- (a) Human resource development;
- (b) Increased and sustained growth of national output within the approved boundary of shariah;
- (c) Improvement in the quality of life through creation of employment, and establishing broad-based social security system where Zakat plays a pivotal role, and
- (d) Equitable distribution of income and wealth.

The rural development in an Islamic framework, as perceived by him, was not merely for material development of the villagers or for a particular section of the village people. Rather it was a total program comprising moral, spiritual and material pursuits within a suitable institutional framework aimed at promoting wellbeing of the people from all strata in the village. Targeted programs for the rural poor were fit in to this comprehensive program as a special component. The development initiatives were expected to over come form the bottom with inspiration and support to come form outside.

The initiative would be a sustaining one in the sense that being a mosque-based development initiative it would have an income-generating component. Further, it would be started on local initiative with locally generated funds, the effort was thought to be supported by some aid giving agency after the preparatory, and extensional phases were over and eventually integrated with national Islamic financial institutions. In the Hoq's mosque-based rural development scheme the following function were assigned to a mosque: -

³ Hassan, M.K. Edited by, (June-2003), *Text Book on Islamic Banking, Islamic Economic Research Bureau. Dhaka.*

- Carrying out spiritual obligations;
- Ensuring security of life and property of the people;
- providing extension/supervision services through the organization of the people;
- Mobilizing and seeking opinion of the masses for government policy decision;
- Resolving social conflicts and establishing justice; Ensuring the provision of social services such as education, health and hygiene;
- Distributing Zakat form Baitulmal among the poor through target oriented schemes;
- Mobilizing resources through Baitul Mail.

Islam took a similar approach and proposed an administrative structure and types of activities to be undertaken by an Islamic rural development program. While specifying program coverage he mentions that the mosque premises primary education socio-economic activities of a village. In the mosque premises primary education during the daytime and adult education in evenings may be organized. Local government activities with programs for agriculture including livestock, and fisheries village court recreational facilities and health service may come under mosque organization. Also, in regards to organization he opines that the local mosque Imam will be the main coordinator and all the Muslims who live in that locality and say their prayers in that mosque will be the general members and other people of that locality will be the beneficiaries. All the Jam-e-Masjid in a union will ultimately make one unit as Union Rural Development Masjid parishad. Then the Unions will make Thana Rural Development parishad and then District, Division, and ultimately the National Rural Development Masjid Parishad. The scheme did not talk about sources of funds and their method of utilization.

Khan has talked about a rural financing structure based on Islamic financing modes applied by Islamic banks such as Bai-Muazzal (deferred payment), Bai-Salam (advance purchase); and Karje Hasana (benevolent loan). In regards to fund mobilization he mentioned equity and deposits borrowing form urban banks or from government would be the sources of funds. With regards to strategy, he considers islamization of the entire society, development of moral character of the individuals, love for mutual interest and disclosure of facts and actual accounts extremely important for an effective financial system in any country, whether it is a rural or urban area. He recommended taking a district on an experimental basis with aggressive efforts to implement the operation of rural Islamic banking by ceasing the operation of all other rural financing agencies working in the area.

Rural Financing program of Islamic Bank Bangladesh Limited (IBBL)

Islamic Bank Bangladesh Limited envisions an economic system based on equity and justice; Taking into consideration that the majority of the population below poverty line live in rural Bangladesh, the Bank has devised a “Rural Development Scheme (RDS)” with a view to create employment opportunity for them and alleviate their poverty through income generation activities.

The IBBL through its RDS project has been implementing integrated programs for the landless poor, wage laborers and marginal farmers aimed at meeting their basic needs and promoting their comprehensive development, consciousness among the poor needs to be enhanced so that they can firm up their position in the socio-economic structure of the country. In order to consolidate their economic base, invested money should be used in income generating activities so the poorer section of the population can become self-reliant. RDS works for the realization of that objective.

Rural Development Scheme (RDS) of IBBL: Goals and objectives:-

The followings are the important objectives of IBBL’s Rural Development Scheme objectives:

- 1) To bring the poorer population within an organizational framework by setting up certain rules and regulations with a view to free them from the curse of poverty and make them self-reliant, thereby converting RDS into a self-reliant sustainable program;
- 2) To extend bank investment to agricultural and non-agricultural sectors in the rural areas;
- 3) To invest on employment and income generation activities of the rural population;
- 4) To provide self-employment for distressed people;
- 5) Socio-economic development of the poor and distressed by group/centre formation;
- 6) To bring both male and female to provide employment under income generation activities and help them to attain self-reliance step by step;
- 7) To continue to support the self-reliance drive of the poor in their search of capital formation from savings they make out of their increased income;
- 8) To help reduce and eventually stop, through enhancement of their income, the lending on high and exorbitant rates of interest by the

- village money-lenders, the advance sale of crops, land and mortgage of land by the poor at the time when they are most in need.
- 9) To follow an approach of comprehensive development side by side with economic development; and
 - 10) To provide financing to develop housing in the area.

Selection of Beneficiaries

The RDS of IBBL is target group-based. Beneficiaries of the plan are thus landless, wage laborers and marginal farmers. Selection criteria for members of the target group are as follows:-

- (a) Farmers owning up to 0.50 acres of land including sharecroppers;
- (b) Persons engaged in non-agricultural activities owning up to 0.50 acres land or landless;
- (c) Permanent resident of the project area;
- (d) Borrower or defaulters of any other bank or organization will by no means be the beneficiaries of the plan;
- (e) Females belonging to the families of the serial 1 and 2 above, interested in income earning projects, but who unable to do so due to dearth of money, may form a group and get the financial support;
- (f) Distressed people may undertake income generating schemes in non-agricultural sectors such as cow/goat/duck/chicken etc for their self-employment;
- (g) Landless to be given priority in selecting target groups whose yearly family income must be below of Tk. 15,000/- only.

Group Formation and Management of the Scheme

Activities of the RDS are organized in-groups. Each group consists of five members. People with the same mentality, age and financial status who are trustful to each other are considered for group formation. Group members should be from the same village. A person being a permanent inhabitant of the village, and owns less than 0.50 acre of land and has annual income of his/her family not exceeding Tk. 15,000.00 is considered eligible to be a member of a group. Not more than one member from a family can be member of a group and the group can not be formed with kith and kin. With these restrictions group members are free to choose their compatriot, as they like. Group members elect their group leader and deputy group leader from among themselves. There can be 2 to 6 groups in a para, mahalla or village forming a Centre. Group leaders and deputy group leaders of all groups, in meeting, elect a center leader and a Deputy Centre Leader.

In order to formalize group and center formation and the election of the group leader, deputy group leader, center leader and deputy center are required to adopt resolutions in which they agree to abide by the rules and regulations of the group/center. A meeting is held weekly, the date, time and place of which are determined by themselves according to their convenience.

Group formation and subsequently emergence of a centre are the result of constant effort and intensive supervision of a field supervisor. Generally a field supervisor is responsible to supervise 40 groups or 200 members. The field supervisor is recruited few a months ahead of the group formation and initiation of investment activates. Soon after the appointment a supervisor is required to motivate people, mobilize support, conduct base-line surveys, form group and organize the group members. Preferably, a field supervisor should be a local person with a minimum level of education.

All of the activities of RDS are coordinated and managed from a branch office of IBBL. A project officer is responsible for reporting the activities to a committee headed by the bank's branch manager. The project officer supervises the activities of the field supervisors in the entire command area of its operation. He provides instructions and suggestion to the field supervisors in implementing new projects. While forming groups the project officer attends the meetings. He organizes training for the group members and ensures, through the field supervisors, the attendance of the group members in weekly meetings. He keeps a constant eye on the investment disbursement, timely repayment of weekly installments, savings deposits, and adherence of other rules and regulations by all group members. Investment vouchers preparation, filing of documents, and production of monthly investment balance sheets are among the other regular activities of a project officer.

Collateral-Free investment Financing

Investment financing under RDS program of IBBL is generally collateral-free extremely rigorous supervision and mutual guarantee provided by each member of the group have become a good substitute for collateral in the traditional sense. In spite of that, strict adherence to group rules and regulations ensures appropriate selection of borrowers. Of course, fish culture in ponds and the purchase of agricultural and irrigation implements require support collateral in the form of an equitable mortgage. Moreover, each member of the group is required to provide a personal guarantee for his group.

Investment Financing: Mechanism, modes and Avenues

Investment financing starts after a three-month observation of the group members in terms of regularity in their attendance in weekly group meetings, center meetings, and the deposit of their personal saving. Two members from each group selected by the group members are considered for investment financing. The rest of the group members become eligible for financing after those members of the group that received a loan have paid their 2 or 3 repayment installments.

Investment proposals recommended by group/ center members and collected by the field supervisor are approved after careful review. Ultimately, the loan is approved by the investment committee, which is headed by the Bank's Branch Manager. The committee is comprised of the Branch manager, the second officer or investment Office, and the Field supervisor. The Investment Committee meets once in a month. Upon approval of an investment proposal by the Investment Committee, the appropriate documentation for the typos of financing going to extended must be completed. Banking as well as shari'ah rules and required to be followed appropriately.

The following Islamic modes of investment are applied for investment financing of the group members:

| | |
|--|--|
| <ul style="list-style-type: none"> • Musharakah • Mudarabah • Bai-muazzal | <ul style="list-style-type: none"> • Murabahah • Hire-prurchase • Bai-salam |
|--|--|

Recovery Process

It is believed that the banks best chance for successful recovery is dependent upon properly structuring the installment payment. The amount and number of installments should be based on earnings from the investment and the time interval it takes for one investment-gestation-return cycle. The following considerations are taken into account while determining the appropriate installment payment:

- For the non-agricultural sector installments may be made on a week/ monthly/ quarterly basis. Weekly installments are preferred since the frequency of the short intervals often times lead to more successful recovery. Usually a payment schedule requiring 45 fixed installments of principal and profit are prescribed, allowing a two-week gestation

period. This payment schedule allows for up to three missed installments, two installments are not required during Eids and one installment may be missed in the event there is an accident.

- Determination for the appropriate installment frequency in the agricultural sector depends on the cropping cycle. In case of vegetable and green curry production, weekly installment allowing a longer gestation period is suggested.
- Generally all investments are repayable in weekly equal installments. In exceptional cases, with income generated beyond the date of the installment payment a timely token payment is advisable followed by payment of the residual amount along with the next due installment.

Avenues of Investment

Other than agricultural activities seven categories of non-agricultural activities in the rural areas are financed under the RDS program of Islami Bank Bangladesh Limited. The categories and the types of activities financed under each category are presented in the following table.

Table(1) : Investment avenues, Higher Limits and Duration.

| Investment Avenue | Higher Limit | Duration | Remarks |
|---------------------------------------|---------------------|------------------------|--|
| Crop production | Tk.10,000/- | Highest 1 (one) year | Crops of 21 varieties |
| Fish cultivation in ponds | Tk. 25,000/- | Highest 3(three) year | |
| Irrigation | Tk. 5,000/- | Highest 1 (one) year | According to need |
| Agriculture and irrigation implements | Tk. 25,000/- | Highest 3 (three) year | 10% borrowers equity |
| All non-agricultural sectors | Tk. 10,000/- | Highest 1 (one) year | For 343 non-agricultural items payable in weekly installment |
| Rickshaw, van and rural transports | Tk. 5,000/- | Highest 2 (two) year | payable in weekly installment |
| Hand Tube well | Tk. 3,000/- | Highest 3 (three) year | |
| House building materials | Tk. 15,000/- | Highest 3 (three) year | |

Sources: The Text Book on Islamic Banking. IERB, P. 208

Table (2):Categories and the number of activities financed under RDS.

| Activity types | Types of activities |
|---------------------------------------|---|
| 1. Manufacturing and processing (126) | Bamboo works, cane works, pottery, muri making, snacks making, tailoring, sugarcane crushing, mending works, tin production, rickshaw making and mending, sweeping materials, sweet meat, furniture making, medicine production, umbrella mending, cake preparation, plastic works, net making, thread purchase, drum purchase, house mending, wool works, wheel mending, box mending, nut processing, kantha making, rickshaw-hood making, iron materials making, cap making, thread work, pickle preparation, printing works, tin purchase, radio mending, misri making, sawing, laundry. |
| | works, procurement of machinery, candle making, sanitary works, welding, embroidery, dry sweats making, metallic net making, sweet cake preparation, cow-dung fuel balls, toy making, packet making, nimki making, cosmetic production, spectacle making, flour making, comb making, mosquito net making ghee making, rope making, lamp (kupi) making, chanachur making, jute goods fabrication, shoe making, mosquito coli making, hand fan making, quilt making, mustard oil making, jewelery works, chun making, mat making, chira making, saree making, etc. |
| 2. Service activities : (33) | Rickshaw, barber shop, hiring of irri pump, sale of news parpers, curt, bullock curt, mike hiring, feri boat, livestock treatment, horse curt, buffalo curt, dentist, boating, decorator service, baby taxi, construction works, sewing machine, rice machine, bi-cycle purchase, spray machine purchase, carpentry, wheat mill, van procurement, electric iron purchase, fan making/ mending etc. |
| 3. Trading (82) | -- |
| 4.Shops, 74 activities | -- |
| 5.Hacking: 5 activities | Bamboo basket, old cloths, peanuts grocery |
| 6. Nursery : | Vegetables, water melon cultivation, ginger cultivation, brijal cultivation, turmeric cultivation, bamboo production, papaya production, chilli production and onion production. |
| 7. Livestock raising 13 activities | Milking cow, bullocks, cow fattening, poultry raising, sheep raising, duck raising, buffalo rearing, bees raising, pigeon raising etc. |

Sources: The Text Book on Islamic Banking. IERB, PP, 208-209.

From the above discussion we have found that rural development is more essential for sustain economic development of a country. Each developing country has taken the first step for economic growth is rural development activities. Bangladesh is a developing country in which most of the people are lived in rural area. Islamic banks have made a framework for rural development under their Investment modes.

The researcher Mr. Akkas have emphasized on rural human resources development and enhanced to improve social security system by using Zakat fund proper utilizing. Mr. Huq emphasized on Mosque-based different rural educational and development schemes using Islamic economic activities. Khan talked about rural financial operations based on Islamic financial modes of investment. Under the RDS programs IBBL applied their different activities for rural poverty alleviation. Finally some financial operations under Islamic modes of investment and its level of progress are shown in above tables.

Under the RDS projects the IBBL classed different professions of rural people and make an investment fund for their need. The fund obviously is made by Islamic modes of investment and finally it applied to the consumers. The villagers who are land less and poor they are unable to take any credit facility from conventional bank against collateral security but IBBL financed them without security under Islamic modes of investment. The IBBL financed in different field like corps, fisheries, horticulture, livestock, poultry firms, hand made products etc. The recovery situations of rural area are quit satisfactory. All are applied for poverty alleviation and observed that modes of investment of Islamic banks are the mechanisms of poverty reduction. The situation of rural poverty is the part of national poverty. Rural development activities are quite supportive to minimize our national poverty. Other Islamic banks of Bangladesh are started their different rural development projects for poverty alleviation like IBBL.

From the literature review it is seen that all researcher tried to make a plan to do something for rural poverty alleviation. They proposed for different economic activity by Mosque based and Zakat based in the rural area. They used Islamic modes of investment in proposed economic activities. In whole thesis paper our aims to prove that modes of investment of Islamic banks are the main mechanism for poverty alleviation. We have collected a huge number of articles or research report about poverty but none was found similar to this research topic. Therefore this work will help to provide evidence that modes of investment of Islamic banking are the mechanism of poverty reduction perspective Bangladesh.

1.8 Limitations of the study

A huge number of studies were completed about Islamic banking and modes of investment and its related wings. But our topic is quite different. Our aims are to compare conventional VS Islamic banking credit facilities so that consumers can take the decision which one is the best or not. We think that Islamic banking investment facilities will be best aspects to increase consumer welfare especially economic wellbeing for its interest free banking system. Finally we try to prove that these kinds of banking arrangement will provide macroeconomic development so that our national poverty can be diminished.

For all kinds of research, books journals and relevant data need to available for smooth functioning. But supporting this thesis topic we could not find availability of relevant data, up-to-date books, journals, publications, articles, secondary data and information. A very few reference materials were collected from Islamic Bank Training and Research Academy (IBTRA), Dhaka University Library, UN library of Dhaka, Chittagong University Library, Islamic University Library, Bangladesh Bank Library, BIBM, website and other relevant source and organization. Moreover I have collected financial statement position of annually published of few Islamic Banks like SIBL, IBBL, SJIBL, Al-Arafah bank Ltd, First Security Islamic bank Ltd, Exim bank Ltd etc. But I was not able to collect same research topic that I have done or partially related to me. So I have faced various kinds of problems for collecting information, books, journals, magazines, publications and taking interview of some beneficiaries of Islamic banks. I have some constraints including time, cost, books, illness, communication and family bindings etc.

Notwithstanding all such limitations, some valuable thoughts, information, idea were gathered from the relevant publications and research institutions through correspondence. I especially am indebted to Islamic Economic Research Bureau from which I have collected necessary supporting papers. In the whole thesis we have discussed conventional bank & Islamic bank separately in the chapter two. In the chapter three & four modes of Investment, consumer welfare & poverty reduction were conversed. Few specific consumer welfare benefited by Islamic bank financing using modes of investment were analyzed in chapter four. Finally problems identification is derived in chapter six. All considerably were helped to enrich my knowledge to write down this research report. Particularly I remember my teachers, classmates, friends and executives of different banks to complete this research report. I am thankful to all.

CHAPTER-2

Conventional VS Islamic banking

FOCUS:-

Definition of conventional banking

Definitions of Islamic banking

Feature & objectives of Islamic banking

Comparative study of features between conventional & Islamic banks

Comparative study of modes between conventional & Islamic banks

Investment decision model between conventional VS Islamic banking

Present banking structure of Bangladesh

2.1 Definition of conventional banking

Bank is a business organization. Like all other business institutions, banks major objective is also to earn profit. It is mentionable that banks do not sell ready goods like other producers. But definitely, a bank is a service-selling institution. The service of a bank is considered as its product. So, many people say that a bank is that kind of business institution whose profit earning will be impossible by selling more if its products virtual quality is not ensured. In the same way, there is no doubt that a number of people will be interested to get benefit and services from the bank when the quality of the bank service is established to be higher yielding confidence in the society. Banks can successfully earn profit after bearing expenses of fund with service costs. Bank's clients can be of two kinds. One kind of clients supply funds in the form of deposit and other kinds of clients take loan from the bank as debt under the promise of repayment.

Bank is a financial institution that collects society's surplus cash and gives a part of that as loan to investors for earning profit. So, bank is an intermediary institution that makes relationship between the owner of surplus savings and the investor of deficit capital. In this process, banks earn profit by receiving interest from the borrowers who want to take-short term and or long-term loans and making relatively lower interest payment to the depositors for providing their funds for use by the bank. By honoring the demand of time, banks are using various types of credit products. In this way, the risk associated with the usage of paper currency or metallic coin is properly managed. Some widely accepted definitions of banks are given below:-

a) Bank is an institution that is registered by central bank and mainly performs the following activities-

1. Receives current deposit and give the withdrawal facilities to clients through cheques.
2. Receives term deposit and pay interest on it.
3. Discounting notes, approving loans, and invest in government and other credit instruments.
4. Collect cheques, draft and note, etc.
5. Issue draft and cashier's cheque
6. Notification of depositors' cheque
7. Act as a trustee in accordance with government permission

-Dictionary of banking & Finance.

b) A commercial bank is a trader of substitute currencies such as currency, cheque and bill of exchange

-New Encyclopedia Britannica.

c) A bank provides service activity and acts as an intermediary between creditor and lender. In a broader sense, it is said that bank is the heart of complex financial structure.

-American Institute of Bankers.

d) Professor Hart, 'A banker is one, who in the ordinary course of his business, receives money which he repays by honoring checks of person from whom or on whose account he receives it'.

e) Findlay Shirras, "A banker is a person, firm or company having place of business where credits are opened, by the deposit or collection of money or currency, or subject to be paid or remitted upon draft, cheques or where money is advanced or loaned on stocks, bonds, bullion, and bill of exchange and promissory notes are received for discount and sale".

f) Professor Gilbert, 'A banker is a dealer in capital or more properly a dealer in money. He is the intermediate party and lends to another and the difference between the terms at which he borrows and those at which he lends, form the source of his profit'.⁴ We knew before that a bank is what a bank does. These activities of banks are changing with the change of time. It is logical that banking activities will change with the change of culture, time and perception of people in a country. So, it is really difficult task to give the valid & precise definition that fits is all times and all situations.

However, according to Dr. A. R. Khan, the term "bank" means, "A business institution that receives surplus funds of individuals, trading or non-trading institution, government or private institution as deposit and supply money with assurance of repayment against security in exchange of profit or interest to trading or non trading institution, government or non- government institution who has deficit fund and demand for money, and to facilitate this process, create various credit instruments and give facility of withdrawals of deposit as and when needed." In terms of the present banking structure of Bangladesh we can classify banks in various ways. Classification can be done on the basis of ownership, quality of activities and operation of activities. According to activities, banks can be classified as Central bank, Commercial bank, Krishi bank, Shilpa bank, Co-operative bank, exchange bank, Investment bank, Savings bank, Mortgage bank, Transportation bank and Bank for micro-industry and the like.

⁴ Dr, Khan. A.R. 2008, *Bank Management, A Fund Emphasis*, 4th edition, Dhaka., p.2

2.2 Definitions of Islamic banking

The idea of Islamic banking took as many as thirty years for its conceptual conditional and only by the early seventies did it take the shape of the present day comprehensive model. The system is based on the Islamic legal concepts of shirkah (partnership) and Mudarabah (profit sharing). Many Muslim economists contributed to the development of thinking on Islamic banking, the notables of among them are Nejjatullah Siddiqui, Baquir Al-Sadar, Abdullah Al-Araby, Sami Hassan Hamoud and Ahmed Al-Nazzar.⁵

Definition:-

Islamic banking has been defined in a number of ways. The definition of Islamic bank, as approved by the Gneral Secretariat of the OIC, is stated in the following manner.

“An Islamic bank is a financial institution whose status, rules and procedures expressly state its commitment to the principle of Islamic Shariah and to the banking of the receipt and payment of interest on any of its operations”, (OIC).

Dr. Shawki Ismail Shehta viewing the concept from the perspective of an Islamic economy and the prospective role to be played by an Islamic bank therein opines that “It is therefore, natural and, indeed, imperative for an Islamic bank to incorporate in its functions and practices commercial investment and social activities, as an institution designed to promote the civilized mission of an Islamic economy”.

Dr. Ziauddin Ahmed says “Islamic banking is essentially a normative concept and could be defined as conduct of banking in consonance with the ethos of the value system of Islam”.

It appears from the above definitions that Islamic banking is systems of financial intermediation that avoids receipt and payment of interest in its transactions and conducts its operations in a way that it helps achieve the objectives of an Islamic economy. Alternatively, this is a banking system whose operation is based on Islamic economy. Alternatively, this is a banking system whose operation is based on Islamic principles of transactions of which profit and loss sharing (PLS) is a major feature, ensuring justice and equity in the economy. That is why Islamic banks are often known as PLS-banks.

⁵.Dr, Kabir Hossain, M. Edited by, 2003, *The Text Book on Islamic banking, First edition, IERB*, p-72.

2.3 Features & objectives of Islamic banking

FEATURES OF ISLAMIC BANKING

An Islamic bank has several distinctive features as compared to its conventional counterpart. Dr Umar Chapra has outlined six essential differences as below:

(i) Abolition of interest (Riba): Since riba is prohibited in the Holy Quran and interest in all its forms is akin to riba, as confirmed by Fukaha and Muslim economists with rare exceptions, the first distinguishing feature of an Islamic bank must be that it is interest-free.

(ii) Adherence to Public Interest: Activity of commercial banks being primarily based on the use of public funds, public interest rather than individual or group interest will be served by Islamic commercial banks. The Islamic banks should use all deposits, which come from the public for serving public interest and realizing the relevant socio-economic goals of Islam. They should pay a goal-oriented rather than merely a profit-maximizing role and should adjust themselves to the different needs of the Islamic economy.

(iii) Multi-purpose bank: Another substantial distinguishing feature is that Islamic banks will be universal or multi-purpose banks and not purely commercial banks. These banks are conceived to be a crossbreed of commercial and investment banks. Investment trusts and investment-management institutions and would offer a variety of services to their customers. A substantial part of their financing would be for specific projects or ventures. Their equity-oriented investments would not permit them to borrow short-term funds and lend to long-term investments, this should make them less crisis prone compared to their capitalist counterparts since they would have to make a greater effort to match the maturity of their liabilities with the maturity of their assets.

(iv) More Careful Evaluation of Investment Demand: Another very important feature of an Islamic bank is its very careful attitude towards evaluation of applications for equity oriented financing. It is customary that conventional banks evaluate applications consider collateral and avoid risk as much as possible. Their main concern does not go beyond ensuring the security of their principal and interest receipts since the Islamic bank has a built in mechanism of risk sharing it would need to be more careful in how it evaluates financing requests. It adds a healthy dimension in the whole lending business and eliminates a whole range of undesirable lending practices.

(v) Work as Catalyst of Development: Profit-loss sharing being a distinctive characteristic of Islamic bank fosters closer relations between banks and entrepreneurs. It helps develop financial expertise in non-financial firms and also enables the bank to assume the role of technical consultant financial adviser, which acts as catalyst in the process of industrialization and development.

OBJECTIVES OF ISLAMIC BANKING

The primary objective of establishing Islamic banks all over the world is to promote foster and develop the application of Islamic principles in the business sector. More specifically the objectives of Islamic banking when viewed in the context of its role in the economy are listed as following:-

- To offer contemporary financial services in conformity with Islamic Shariah.
 - To contribute towards economic development and prosperity within the principles of Islamic justice.
 - Optimum allocation of scarce financial resources.
 - To help ensure equitable distribution of income.
1. *Offer Financial Services:* Interest based banking, which considered a practice of riba in financial transactions, is unanimously identified as anti-Islamic. That means, all transactions made under conventional banking is unlawful according to Islamic Shariah. Thus, the emergence of Islamic banking is clearly intended to provide for Shariah approved financial transactions.
 2. *Islamic Banking for Development:* Islamic banking is claimed to be more development oriented than its conventional counterpart. The concept of profit sharing is a built- in development promoter since it establishes a direct relationship between the bank's return on investment and the successful operation of the business by the entrepreneurs.
 3. *Optimum Allocation of Resources:* Another important objective of Islamic banking is the optimum allocation of scarce resources. The foundation of the Islamic banking system is that it promotes the investment of financial resources into those projects that are considered to be the most profitable and beneficial to the economy.
 4. *Islamic Banking for Equitable Distribution of Resources:* Another important objective of Islamic banking is to ensure equitable distribution of income and resources among the participating parties: the bank, the depositors and the entrepreneurs.

2.4

Comparative study of features between conventional & Islamic banks

Islamic banking is completely separate and distinctive from conventional banking in regard to its principles, objectives goals, procedures and methodologies. To summarize the basic difference of Islamic Banking and Conventional Banking as discussed above are:-

| Islamic Banking | Conventional Banking |
|--|---|
| 1. All the activities of Islamic Banking are done according to Islamic law (Shariah) i.e. as per guidelines and directives of the Holy Quran and Sunnah. | 1. The activities of Conventional Banking are done by the procedures and laws evolved through human research, studies and innovation. |
| 2. The main objective Islamic Banking is to help in building development and making welfare of the human being by ending exploitation and Zulm from the society through the directives of the Almighty Allah. | 2. Conventional banking runs on fully commercial basis where there is little scope for human welfare. The main objective of such banking is to help the maximization of profit motive of the business, commerce and industry. |
| 3. In Islamic Banking, interest (Riba) is strictly prohibited and consequently all its act invites are operated without involvement of interest. | 3. The basis of conventional banking is interest and as such its all activities are operated with interest. |
| 4. Its sources of income are profit, rental and service charges, commission etc. Profit is uncertain and calculated after the completion of the business of transactions where the investors have risks and uncertainly. | 4. Its source of income is interest (Riba) and services and commission. Interest is pre-fixed and certain. Debtor is bound to pay the interest and the creditors have no risk or loss. |
| 5. An Islamic Bank is not only a banker but also a partner in business. It is a participatory banking in both capital and profit/loss. | 5. In conventional bank, the relation between customer and banker is nothing but debtor and creditor. The bank does not have the responsibility of profit loss of the customer. |

| | |
|--|--|
| <p>6. To ensure equitable distribution of wealth and to establish socio-economic justice is the main principle of Islamic Banking.</p> | <p>6. Conventional Banks do not think about such economic and social customer.</p> |
| <p>7. Islamic banks make coordination with social development). It has clear social commitment.</p> | <p>7. There is no such commitment or undertaking in conventional banking system.</p> |
| <p>8. Islamic banks do not do trading of money rather partnership and trading goods/commodities is its legitimate business, Banks do not pay money directly to its customers as investment.</p> <p>They allow investment through commodities and profit out of buying and selling of commodities is the profit out of buying and selling of commodities is the profit of the bank. On the other hand, the bank shares the profit of partnership business with its customers.</p> | <p>8. Conventional Banks do not lending of money in cash and get interest from the trade where there is no direct relation or partnership or commodities.</p> <p>Interest is predetermined and compounded periodically which become exorbitant and explorative and helps concentration of wealth through lending business.</p> |
| <p>9. Islamic bank encourage investment in production of essentials as well as in social welfare sector.</p> | <p>9. Conventional banks do not consider these factors/aspects rather it gives more importance on earning interest.</p> |
| <p>10. Islamic banks do not do the business on items harmful for societies through there are possibilities to earn more profit there against.</p> | <p>10. There is no justification or consideration as to whether the business is good or bad in conventional banking system. Earning interest is the only motive of this system.</p> |

2.5 Comparative study of modes of investment/advance

The two banking systems, Islamic and conventional, can be differentiated primarily on the basis that each has its own rules and procedures in mobilizing deposits and deploying funds. A short description on the modes applied by Islamic and conventional bank in deploying loan able funds is given below:

Modes of Advances by Conventional Banks

Conventional bank engage in the following types of financing arrangements:-

1) Loans: The most obvious form of financing by a bank is the loan arrangement. The bank advances (loans) a lump sum to an individual (the borrower) for a set length of time at either a fixed or variable rate of interest. The borrower repays the loan with equal installments over the prescribed term or in one lump sum at the end of the term. There are no checks issued in this type of relationship.

2) Overdrafts: The extension of financing through overdrafts can only occur when there is an existing demand deposit account. An overdraft occurs when the amount of a check presented for payment to the bank exceeds the clients deposit balance. The banks may choose to pay on the item, thereby causing a negative balance in the client's account. This negative balance is effectively an extension of financing and can be a prior arrangement with the bank. In addition, overdraft facilities may be extended against deposit certificates and/or government promissory notes.

3) Cash credit: Cash credit is a popular mode of borrowing by traders, industrialists and agriculturalists. It is separate account by itself and does not require having any other account with the bank. It resembles the use of overdrafts on a checking account. It is an arrangement whereby the borrower may withdraw funds as needed for day-to-day operations without the delay associated with making a loan. The borrower may not exceed a predetermined limit and must deposit cash bank into the account as funds become available from daily operations. Interest is charged on the daily balance in the account.

4) Medium term loans: This type of loan is advanced to businesses of all kinds for the purpose of purchasing fixed capital. These loans are usually extended for a term of 3 to 7 years and in special cases up to 10 years and are generally repayable by installments. Interest is charged on annual basis.

5) Hire-purchase advances: Under this arrangement, conventional banks grant advances to its clients engaged in hire-purchase business relating to transports refrigerators, and television, for example. This type of financing is usually repaid with installments including principal and interest. The bank generally requires immovable property as collateral against this type of financing.

6) Bills purchased/discounted: Export-Import businesses are performed through opening of L/Cs with bank. The client, while opening the L/C, comes to an agreement with the bank that the latter will repay the bill received on the farmer's behalf on a certain date onward in exchange for specific rate of interest determined at the time of agreement. If the bill happens to reach well ahead of the date mentioned, the bank may purchase the bill, if requested, with a discount. In this case, the bank makes the return twice: first, by charging interest and then by discounting the bill.

Modes of Investment Financing under Islamic Banks

A profit-Loss-Sharing bank, particularly the Islamic Bank Bangladesh Limited, engages in the following types of financing arrangement:

1) Direct Investment: An Islamic bank makes a direct investment in short-medium-and long-term projects in commercial, industrial, agricultural, real estates and housing, transport and other services.

2) Mudaraba: This business arrangement is similar to the Musharaka in that it is a Partnership. However, the main difference is that in this business arrangement, one party supplies the capital and the other party (the Mudarib) has the responsibility of investing the capital into some business activity that will yield a profit. In this arrangement, the profits are shared in some mutually agreed upon percentage, but any losses that are incurred solely by the one that provides the capital.

This arrangement benefits society in that it allows the individual that has the capital to invest, but not the knowledge and experience of operating a profitable business, with one (the Mudharib), who has the knowledge and experience of operating a business, but does not have the capital to invest. Thus, it creates a win-win situation for all parties involved, including society as a whole.

3) Musharaka (partnership): In this arrangement one or more entrepreneurs approach the bank about financing a project. The bank along with the entrepreneurs has the option to finance part or the entire project. Profits are shared in accordance with an agreement between the parties and do not have to be in proportion to the partner's investment. However losses are shared in proportion to the initial investment. Musharaka partnerships take two forms:

- 1) Permanent and
- 2) Diminishing Musharaka.

Permanent Musharaka is precisely what the name implies, it is a permanent arrangement whereby each partner owns and shares in the profits and losses of the project until the business is dissolved. Diminishing Musharaka is an arrangement that allows for profit sharing by the diminishing partner and additional payments intended to buy back the diminishing partner's share in the business. Thus, under Diminishing Musharaka, the bank's partnership interest is reduced by the additional payments and eventually reduces to a zero interest in the partnership. Both of this relationship is guided by many Islamic rules deeply ingrained in Islamic society. These rules are followed strictly in adherence to religious beliefs as provided in the Shariah.

The latest two profit sharing arrangements may be applied either to the whole enterprise where each partner takes an equity position, or to a particular line of activity within an enterprise. Mudaraba is traditionally applied to commercial activities of short duration whereas Musharaka is applied to production or commercial activities of long duration (Mirakhor and Zaidi, 1988) 4. The practice of these two modes is virtually collateral free and removes the long-practiced discrimination by the banking institutions against the non-propertied class in matters of financial accommodation (Abdouli, 1991), Islamic banks are, however, aware of the danger of applying these modes in the early stage of their Jauching; and hence they limit allocation of loan able funds through these modes.

4) Murabaha (contract sale): This is an Islamic sales contract in which an Islamic bank purchases a certain Shariah-approved commodity for the client as per his request and specification. The total cost of the commodity is determined prior to the transaction, which includes details regarding the purchase price, taxes, duties and any other fees. The price is fixed at an agreed rate incorporating a profit for the bank. Time, place, and mode of delivery of goods and its payment are determined in advance.

5) Bai-muajjal (sales under deferred payment): This arrangement is very close to the Murabaha except for the method of payment. Under this sales arrangement, a PLS- bank finances the purchase of specific commodities for a fixed price allowing the client to make a deferred payment. For example, this form of financing is used to supply inputs to the agricultural and industrial sectors. Quality, quantity, time, place and mode of delivery of goods are determined beforehand.

6) Bai-e-salam (advance purchase): This is an advance purchases contract performed between a PLS- Bank and the producer or supplier of agricultural, industrial, fishery, poultry, or dairy products. The bank makes payment to the clients at the time of the contract and at the same time, it determines the price, quality, quantity, time, place and mode of delivery of the commodity.

7) Ijara (leasing/hire purchase): A PLS- bank adopts various forms of leasing and hire purchase arrangements for machinery and equipment, transports, and other items required by its clients in exchanges for rent payments. Under this mode, transfer of title to the asset is made upon full payment of the sale price on a installment basis. Financing of housing units and apartments are typical examples of this type of financing. The bank also provides finance capital for fixed capital investments to industrial customers on the basis of leasing. In hire purchase arrangements the purchaser becomes the owner of the title after full payment is made.

8) Qard-hassan (interest-free loan): Most of the Islamic banks also provide interest- free loans i.e."Qard-hassan" to their customers. However, the practices vary in different banks. Some banks provide interest-free loans to the holders of investment accounts. Other banks have provisions to provide these loans to needy students and people of the society. In addition, there are some banks that provide interest free loans to small producers, farmers, and entrepreneurs who are not qualified to get financing from other sources.

Financing Modes of Conventional Banks vs. Investment Modes of Islamic Banks

For an effective comparison between the modes used by the two systems of banking, the following categorizations common to both may be adopted:-

- (a) modes related to project financing,
- (b) modes related to financing trades and commerce, and
- (c) special modes or system specific modes.

In line with the above categorization, medium and long term loans under conventional banking, and Mudaraba and Musharaka of PLS-banking come under category (a). Under the category of (b) Loans, cash credits, hire-purchase and bills purchased/ discounted of Conventional banking and murabaha, bai-e-salam and basi-e-muazzal of PIS-Banking may be listed. Loans and cash credits of conventional banks may be categorized under (c) to satisfy the working capital needs of the borrower. For Islamic banks, there are no similar modes like its conventional counterpart to meet working capital needs. Though the “Qard-hasan” is customarily grouped under this category, it is not widely practiced by PLS-banks since this mode, by its very nature, does not earn a return. Qard-hassan are benevolent loans, made on an interest free basis.

Keeping in mind the above categorizations, one may analyze the similarities or differences between the modes of conventional and those of the PLS- banking. As far as the first category is concerned, unlike PLS-bank, Conventional bank advance money in exchange for a predetermined fixed rate of interest. That is, under the conventional banking system, every advance made by a bank is a contract between the bank and the client with the following essential feature:

- (i) a creditor- borrower relationship is established;
- (ii) the lending or borrowing is time bounded qualifying specific date (s) on which a certain percentage of interest or borrowed capital becomes due for payment along with the principal; and
- (iii) the income of the bank is known and prefixed and not in any way related to or variable with the income of the borrower generated from the borrowed money. On the other hand, the financing arrangements under the PLS system of Islamic banks, have the following features:-

- (a) it is a contract between two partners the bank and the client-providing a partner-partner relationship;
- (b) the contract is time bounded in the sense that the client has to return the capital on/within specific date (s). However, the return of the bank is not fixed either from the standpoint of time or that of the rate; and
- (c) bank shares a prefixed ratio of profit expressed in percentage terms. This is not a prefixed rate of return calculated on capital advanced.

Thus, income (profit) for a PLS-bank, unlike the practice of its Conventional counterpart, fluctuates with the profits of the borrower.

In summary, in Conventional banking, the bank is simply a financier and is not directly concerned about the success or failure of the project for which the loan was made, as long as it receives its payments. This is so because the bank's income (interest income) does not fluctuate with the fluctuations in the profit generated from the specific project. In other words, Conventional banks advance financing in return for a guaranteed fixed return. On the other hand, a PLS- bank has a high interest in the performance of each project it finances because its income is directly related to the returns from each project it finances. Thus, with regard to the first grouping of financing methods, the Conventional bank is a risk- avator, whereas the PLS-bank is a risk-taker.

With regard to the second class of financing methods, those which are generally used for financing trade and commerce, the only comparison worth mentioning is that in Conventional banking, fixed interest payments are made to the bank, whereas in the Islamic counterpart, the bank earns a profit margin. The Murabaha, Bai-e-salam and Bai-e-muazzal arrangements have often been accused of being Riba' practices. However, the accusation is countered by the argument that the PLS-banks, unlike its Conventional counterparts, are obliged to buy the goods and establish the bank's ownership, prior to selling the goods for a profit. Finally, concerning the third class of investment types, these modes are very much system specific and hence on meaningful comparison is possible.

2.6 Investment decision model

Investment Decision under conventional Banking.

Our main subject matter is the investment of Islamic banking; on this regard it is essential to show an investment decision model that will help to explain how investment decision is taken in terms of conventional and Islamic banking. The conventional investment demand curve explains how investment decisions are made by firms or entrepreneurs in an economy. Rate of interest being one of the key factors in the investment decision model, conventional banking appears to be an integral part in the investment decision making process. We can quite a structure of investment decision model intact and extend it to meet the requirement of being a general one incorporating into the investment decision process of Islamic Banking. This is illustrated in the following figures:-

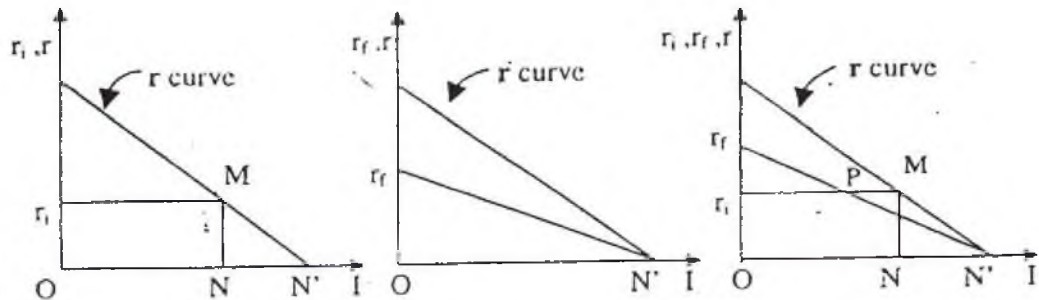


Fig-1a: Investment Decision by Conventional banks

Fig-1b: Investment Decision by Islamic banks

Fig-2: Investment Decisions by Conventional and Islamic banks

Fig-1a represents the investment decision model under conventional Banking system and Fig-1b represents the same under Islamic Banking. The generalized banking decision making process is modeled in Fig-2, which is derived by superimposing Fig-1b on Fig-1a.

The horizontal axis Fig-2 depicts the level of investment, I , at different rates of interest (r_i) for a conventional Bank and financier's rate of return (r_f) for Islamic bank, which are both shown vertically. The horizontal shape of the r_i curve indicates that although the rate of interest seems to affect the level of investment inversely, it is neither related nor influenced by the rates of return of the projects financed by the bank.

The downward sloping r_f (rate of profit for an Islamic Bank) curve, on the other hand, is directly variable to changes in rate of return, r . This is because both r and r_f maintaining almost a proportional change, are downward sloping and they meet at the zero rate of return, which is depicted as point N.⁶

A relationship between r and r_f can be established if the ratio λ (the percentage share of r going to the borrowing entrepreneur), is known. Thus the r_f can be measured in the following way:-

$$r_f = (1 - \lambda) r.$$

Key Assumptions of the model:

- (i) This is an economy where both the conventional and Islamic banks operate side by side.
- (ii) Customers are well aware of the functioning of the two systems of banking.
- (iii) Religious considerations do not affect rational behavior of the borrowers and Bankers.
- (iv) Investment decisions in the money market is not affected by the operation of capital market.
- (v) There is no change in price level.
- (vi) There is only one market rate of interest prevailing in the economy.
- (vii) There is no shortage in supply of credit in the money market.
- (viii) Question of moral hazard is absent.

Under the conventional banking framework, as depicted in Fig-4 : Ia, the bank charges a fixed rate of interest to finance only those projects which have rates of return greater than or equal to the rate of interest. Thus the conventional banking system could be termed a Fixed Return System the investment decision could be stated as:-

$$I = f(r_i, r) \dots \dots \dots (1)$$

$$\text{With } \frac{\partial I}{\partial r_i} < 0; \frac{\partial I}{\partial r} > 0$$

Where I represents level of investment, r_i the rate of interest and r rate of return from the project.

⁶ Akkas, S.M.A (1995). *Modeling operation of Islamic banks under conventional banking framework: A comparative efficiency analysis in deployment of invisible fund. Thoughts on Economics, Vol. 5 No. 3 & 4, July-December 1995. Dhaka: Islamic Economics Research Bureau. pp. 1-18.*

Here, $\frac{\partial I}{\partial r_i} < 0$ indicates an inverse relation between interest rate and investment demand.

Whereas $\frac{\partial I}{\partial r} > 0$ shows a positive relation between investment I and rate of return r .

Investment decision under Islamic banking.

Under the profit loss sharing system of investment financing, the bank receives a variable rate of return as it shares a percentage of profits earned by the borrower. Though there is a consensus as to sharing losses in proportion to capital participation, some of the Muslim economist thinks that the ratio may vary with the application of different types of modes of financing. Thus the profit loss sharing system of investment financing may be termed a Variable Return System.

Since the Islamic banking system does not charge interest on any financing agreements, the client neither receives nor a pays fixed rate of return while financing his investment. Thus the question arises as to what actually is the allocation device that ensures optimum allocation of scarce financial resources and establishes equilibrium in the money market. Furthermore how does the financing decision of a bank relate to the investment decision of a firm?

Regarding that formed question, the rate of interest is replaced by the rate of return in the Islamic banking system. By this replacement there is no strong theoretical reason to support the often-made a priori assertion that investment levels would decline. Through there is no difference of opinion in regard to the rate of return on equity financing as the tool of efficient allocation of resources in a Zero Interest Rate Economy (ZIRE), some disagreements still persist as to the interpretation of the equilibrium condition. According to researcher, capital will flow into those sectors that offer the height rate of profits to investors until equilibrium is reached in the all sectors. Another researcher says, the equilibrium level of investment can be determined at a point where its cost equals its return. While a researcher

says, that equilibrium will be reached at a point where the expected rate of profit is just equal to the normal rate of profit. Each industry has its own normal rate, and rates differ according to the size of investment, time maturity, degree of risk and other related factors. Researcher says, there are two vigorous rules for static efficiency;⁷

- First is that marginal rate of return on investment must be equal in all industries.
- The second rule requires the use of discounting to take proper care of the time dimension of costs and benefits.

The process of discounting is entirely accepted in Islam. This is a rate of return on an alternative real investment. The average rate of profit prevailing in the economy should be used as the measure of opportunity cost that guides project evaluation and resource allocation in the private sector.⁸

The problem still persists as to the definition of profit and the method of its calculation. The following discussion concentrates upon resolving these issues. The term profit in the capitalist world refers to the reward for enterprise whereas in Islamic context it is a reward that has to be divided between capital and enterprise.

In other words, profit in an Islamic system consists of return of capital to the investors and the sharing of the remaining profits from the business operations. But the problem arises with the r being gross rate of return accrued from project, which includes cost of borrowing and λ and $I - \lambda$ being the ratios going to the financier and the entrepreneur leading to confusion in making a comparison between the first rate and the next two ratios. That is showing fig no (2).

However the dilemma is not insuperable. Since we know the rate of return per unit of investment, we may arrive at total profit. The ratio may then be applied to the total profit for the purpose of determining shares of profit going to the financier and the entrepreneur. When we know the ratios and the shares of profits, their respective rate of return against their investment may easily be calculated. When we know the financier's rate of return at each level of investment, we can derive the financier's rate of return curve i.e. r curve.

⁷ Hasan, Z, (1988). Distributional Equity in Islam. In M. Iqbal (ed) Distributive justice and need filament in an Islamic economy (p. 47). Islamabad, Leicester: International Institute of Islamic Economics, and Islamic Foundation.

⁸ *Ibid.*

Under Islamic banking, the financial contract specifies the following returns to the financier (bank) and the investors (borrower), respectively,

r = total rate of return.

r_f = financier's rate of return i.e. $(1 - \lambda)r$ (2)

λr = entrepreneur's rate of return.

Assuming linearity in the movement of ' λ ' the financing and investment decisions under Islamic banking are shown in Fig 1b. In the following fig no-3, r_f curve crosses the horizontal axis at the point marked N' where $r=0$, implying the financier's interest to finance all those projects which have rates of return greater than or equal to zero.

This may not happen since financing airways involves some administrative cost. If so maximum cost of borrowing under Islamic banking will be somewhere between the market rate of interest (point M) and the zero rate of return (point n), say at point M' as shown in the following fig;

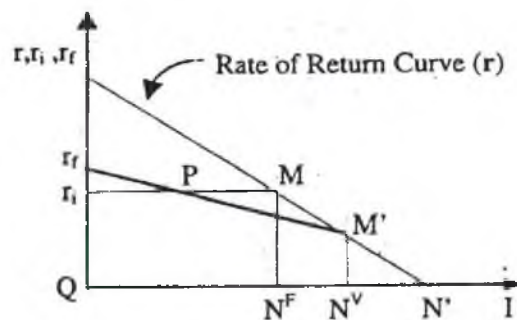


Fig-3: Generalized Investment Decision Model of Conventional and Islamic Banking Systems

We find some additional features in the above fig, these are;

- (a) r_i curve is a horizontal line parallel to X axis.
- (b) r_f curve is downward sloping and meets with the r curve at its lower level compared to where r_i curve meets, and

(c) The equilibrium under Islamic banking takes places at a higher level of investment (ONv) than that of the Conventional banking (ONf).

Dimensions of Productive Activity Promotion by Islamic Banks.

Islamic banking assists in the promotion of productive activities in many dimensions. An Islamic bank, while financing investments, confronts five types of productivity challenges in terms of its ability to affectively provide financing to society.

First, how much its financing system is capable of utilizing investment opportunities that exist in an economy.

Second, how far its financing system can help ensure effective performance of the projects financed by it.

Third, how much the system is capable of ensuring maximum possible timely recovery of the loan financed.

Fourth, how profitable are the returns from its investments.

Fifth, how much the system is elastic or responsive to providing financial services for the entrepreneurs seeking financing.

Thus a financial system to be productive faces five kinds of efficiency test:

- (1) Investment opportunity utilization test,
- (2) Project efficiency test,
- (3) Loan recovery test,
- (4) Profit maximization test,
- (5) Test of elasticity of financing.

These are explained details below:-

i) Investment Opportunity Utilization Test: In testing the investment opportunity utilization capacity of the investment financing system of a bank. it is essential to know what is actually meant by the term investment opportunity and how it can be quantified so as to help to measure the banks capacity to utilize it.⁹

⁹ Hasan M. Kabir, 2003, The Text Book on Islamic Banking. IERB, Dhaka, p.82.

Investment opportunity means total number of projects. calculated in money terms in an economy which are waiting to be financed having their internal rates or return greater than or equal to zero, i.e $IRR > 0$, assuming no cost of borrowing and non-existence of other alternative opportunities for investment. For a clear understanding of the concept we may refer to Fig-3 which is shown above.

The vertical axis shows different rates of return of bank financed projects while the horizontal axis indicates amount of investment that could be made at different rates of return. The downward sloping rate of return curve, r . indicates that projects available in an economy can be arranged in descending order in terms of their rate or return and can be financed as long as the rate of return is greater than zero. If so according to Fig-3, ON is the investment opportunity level. Under the assumptions of zero borrowing cost and fund availability, the investment opportunity utilization test can be used to compare different types of banking systems. One useful Measure is Measured by the ratio of Employed Funds as a Percentage of Loan able Funds and may be used as a proxy for Investment Opportunity Utilization.

Utilization of investment opportunity by conventional Banking system.

In analyzing the investment opportunity utilization capacity of conventional banking system. We may refer to Fig-3. It can be seen that there exists ON level of investment opportunity. Assuring availability in the supply of invested funds, the optimum level of investment under the conventional banking framework will be determined at the point ON where the rate of return r and rate of interest r_i intersect at point M.

With r_i rate of interest the level of investment that a conventional bank is interested in financing is ONF. Thus, projects beyond the point ONF while having positive rate of returns are rejected for financing under the Conventional banking system since the rate of interest exceeds the rate of return from those projects making them non profitable for the entrepreneurs and non viable for bank financing. That means, under conventional banking a portion of investment opportunity always remains unutilized.

At this stage, it may be convenient to divide the investment opportunity level ON into two zones (i) the viable projects zone ONF and (ii) the non viable projects zone NFN. The latter zone NFN may increase or decrease if the rate of interest changes.

More specifically, the utilization of investment opportunity level may be increased (or decreased) with the decrease (or increase) in the rate of interest.

Theoretically, the viable projects zone widens when the bank reduces the rate of interest in order to utilize excess liquidity. The success of the policy depends on the stage of cyclical fluctuations the economy confronts. It has been shown that the Conventional banking system has excess liquidity in the downswing phase of cyclical fluctuations just after a boom¹⁰. At this stage the spread between the payment commitment and cash flows reaches its highest level creating a situation in which conventional banking finds lending to be very risky. As a result, it becomes difficult for Conventional banking to expand the viable profit zone by reducing the rate of interest.¹⁰

There might be another plausible reason why the investment opportunity utilization range of the conventional bank reduces even further. This may result in cases when the project has a net rate of return ($r-r_i$), which is very close to zero on the left of point M. This is because of the fact that the marginal projects are severely vulnerable to cyclical fluctuations and prone to losses.

That is why the rational entrepreneurs themselves avoid applying for bank financing for those projects. That means under the conventional banking framework where entire risk is borne by the borrowers, entrepreneur submit only those projects for financing which have the highest probability of generating a high minimum net rate of return not subject to be offset by uncertainties. If this is true, the investment opportunity utilization range of for Conventional banking is further squeezed.¹¹

Utilization of investment opportunity by Islamic Banking:

An Islamic bank can finance up to the level ONV of investment, thereby utilizing the extra potential investment opportunity of NFNV. This is possible for Islamic banking since it can remain at least at the level of the losses incurred in the low profit zone (right of point P) By the excess profit earned in the high profit zone (left of point P) . Thereby achieving the average rate of profit as that of the conventional bank.

¹⁰. Hasan M. Kabir, 2003, *The Text Book on Islamic Banking*. IERB, Dhaka, p.83.

¹¹. Mukherji, B. (1984). *Theory of growth of a firm in a Zero-Interest Rate Economy*, Jeddah: Centre for Research in Islamic Economics. p. 65-66.

Thus the Islamic bank can utilize more of the potential investment opportunity remaining untapped in the economy. With a microeconomic analysis in a dynamic sense, researcher finds that compared to a capitalist firm, the firm in a Zero Interest Rate Economy will have a high rate of growth at low profit margin.

ii) Project Efficacy Test: In order for a banking system to be deemed project efficient, it must have a system in place to monitor the projects that it has financed. This is crucial because the economy has scarce resources and the banking system needs to assure that those resources are being allocated to the most profitable projects.

Conventional banking and project efficacy:

In order to determine the project efficacy of the Conventional banking system, it is necessary to identify how close of a relationship the bank has with the entrepreneur to whom the loan was made. In addition, it is important to determine what type of monitoring the bank does of the ongoing project throughout the term of the loan. There are four critical activities in which the financial institution can engage in order to assure that a project has the best opportunity for success:

- (a) The bank needs perform a careful analysis of the proposed project prior to making the loan.
- (b) The contract should be written very clearly including all the details of the proposed project and the terms and requirements of the loan.
- (c) The bank should verify the status of the project with each advance, to ensure that the proceeds of the loan are being used for the purpose intended and not being misappropriated and
- (d) The bank should monitor the performance of the business to ensure their ability to properly service the indebtedness.

In general the Conventional banking system does engage in these four activities. However, some doubt exists as to how stringently they pursue these activities as the profitability of the bank is not tied directly to the profitability of the individual project. It is argued that conventional banking relies too much upon collateral for safe return of principal and interest. Thus

it is neither committed to nor is serious in the effective operation of the projects that the bank finances.

Islamic banking and the project efficacy:

On the hand the Islamic banking system by its very nature is a partner in the projects that it finances. The banks income under Islamic banking has a direct functional relationship with the profit generated from the project. In other words banks profit increases or decreases with the rise or fall in returns from the projects that it finances. Thus the Islamic banking system is very much concerned about the performance the project for which it provides financing.

The concern is exemplified in the following activities:

- (a) The bank carefully considers every loan request and assesses the profitability of the each Proposed projects:
- (b) The bank keeps a careful eye on the installation phase of the projects and
- (c) The bank continues to oversee the project as long as it is a partner to the project.

These, activities ensure effective implementation of the projects and ultimately a better chance for success. Thus since in the Islamic banking system, the profitability of the bank directly of the bank directly depends on the successful performance of the project, the bank has a greater interest in seeing that the project is a success. Therefore, Islamic banks tend to have a higher degree of project efficiency than do their counterparts in the Conventional banking system.

iii) Loan Recovery Test: This test measures the ability of a financial system to take the steps necessary to recover loans both in the ordinary course of business and when a loan has gone into default. There are various opportunities to ensure that the ultimate recovery of a loan will be successful. Those opportunities exist in the selection process, disbursement procedures and proper monitoring of the business to which the loan was made throughout the life of the loan. Financial systems can differ on these various points, which will ultimately decide the effectiveness of a particular system in recovering the loan. While measuring comparative productivity of the two financing mechanisms in loan recovery, the question of cost effectiveness should be duly considered.

Conventional banking and loan recovery:

Loan recovery rate might be another criterion for measuring productivity of a banking system. The higher the recovery rate, the greater is the possibility of recycling scarce financial resources leading to increase in the productive efficiency. Conventional banking is not as effective in this aspect of productive efficiency. Conventional banking relies heavily on collateral used to secure the loan to become the source of repayment.¹²

Thus conventional banking systems become complacent in the loan selection process, becoming too optimistic that the collateral will assure ultimate recovery of the loan. By looking at the collateral as the source of final repayment in lieu of looking at the prosperity of the project conventional banking systems hinder productivity in two ways. i) productive capacity and resources need to be spent in recovering loans instead of considering new projects for investment and ii) the cost of recovering the loan reduces the profitability of the bank.

Islamic banking and loan recovery:

On the other hand, Islamic banking is more productive in terms of loan recovery due to its build-in profit –loss-sharing mechanism. Failure of a project not only reduces profit, but also it may lead to capital losses. A delay in the receipt of profit and capital reduces ingestible funds for further financing which reduces the bank's productivity. Thus the Islamic PLS system fosters loan selection based on the profitability of the project which results in timely recovery of capital that can in turn be loaned to another successful project.

iv) Profit Maximization Test: Another way to determine the productive capacity of a particular banking system is to measure how well it utilizes its limited financial resources. In other words, is the banking system making effective use of ingestible funds by investing the most profitable projects? A productive bank will prioritize projects from most profitable to least and will extend financing to the most lucrative projects first until it runs out of capital.¹³ This will assure the bank the highest profit. Referring to Fig-3, the most productive financing system would be the one that finances projects starting from point O and proceeds along the line ON.

¹² Hasan M. Kabir, 2003, *The Text Book on Islamic Banking*. IERB, Dhaka, p.85.

¹³ *Ibid.* p.86.

Two financial ratios used to measure profit maximization are

- (i) Profit Employed Fund Ratio and
- (ii) Profit Loan able Fund Ratio.

Conventional banking and profit maximization:

Conventional banks efficiency with profit maximization may be tested in terms of the Fig-3. Assuming, availability of investible funds and no alternative opportunities for investment. Conventional banking can maximize its profit it finances at point indicated by ON where $r = O$. This is impossible for conventional banking since it charges the same rate of interest irrespective of the profitability of the different projects. Any attempt at financing projects beyond ONF will lead to pulling down the level of interest rate thus reducing total profits. With the lending rate of interest being Ori the profit maximizing investment level for Conventional banking is thus ONF. Therefore the total profit (return) it earns is $Ori MNF$.

Conventional banking may increase the volume of its return if the lending rate rises. This takes place at a lower level of investment. What this means is that Conventional banking is unable to capitalize on some projects (considered as non-viable due to high lending rate) but may be able to offset those foregone opportunities by charging the higher rate of interest on the remaining projects.

The above analysis clearly shows that conventional banks productive efficiency in terms of investment opportunity utilization works opposite to its profit maximization efficiently criterion. Furthermore It has already been illustrated above that the investment opportunity utilization level as well as the profit maximization is affected by the low rate of recovery of the loans advanced.

Islamic banking and profit maximization:

Profit maximizing equilibrium of Islamic banking takes place at a higher level of investment than its conventional counterpart. The economy in which Islamic banking operates is in equilibrium, according to the Fig-3, at ONV level of investment at point M where the marginal rate of return on investment is equal to its marginal cost for all banks. The equilibrium point M is preferable to M since the average profit at the former point is greater than at the latter point.

v) Test of Elasticity in Financing:

Investment financing can surely be described as a service industry. The service is provided to the entrepreneurs and ultimately to society as a whole. Entrepreneur's borrowing needs can vary from short to long term. In addition, there may be a need for temporary credit including consumption and working capital requirements. Thus for a financing system, to be productive, it should have the capacity to respond to and fulfil all of the financing needs of the entrepreneur. The elasticity of investment financing may be defined as a ratio of change in short term financing to change in total investment.

Where E_f means elasticity of financing Δf means change in short-term financing, and ΔI means change in total investment.

$$E_f = \frac{\Delta f}{\Delta I} \dots\dots\dots(3)$$

Where, E_f means elasticity of financing.

Thus, that banking system with the highest value of elasticity measure is considered to be more productive. Demand for short-term credit arises out of the need for working capital, business transactions and consumer goods. These financing needs are short term in nature and require quick response times. Given the nature of these, financing needs, they are not placed into separate projects categories. As a result, the profitability of these financing needs is difficult to estimate in advance. Even where it is possible, it may not be economical to do so in view of their cost.

It is from the above perspective that the efficiency of both the Conventional banking and Islamic banking in short-term financing may be studied. Conventional banking, in this case, enjoys advantages over Islamic banking in that the Conventional banking system allows for the calculation of interest for periods of any length.

For Islamic banking, short-term loan financing is still a problem. It lacks specific financing arrangements necessary to meet the working capital needs of entrepreneurs. In order to handle this situation, Islamic banks simply add the working capital needs to the request for Musharaka and Mudaraba, which does not really meet the needs of the entrepreneur.

Thus, working capital financing under Islamic banking is relatively inflexible. Uzair does not share this view. Rather, he is optimistic about the possibility of applying profits generated from the use of working capital on a quarterly, monthly, or on weekly basis, which could be derived from past annual or quarterly averages.

That means according to him, if properly executed, Mudaraba and Musharaka may also conveniently be used for financing even the short term working capital needs of the entrepreneurs. However, several studies reveal that the use of these financing arrangements to provide for the spontaneous short term financing needs of entrepreneurs is actually a very small percentage of total financing made under Islamic banking presently. Of course it is argued that most of the PLS banks are operating in a legal environment that does not adequately support the expansion and smooth operation of these types of financing arrangements.¹⁴

As far as the business transaction (particularly trade financing) is concerned the Murabaha contract is applied as an alternative to its conventional counterpart using the bills purchased and discounted method of financing. However, proponents of Islamic banking prefer limiting the extensive use of Murabaha for these short term financing needs as they do not conform to the profit loss sharing characteristics of the Islamic banking system.

Islamic banking has not yet been able to devise any alternative to consumption loan financing of its conventional counterpart. The latest development of literature on the issue suggests that banks under Islamic banking may separate a portion of its investible funds for providing interest free loans to consumers. In these circumstances the bank would charge the borrower a service fee.

¹⁴ Uzair, M. (1982). *Comments on the paper 'Allocative efficiency, decision and welfare criteria in an interest-free Islamic economy: A comparative approach by Dr. Muhammad Abdul Mannan. Jeddah: Monetary and fiscal economics of Islam, Muhammad Arief(etc.)*

2.7 Present banking structure of Bangladesh

Bangladesh emerged as an independent and sovereign state on 16th December, 1971. She had to start her economic activities from the very scratch because of the damage caused of the country, an impotent agent of economic development, has also suffered tremendously. During the liberation was in 1971, the economic, political and social system including the banking systems were severally damaged. At that time, all big and medium financial institutions except two small banks had their head office in the West Pakistan. The non-Bengali owners and managers of the financial establishments that operated in East Pakistan had abandoned them.

After independence in 1971, the new government had to take over management and ownership of all such institutions. The Banks Nationalization Order 1972 was issued to nationalize banks and financial institutions (except those incorporated abroad) in order to control disorder in the field of ownership, party, bureaucracy, the intelligentsia, and pressure group. By several order six nationalized commercial banks (NCBs), one industrial bank (BSB), one agricultural bank (BKB) and one industrial development financial institution (BSRS) were created. Later on the banks were consolidated and nationalized. The nationalized banks and foreign banks constituted the total banking system of Bangladesh. Investment Corporation of Bangladesh was established in 1976. Grameen Bank, a specialized bank for the poor but not under control of the Bangladesh Bank, was established in 1983. In the year 1983, the government allowed private sector to participate in the banking business.

The Pubali Bank and the Uttara Bank were denationalized in January 1985, due to non-profitability. This action reduced the number of NCBs to four. The nationalized banks continue to receive refinancing and other subsidies in order to fill credit demand and government desires. Rupali Bank was converted into a public limited company on 14th December 1986. Rajshahi Krishi Unnayan Bank was established in 1987 through a divergence of the offices of Bangladesh Krishi Bank of Rajshahi division. Bank of Small Industries and Commerce Bangladesh Ltd. were established in 1993. This was made with the intent of reversing the urban monopoly of banking and the flow of capital from rural to urban areas. Such restructuring of public sector banks was in order to attain economic growth and politics were formulated for scheduled banks to play their role in industry, agriculture, export, self-employment etc. As a result there has been advancement in the public sector banks in terms of increase in the number of branches, deposit mobilization and advances to the society.

The banking sector of Bangladesh comprises four categories of scheduled banks (SCBs, SBs, local PCBs and FCBs). In addition, one national Co-operative Bank, one Ansar-VDP Bank, one Karnasangsthan Bank and one Grameen Bank and some non-scheduled bank (total 91) are also in operation. Up to June 2008, 47 Scheduled Banks were operating with a network of 7,201 branches (up to March-2010). In order to enhance the overall efficiency of SCBs, decisions have been taken to rationalize bank branches, and up to June 2008, 153 new branches were established and one existing branches was closed under the 'branch rationalization programmed. Following table summarized the structure of the banking system and profitability position in Bangladesh according to their categories.

Table (3): Structure of the Banking System in Bangladesh (up to March- 2010).

| Type of Banks | No. | No. of Branches | % of total asset | % of total deposit* |
|---------------|-----------|-----------------|------------------|---------------------|
| NCBs | 4 | 3391 | 29.76 | 25.52 |
| SBs | 4 | 1365 | 5.93 | 4.56 |
| PCBs | 30 | 2387 | 55.70 | 61.78 |
| FCBs | 09 | 58 | 8.61 | 8.14 |
| Total | 47 | 7201 | 100.00 | 100.00 |

Source: Bangladesh Economic Review. 2010, Published-June-2010, P.53.

Table (4): Distribution of Bank Branches in Different Regions (up to March- 2010).

| Types of banks | No. of banks | No. of branches | | | As % of the total branches | | |
|----------------|--------------|-----------------|-------------|-------------|----------------------------|--------------|------------|
| | | Urban | Rural | Total | Urban | Rural | Total |
| NCBs | 4 | 1242 | 2149 | 3391 | 36.63 | 63.37 | 100 |
| SBs | 4 | 157 | 1208 | 1365 | 11.50 | 88.50 | 100 |
| PCBs | 30 | 1605 | 782 | 2387 | 67.14 | 32.86 | 100 |
| FCBs | 9 | 58 | 0 | 58 | 100.00 | 0.00 | 100 |
| Total | 47 | 3062 | 4139 | 7201 | 42.52 | 57.48 | 100 |

Source: Bangladesh Economic Review. 2010, Published-June-2010, P.54

Banking Structure at a glance.**Central Bank**

- Bangladesh Bank.

Nationalized Commercial Banks

1. Sonali Bank Ltd
2. Janata Bank Ltd
3. Agrani Bank Ltd
4. Rupali Bank Ltd

Local & Foreign Islamic Banks.

1. Islami Bank Bangladesh Ltd
2. Social Islami Bank Ltd
3. Exim Bank Ltd
4. Sahjalal Islami Bank Ltd
5. ICB Islami Bank Ltd
6. Al- Arafah Islami Bank Ltd
7. First Security Islami Bank Ltd
8. Bank Al-Falah Ltd (Foreign Islamic Bank)

Specialized Banks¹⁵

1. Bangladesh Krishi Bank Ltd
2. Rajshahi Krishi Unnayan Bank Ltd
3. Bangladesh Development Bank Ltd
4. Basic Bank Ltd

¹⁵ Functions of banks & Financial Institutions, 2009-10, Ministry of finance.

Local Private Banks

2. Pubali Bank Ltd
3. Uttara Bank Ltd
4. AB Bank Ltd
5. National Bank Ltd
6. The City Bank Ltd
7. IFIC Bank Ltd
8. United Commercial Bank Ltd
9. Eastern Bank Ltd
10. NCC Bank Ltd
11. Prime Bank Ltd
12. Southeast Bank Ltd
13. Dhaka Bank Ltd
14. Duch Bangla Bank Ltd
15. Mercantile Bank Ltd
16. Standard Bank Ltd
17. One Bank Ltd
18. Bangladesh Commerce Bank Ltd
19. Mutual Trust Bank Ltd
20. The Premier Bank Ltd
21. Bank Asia Ltd
22. Trust Bank Ltd
23. Jamuna Bank Ltd
24. BRAC Bank Ltd

Foreign Private Bank Ltd

1. Standard Chartered Bank Ltd
2. Habib Bank Ltd
3. State Bank of India Ltd
4. Commercial Bank of Ceylon Ltd
5. National Bank of Pakistan
6. City Bank N. A.
7. Woori Bank Ltd
8. HSBC Bank Ltd
9. Bank Al-Falah Ltd

Another 37 financial institutions are operating in Bangladesh including Grameen Bank, Lanka Bangle Finance, and DSE & CSE.

CHAPTER-3

Investment modes of Islamic banking.

FOCUS:-

Investment methods of Islamic banks

The theory of big push

Investment on SME sectors

Investment on large sector

Economic stability & Islamic banking

Few Islamic banks: Performance overview

3.1 Investment methods of Islamic banks

Investment is the action of deploying funds with the intention and expectation that they will earn a positive return for the owner.¹⁶ Funds may be invested in either real assets or financial assets. When resources are spent to purchase fixed and current assets for use in a production process or for a trading purpose, the investment is in real assets. For example, the establishment of a factory or the purchase of raw materials and machinery for production purposes. On the other hand, the purchase of a legal right to receive income in the form of capital gains or dividends would be indicative of financial investments. Specific examples of financial investments are deposits of money in a bank account, the purchase of Mudaraba Savings Bonds or stock in a company. Ultimately, the savings of investors in financial assets are invested by the respective company into real assets in the form of the expansion of plant and equipment. Since Islam condemns hoarding savings and a 2.5 percent annual tax (zakat) is imposed on savings, the owner of excess savings, if he is unable to invest in real assets, has no option but to invest his savings in financial assets.

When money is deposited with an Islamic Bank, the bank in turn makes investments in different forms approved by the Islamic Shariah with the intent to earn a profit. Not only a bank, but also an individual or organization can use Islamic modes of investment to earn profits for wealth maximization. Some popular modes of Islamic Investment are as follows:-

- BAI-MURABAHA
- MUSHARAKA
- MUDARABAH
- BAI-SALAM
- ISTISNA'A SALE
- QARD-AL-HASANA
- BAI-MUAJJAL

Details of each with its features are discussed below:-

- BAI-MURABAHA

Meaning and Definition: The terms “Bai-Murabaha” have derived from Arabic words Bai and Ribhun. The word Bai means purchase and sale and the word Ribhun means an agreed upon profit. Bai-Murabaha means sale for an agreed upon profit. Bai-Murabaha may be defined as a contract between a

¹⁶ Raymond Brockington. 1986, *A concise Dictionary of Accounting and Finance* Pitman Publishing Ltd. P.68.

Buyer and a Seller under which the Seller sells certain specific goods permissible under Islamic Shariah and the Law of the land to the Buyer at a cost plus an agreed upon profit payable today or on some date in the future in lump-sum or by installments. The profit may be either a fixed sum or based on a percentage of the price of the goods.

Bai-Murabaha may be of two types:

- i). Ordinary Bai-Murabaha
- ii). Bai-Murabaha on order and Promise

i) Ordinary Bai-Murabaha is a direct transaction between a buyer and a seller. Here, the seller is an ordinary trader who purchases goods from the market in the hopes of selling these goods to another party for a profit. In this case, the seller undertakes the entire risk of his capital investment in the goods purchased. Whether or not he earns a profit depends on his ability to find a buyer for the merchandise he has acquired.

ii) Bai-Murabaha on order and Promise: This transaction involves three parties the buyer the seller and the bank. Under this arrangement the bank acts as an intermediary trader between the buyer and the seller. In other words, upon receipt of an order and agreement to purchase a certain product from the buyer the bank will purchase the product from the seller to fulfill the order.

There are some important features of Bai-Murabaha as given below:

- i) A Client can make an offer to purchase particular goods from the bank for a specified agreed upon price, including the cost of the goods plus a profit.
- ii) A Client can made the promise to purchase from the Bank, that is, he is to either satisfy the promise or to indemnify any losses incurred from the breaking the promise without excuse.
- iii) It is permissible to take cash/collateral security to guarantee the implementation of the promise or to indemnify any losses that may result.
- iv) Documentation of the debt resulting from Bai-Murabaha by a Guarantor, or a mortgage, or both the like any other debt is permissible. Mortgage/Guarantee/Cash Security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement.

- v) Stock and availability of goods is a basic condition for signing a Bai-Murabaha agreement. Therefore, the bank must purchase the goods in accordance with the specification of the client, thereby taking ownership of the goods before signing the Bai-Murabaha agreement with the Client.
- vi) Upon acquiring the goods, the bank assumes the risk of ownership. In other words, the bank is responsible for damages, Defects, and /or spoilage to the merchandise until such time that it is actually delivered to the buyer.
- vii) The bank must deliver the goods to the client at the date time and place specified in the contract.
- viii) The bank sells the goods at a price above the cost to obtain a profit. The sale price that is charged by the bank is agreed upon in the Bai-Murabaha. The profit can be stated in terms of a flat dollar amount or on a percentage of the purchased in terms of time in order to avoid confusion that the price is a form of interest (riba) which is not allowed.
- ix) It is permissible for the bank to contract with a third party to buy and receive the goods on its behalf. This agreement must be a separate contract.¹⁷

- MUSHARAKA (Partnership)

Meaning and Definition: The word Musharaka is derived from the Arabic word Sharikah Meaning partnership. Islamic jurists point out that the legality and permissibility of Musharakah is based on the injunctions of the Holy Quran, Sunnah and Ijma (consensus) of the scholars. It may be noted that Islamic Banks are inclined to use various forms of Shariakt-al-Inan because of its built in flexibility. At an Islamic bank a typical Musharakah transaction may be conducted in the following manner.¹⁸

One, two or more entrepreneurs approach an Islamic bank to request the financing required for a project. The bank along with other partners provides the necessary capital for the project. All partners, including the bank have the right to participate in the project. They can also waive this right. The profits are to be distributed according to an agreed ratio, which need not be the same as the capital proportion. However losses are shared in exactly the same proportion in which the different partners have provided the finance for the project.

¹⁷ Hasan M. Kabir, 2003, *The Text Book on Islamic Banking*. IERB, Dhaka, p.123.

¹⁸ *Ibid*, pp-124-125.

Musharakah may take two forms:-

i) Permanent and

ii) Diminishing Musharaka, both are discussed below.

i) Permanent Musharakah : The contributions of the partners under this mode may be equal or unequal percentages of capital for the purpose of establishing a new income generating project or to participate in an existing one. In this arrangement, each participant owns a permanent share in the capital structure and receives his share of the profits accordingly. This type of a partnership is intended to continue until the company is dissolved. However, one can exit the partnership by selling his share of the capital to another investor.

Features of Permanent Musharakah are as follows:-

- i) It is a condition that the capital provided by each partner is specific, existent and easily accessible. It is inappropriate to establish a company with borrowed money for the purpose of profit.
- ii) It is permissible for partners to have unequal ownership in the project. The percent of ownership is set forth in the agreement.
- iii) It is a condition that the capital of the company is money and valuables. Some of the juristic permit contributing merchandise as invested capital. However, the merchandise must be evaluated and the value agreed upon by all parties. Once the value has been established it is counted as capital and stipulated in the contract as such.
- iv) It is impermissible to impose conditions forbidding one of the partners from work. The company is built on honor and each partner implicitly permits and gives power of attorney to the other partner(s) to dispose of and work with capital as is deemed necessary to conduct business. However it is permissible for one partner to have full responsibility for the operations of the company provided he is granted this authority by the other partners.
- v) A partner is a trustee of company funds in his possession and is held responsible for their proper use. It is permissible to take a mortgage or a guarantee against company assets but it is impermissible to take security for profit or capital.
- vi) It is a condition that each partner share of the profits be known to avoid uncertainty. Also it is required that the ownership interest be in percentage terms and not a fixed sum, because this would violate the requirements of a partnership.

- vii) In principle, profit must be divided among partners in ratios proportionate to their shares in capital but some of the jurists permit variation in profit shares, so long as it is agreed to by all of the partners.
- viii) In principle a partnership is a permissible and non binding contract. Rescinding the agreement without the knowledge of the other partners prejudices the rescinding partner's interest. On the other hand some of the jurists take the view that the partnership contract is binding up to the liquidation of capital or the accomplishment of the job accepted at the contract.
 - ii) **Diminishing Musharakah:** When the bank enters into a Diminishing Musharaka its intention is not to stay in partnership until the company is dissolved. In this type of partnership the bank to accept payment on an installment basis or in one lump sum an amount necessary buy the banks partnership interest. In this way as the bank receives payments and above its share in partnership profits its partnership interest reduces until completely bought out of the partnership. After the discharge the bank withdraws it claims from the firm and it become property of the partner. The decreasing partnership arrangement is an Islamic innovation.

Features of Diminishing Musharakah are as follows:-

- i) It is a condition in the decreasing partnership that it shall not be a mere loan financing operation. In other words there must be shared ownership and all the parties must share in the profits or losses during the period of the partnership.
- ii) It is a condition that the bank completely owns its share in the partnership and all rights of ownership with agreed to management of the business. In the event that bank authorizes its partner to manage the business, the bank shall have the right of oversight supervision and follow up.
- iii) It is impermissible to include in the contract of decreasing partnership a condition that adjudges the partner to return to the bank the total of its shares in capital in addition to profits accruing from that share, because of resemblance to RIBA (usury).
- iv) It is permissible for the bank to promise to sell its shares in the company to the partner, if the partner pays the value of the shares. The sale must be concluded as a separate deal with no connection to the contract of the company.

• MUDARABAH

Meaning and Definition: The term Mudarabah refers to a contract between two parties in which one party supplies capital to the other party for the purpose of engaging in a business activity with the understanding that any profits will be shared in a mutually agreed upon. Losses on the other hand are the sole responsibility of the provider of the capital. Mudarabah is also known as Qirad and Muqaradah.¹⁹

Mudaraba is a contract of those who have capital with those who have expertise where the first party provides capital and the other and the other party provides the expertise with the purpose of earning “halal” (Lawful) profit which will be shared in a mutually agreed upon proportion. This type of business venture serves the interest of the capital owner and the Mudharib (agent).

The capital owner may not have the ability or the experience to run a profitable business. On the other hand the agent (the Mudharib) may not have adequate capital to invest in a business or project. Therefore, by entering into a contract of Mudarabah each party compliments one another, allowing a business venture to be financed. The following are the stamps of the Mudarabah contract. There are some legal rules that govern the business relationship Mudarabah which are as follows:

Rules of Mudarabah :²⁰

- i) It is a condition in Mudarabah that capital be specific in nature. In other words, the amount of capital must be known at the inception of the contract. The purpose of this rule is to ensure that there is no uncertainty about the amount of capital and, thus no uncertainty about the division of profits.
- ii) It is a condition that capital must be in the form currency in circulation. However, merchandise can be contributed, so long as both parties to the business arrangement agree upon its value.
- iii) It is a condition that the capital can not be subject to indebtedness.
- iv) It is permissible for a mudharib to mix his private capital with the capital of the Mudarabah, thus becoming a partner. In addition it is also permissible for the mudharib to dispose of capital on behalf of the mudarabah.

¹⁹ 16. *Habid Shirazi (ed), (London: 1990), Islamic Banking Butterworth's p-31,*

²⁰ *Prof. Sharif Hussain op. cit p.103 Institute of Islamic Banking and Insurance Module 11, Lesson-4 (London). P.2*

- v) It is a condition that the capital of the Mudarabah is delivered to the mudharib. Some of the jurists permit the capital owner to withhold capital and release it gradually according to the needs of the mudharib since the udarabah adjudges unrestricted disposal.
- vi) It is permissible for the capital owner to deliver capital to two Mudharibs in a single contract. It is permissible for the capital owner to vary the in profit sharing agreement between the two Mudharib based upon differences in the services provided.
- vii) It is permissible to impose restrictions on the mudharib as long as the restriction is beneficial and does not hinder the agent's ability to make a profit.
- viii) It is permissible for the Mudharib to hire an assistant to perform difficult work that he is unable to perform on his own.
- ix) The disposal of capital by the Mudharib is restricted to reasons that are conducive to the Mudarabah. The Mudharib must not lend or donate any of the Mudarabah capital. Further he is not allowed to enter into indebtedness her enter into another partnership agreement with the Mudarahah capital. However, these activities are permissible if the capital owner consents and authorizes the agent to use his discretion.
- x) The Mudharib is not required to contribute any capital to the Mudarabah contract except when he is found to be negligent in the way the funds are handled. It is permissible to take a surety or mortgage from the mudharib to guarantee payment in the event of negligence violation of the contract conditions. However it is impermissible to take a mortgage as a guarantee of capital or profit.
- xi) It is a condition that profits be carefully and properly accounted for to avoid confusion by the parties to the contract. The contracting parties should stipulate how profits are to be shared on a percentage basis. It is impermissible to stipulate a fixed lump sum as profit.
- xii) Profits in a Mudarabah relationship are distributed according to the agreement of the two contracting parties. It is a condition that the capital owner be solely responsible for any losses.
- xiii) The Mudharib shall collect his share of the profit only after obtaining the permission of the capital owner. In addition, the Mudharib can not collect his share of profit until after capital outlay is recouped. In the event the profits are split prior to the closing of the Mudarabah, any losses incurred shall be reimbursed by the distributed profits.

- xv) The Mudarabah agreement may be terminated if one of the two parties decides to rescind the agreement. This is possible because the Mudarabah is an optional non-binding agreement. Some of the jurists hold the view that Mudarabah is binding and it can not be rescinded if the Mudharaib commences work.

- BAI-SALAM

Definition and Meaning: Bai-Salam is a term used to define a sale in which the buyer makes advance payment but the delivery is delayed until some time in the future. Usually the seller is an individual or business and the buyer is the bank.

The Bai-Salam sales serve the interests of both parties:-

- i) The seller receives advance payment in exchange for the obligation to deliver the commodity at some later date. He benefits from the salam sale by locking in a price for his commodity, thereby allowing him to cover his locking in a price for his commodity, thereby allowing him to cover his financial needs whether they are personal expenses, family expenses or business expenses.
- ii) The purchaser benefits because he receives delivery of the commodity when it is needed to fulfill some other agreement without incurring storage costs. Second, a Bai-Salam sale is usually less expensive than a cash sale. Finally a Bai-Salam agreement allows the purchase to lock in a price, thus protecting him from price fluctuation.

Rules of Bai-Salam are as follows:-

- i) It is a condition that the commodity known by both parties to the agreement. Misunderstandings about the commodity may lead to disputes which could void the contract.
- ii) It is a condition that the quality of the commodity be monitored closely, as very little variation from specifications in the contract is allowable. If the commodity cannot be monitored for quality standards a Salam transaction is impermissible.
- iii) It is a condition that the commodity be deliverable on the due date. If there is uncertainty about the ability to deliver the commodity at the due date a salam transaction is impermissible.

- iv) It is permissible to draw a salam sale contract for a total to be delivered increments on different specified future dates.
- v) It is a condition that the commodity is a liability debt. The seller is obliged to deliver the commodity when it is due according to the specifications stipulated in the contract. Whether or not his firm produces the commodity or obtained from other firms.²¹
- vi) Salam sales are impermissible on existing commodities because amage and deterioration cannot be assured before delivery on the due date.
- vii) Salam is impermissible on Land lots and real estates.
- viii) Salam is permissible on a commodity of a specific locality if it is assured that it is almost always available in that locality and it rarely becomes unavailable.
- ix) It is a condition in a salam sale that the purchase price in Salam is specified and advanced to the seller at the time of signing of contract.
- x) It is a condition in a salam sale that the due date is known to avoid confusion, which may lead to a dispute.
- xi) It is a condition that the place of delivery stated in the contract if the commodity requires special handling and delivery arrangements.
- xii) It is permissible to take a mortgage on salam debt to guarantee that the seller satisfies his obligation by delivering the commodity on the due date.
- xiii) It is impermissible for the buyer of a Salam commodity to sell the commodity before receiving it. It is known that the Salam commodity is a liability debt to the seller and not a commodity that exists. However, it is permissible for the buyer to draw a parallel Salam contract without connecting it to the first salam contract.

²¹ Hasan M. Kabir, 2003, *The Text Book on Islamic Banking*. IERB, Dhaka, p.123.

- ISTISNA'A SALE

Meaning and Definition: The Istisna'a sale is a contract in which the price is paid in advance at the time of the contract and the object of sale is manufactured and delivered later.²² The majority of the jurists consider Istisna'a as one of the divisions of Salam, Therefore it is subsumed under the definition of Salam. But the Hanafie school of Jurisprudence classifies Istisna's as an independent and distinct contract. The jurists of the Hanafie School have given various definitions to Istisna'a some of which are

“That it is a contract with a manufacturer to make something and it is a contract on a commodity on liability with the provision of work.”

The Purchaser is called Mustasnia contractor and the seller is called Sania maker or manufacturer and the thing is called Masnooa manufactured built made.

Several Rules for Istisna' a Sale is mentioned below:-

- i) It is a condition in the Istisna'a contract to clearly define dimensions and specification of the product being purchased. This is important to ensure that there is no room for dispute over what is required.
- ii) The Istisna' a contract is only used for objects that can be manufactured. It can not be used to purchase corn, wheat, barely, fruit or any natural product.
- iii) The object sold in a Istisna' a contract is a fixed liability, debt and it is permissible for the object to be a custom manufactured product, made in accordance with certain specifications.
- iv) The maker should supply the materials, If they are supplied by the buyer, the contract is Ijara and not Istisna'a.
- v) Once the contract is drawn the ownership of the asset is confirmed to the buyer and the purchase price is confirmed to the manufacture.
- vi) It is not a condition in the Istisna' a contract to advance the price, usually part of the price. Usually part of the price is said in advance and the remainder is withheld until the time of delivery.
- vii) It is a condition that the time of delivery be specified in the agreement to avoid confusion that may lead to a dispute over the transaction.

²² Islamic Development Bank. 1992, *Principles of Islamic Financing (A survey)*, Jeddah, p-28.

- viii) It is a condition that the place of delivery be stated in the contract if the commodity requires special handling and delivering arrangements.
- ix) The buyer may stipulate in the Istisna' a contract that the commodity shall be manufactured or produced by a specific manufacturer, or manufactured with specific materials. This is not permitted in a case of Salam Sale.

- QARD-AL-HASANA (Benevolent Loans)

Meaning and Definition: Qard-al- Hasana is a contract in which one of the parties (the lender) places into the ownership of the party (the borrower) a definite parcel of his property, In exchange nothing more than the return of something in the same value of the property loaned. Dr. Ausaf Ahmed⁸⁴ mentioned that since interest on all kinds of loans is prohibited in Islam, a loan which is to be given in accordance with the Islamic principle, has to be, by definition, a benevolent loan (Qard Hasan) i.e. a loan without interest. It has to be granted on the grounds of compassion, i.e. to remove the financial distress caused by the absence of sufficient money in the face of dire need. Since banks are profit driven organizations, it would seem that there is not much opportunity for the application of this technique. However, Islamic banks also play a socially useful role. Hence they, make provisions to provide Qard-al-Hasana besides engaging in income generating activities.

- BAI-MUAJJAL (Deferred Sale)

Meaning and Definition: The terms “Bai” and “Muajjal” are derived from the Arabic words ‘Ajal’ means a fixed time or a fixed period, “ Bai-Muajjal” is a sale on Credit. The Bai-Muajjal may be defined as a contract between a buyer and a seller under which the seller sells certain specific goods, permissible under Shariah and law of the Country, to the buyer at an agreed fixed price payable at a certain fixed future date in lump sum or in fixed installments.

There are some important features of Bai-Muajjal as given below:-

- i) It is permissible and in most cases, the client will approach the bank with an offer to purchase a specific good through a Bai-Muajjal agreement.

⁸⁴ Dr. Asaf Ahmed *Contemporary Practices of Islamic Financing Techniques*. IDB Jeddah 1423H, p-4

- ii) It is permissible to make the make promise binding upon the client to purchase the goods from the bank. In other words, the client is require to either satisfy the promise or to indemnify the bank for damages caused by breaking caused by breaking the promise without excuse.
- iii) It is permissible to take cash/collateral Security to Grantee the implementation of the promise or to indemnify for damage caused by non-payments.
- iv) It is also permissible to document the debt resulting from Bai-Muajjal by a Guarantor, or a mortgage or both, like any other debt. Mortgage/Guarantee/ Cash security may be obtained prior to the signing of the Agreement or at the time of signing the Agreement or at the time of signing the Agreement.²⁴
- v) Stock and availability of goods is a basic condition for signing a Bai-Muajjal Agreement. Therefore, the Bank must purchase the goods in accordance with the specifications of the client prior to signing the Bai-Muajjal Agreement with the client.
- vi) All goods purchased on behalf of a Bai-Muajjal agreement are the responsibility of the bank until they are delivered to the client.
- vii) The bank must deliver the goods at a higher price than the purchase price to earn profit.
- viii) The Bank may sell the goods at a higher price than the purchase price to earn profit.
- ix) The price is fixed at the time of the agreement and can not be altered.
- x) The bank is not required to disclose the profit made on the transaction.

²⁴ Hasan M. Kabir, 2003, *The Text Book on Islamic Banking*. IERB, Dhaka, p.142.

3.2 The theory of big push

The theory of “big push” is associated with the name of Professor Paul N. Rosenstein Rodan. The thesis is that a big push or a large comprehensive programmed is needed in the form of a high minimum amount of investment to overcome the obstacles to development in an underdeveloped economy and to launch it on the path to progress. To stress his argument he quotes an analogy from an MIT Study. ‘There is a minimum level of resources that must be devoted to a development programmed if it is to have any chance of success. Launching a country into self sustaining growth is a little like an airplane off the ground. There is a critical ground speed which must be passed before the craft can become airborne’

The theory states that proceeding “bit by bit” will not launch the economy successfully on the development path rather a minimum amount of investment is a necessary condition for this. It necessitates the obtaining of external economics that arise from the simultaneous establishment of technically interdependent industries. Thus indivisibilities and external economics flowing from a minimum quantum of investment are a prerequisite for launching economic development successfully. Rosenstein Rodan distinguishes between three different kinds of indivisibilities and external economics.²⁵

- **One:** indivisibility in the production function, especially the indivisibility of the supply of social overhead capital.
- **Two:** indivisibility of demand, and
- **Three:** indivisibility in the supply of savings.

Let us analyze the role of these indivisibilities in bringing economic development.

1. **Indivisibilities in the Production Function:** According to Rosenstein Rodan indivisibilities of inputs outputs or processes lead to increasing returns. He regards social overhead capital as the most important instance of indivisibility and hence of external economies on the supply side. The services of social overhead capital comprising basic industries like power, transport and communications are indirectly productive and have a long gestation period.

²⁵ Notes on: the theory of Big Push in Economic Development of Latin America Ch III(ed) H.S. Ellis and W. W. Wallich 1961. The Objectives of US Economic Assistance Programmes 1970

They cannot be imported. Their installations require a 'sizeable initial lump' of investment. So, excess capacity is likely to remain in them for some time. They also possess 'an irreducible minimum industry mixes of different public utilities, so that an underdeveloped country will have to invest between 30-40 percent of its total investment in these channels.'

Thus social overhead capital is characterized by four indivisibilities.

- First, it is irreversible in time and therefore must precede other directly productive investments.
- Second, it has a minimum durability thus making it very lumpy.
- Third, it has a long gestation period.
- Fourth, it has an irreducible minimum industry mix of different kinds of public utilities.

These indivisibilities of supply of social overhead capital are one of the principle obstacles to development in underdeveloped countries. Therefore a high initial investment in social overhead capital is necessary in order to pave the way for quick yielding directly productive investments.²⁶

2. Indivisibility of Demand: The indivisibility or complementarity of demand requires simultaneous setting up of interdependent industries in underdeveloped countries. This is because individual investment projects have high risks as low incomes limit the demand for their products. To illustrate Rosenstein Rodan takes first a closed economy where a hundred disguised unemployed workers are employed in a shoe factory whose wages constitute an additional income. If these workers spend all their income on shoes they manufacture, the shoe market will have a regular demand and thus succeed. But the fact is that they would not like to spend all their additional income on shoes human wants being diverse. Nor will the people outside the factory buy additional shoes when they are poor. Thus the new factory will be abandoned for want of an adequate market. To vary the example supposes that ten thousand unemployed workers are engaged in one hundred factories (instead of hundred workers in one factory) that produce a variety of consumer goods and spend their wages on buying them. The new producers would be each others customers and thus create market for their goods.

²⁶ *Jhingan, M.L. 1993, The Economics of Development & Planning, 26th edition. Delhi.p-176*

The complementarity of demand reduces the risk of finding a market and increases the incentive to invest. In other words, it is the indivisibility of demand which necessitates a high minimum quantum of investment in inter-dependent industries to enlarge the size of the market. Rosenstein's example of the shoe factory is explained in the following Figure:-

The curves ATC and MC represent the costs of a plant which is a little smaller than the optimum size plant. D_1 and MR_1 are the demand and marginal revenue curves of the shoe factory when investment is made only in it. It produces OQ_1 (10,000) shoe and sells at OP_1 price which does not cover the ATC. So the factory is incurring $CabP_1$ losses.

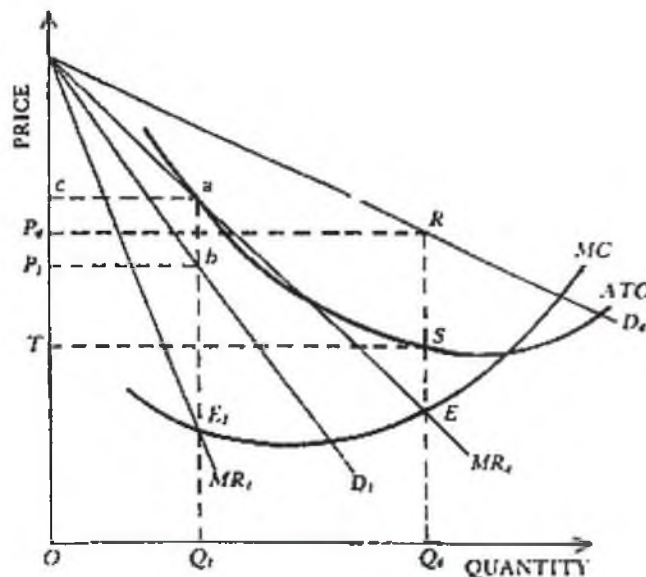


Fig (4): The "Big Push" Theory

But when simultaneous investment is made in a number of different industries, the market for shoes expands. The demand for shoes rises to D_4 (four times) so that the quantity of shoes becomes OQ_4 (40,000). Now the shoe factory earns profits equal to $P_4 RTS$. Similarly, other industries earn profits.

3. Indivisibility in the Supply of Savings: A high income elasticity of saving is the third indivisibility in Rosen Stein's theory. A high minimum size of investment requires a high volume of savings. This is not easy to achieve in underdeveloped countries because of low incomes. To overcome this, it is essential that when incomes increase due to an increase in investment the marginal rate of saving should be very much higher than the average rate of saving.

Given these three indivisibilities and the external economics to which they give rise a big push or a minimum quantum of investment is required to overcome the obstacles to development in underdeveloped countries. 'There may be finally a phenomenon of indivisibility in the vigor and drive required for a successful development policy', writes Rodan. But proceeding bit by bit in an isolated and small way does not lead to a sufficient impact on growth. A climate for development is only created when investment of a minimum speed or size is made within an underdeveloped economy.

Applied side of this theory on Islamic modes of investments:-

The theory of big push is a theory for under developed countries like Bangladesh. We have understood that the assumptions of three indivisibilities are similar to our national economic features. Due to the similarities of assumptions of this theory we think that this theory is applicable in Islamic modes of investments so that our investment level can increase up to the mark hence national economic development can be ensured. The similarities are discussed below:-

- Prof Rodan had shown the first indivisibility in production function. He said that a high initial investment in social overhead capital is necessary in order to pave the way for quick yielding directly productive investments. According to this theory Bangladesh need to invest 30-40 % of total investment in heavy sectors. The other 60-70% investment needs to apply in the SME sectors. If the private & public sectors take the investment facility from Islamic banks the obstacles of investment will be declined. This indivisibility is related with our national economy. Islamic banks need to invest 30-40% of total investment in heavy/corporate sectors and remaining large share investment facility may apply to SME sectors.
- Prof Rodan said that indivisibility of demand is seen in the underdeveloped economy. For this situation many interdependent factory of industry may take place in the market. The complementarity of demand reduces the risk of finding a market and increases the incentive to invest. In other words, it is the indivisibility of demand which necessitates a high minimum quantum of investment in inter-dependent industries to enlarge the size of the market. If the Islamic banks provide their investment

facility to heavy industry or leading sectors then some interdependent sectors/firms will come across to the economy. As a result total output will be increased and size of market will be expanded. This assumption is closely related to our national economy.

- In the third assumption Rodan said that a high level of income elasticity of saving is seen in the economy of developing country like Bangladesh. A high minimum size of investment requires a high volume of savings. This is not easy to achieve in underdeveloped countries because of low incomes. To overcome this, it is essential that when incomes increase due to an increase in investment then the marginal rate of saving should be very much higher than the average rate of saving. To increase savings need to decrease unemployment thus if the investment is increased then the level of unemployment will be declined. If the more people is employed then level of saving will be increased. For this case Rodan said it the income elasticity of saving. We may compare this situation with our national economy. If the Islamic banks invest more funds into leading sectors then level of unemployment will be declined and national saving will be high.

For boost economic growth the theory is said to invest more and more in a certain period of time so that all obstacles and infirmity of investment of the country can be broken down. So as like of this theory to invest more and more in certain productive sectors, investment planning must be strong and target oriented. We think that the source of fund can be supplied from investment funds of all Islamic banks and the sectors to be financed can be the SMEs sectors for economic development of Bangladesh. Islamic banks carried out a huge number of idle money per year which is not yet invested. Thus Islamic banks can finance more fund to SME sectors and rural area for economic development so that selected number of consumer can be benefited socially and economically. For this regard they need to deposit mobilization and capital accumulation.

In fine we can see that this theory is made for developing/under developing country like Bangladesh. Three assumptions are comparable with our national economy. If our level of investment will be amplified the unemployment situation will be declined. When more people are employed then income and saving will be increased proportionately. We tried to apply this theory on Islamic modes of investment in connecting with Bangladesh economy. The saving and investment position of Bangladesh are shown below:-

Table (5): Saving as percentage of Gross Domestic Product (GDP)

| Fiscal Year | Domestic Saving | National saving |
|--------------------|------------------------|------------------------|
| 2001-02 | 18.16 | 23.44 |
| 2002-03 | 18.63 | 24.87 |
| 2003-04 | 19.53 | 25.44 |
| 2004-05 | 20.01 | 25.84 |
| 2005-06 | 20.25 | 27.67 |
| 2006-07 | 20.35 | 28.66 |
| 2007-08 | 20.31 | 30.21 |
| 2008-09 (prov) | 20.01 | 32.37 |

Source: Bangladesh Bureau of Statistics (BBS), Bangladesh Economic Review(English version)-2009,P-30.

Table (6): Investment as percent of Gross Domestic Product (GDP)

| Fiscal Year | Private investment | Public investment | Total investment |
|--------------------|---------------------------|--------------------------|-------------------------|
| 2001-02 | 16.78 | 6.37 | 23.15 |
| 2002-03 | 17.21 | 6.20 | 23.41 |
| 2003-04 | 17.83 | 6.19 | 24.02 |
| 2004-05 | 18.32 | 6.21 | 24.53 |
| 2005-06 | 18.65 | 6.00 | 24.65 |
| 2006-07 | 19.02 | 5.45 | 24.46 |
| 2007-08 | 19.25 | 4.95 | 24.21 |
| 2008-09 (prov) | 19.55 | 4.63 | 24.18 |

Source: Bangladesh Bureau of Statistics (BBS), Bangladesh Economic Review(English version)-2009,P-31.

Table analysis: The table no (6), we observed that in the last eight (8) fiscal years that GDP saving rate is increasing per year. In 2001-02 national saving rate was 23.44 later on in 2008-09 it was 32.37 percent. Meanwhile in the table no (7) we also see that total investment position was not increasing as per proportionate rate of saving increasing. In 2001-02 investment rate was 23.15 later on in 2008-09 it was only 24.18 percent, increasing position only 1.03%. Bangladesh needs to increase global investment position as proportionate rate of saving. So, Islamic banks should invest more to thrust sectors SME and other related fields.

3.3 Investment on SME sectors

The word SME means Small & Medium Enterprises. SME sector is the worldwide financial strategy for poverty alleviation. It is more effective for developing countries while heavy industrial sectors of those countries are so weak and limited. Bangladesh is a developing country suffering rural poverty frequently. To expand SME financing and facilities our rural poverty can be minimized. All Islamic banks of Bangladesh are involved SME financing with their SME unites or branches banking. This is the thrust sector for boom investment because huge number of workers including male & female are involved with this sectors. SME financing position of Bangladesh and its probability of best future are marked in this chapter. To compare our rural economy with other countries some documentary data are collected. About definition of SME Bangladesh bank composed SME segment through their ACSPD circular no 08, dated 26/05/2008 which is mentioned below:-

Table (7): Small enterprises

| Particulars | Total assets (Tk.) | Number of employees |
|-----------------------|---|----------------------|
| Service concern | 0.50 to 5.00 lac (excluding land & building) | Less than 25 persons |
| Trading concern | 0.50 to 5.00 lac (excluding land & building) | Less than 25 persons |
| Manufacturing concern | 0.50 to 150.00 lac (excluding land & building) | Less than 50 persons |

Source: Bangladesh bank, ACSPD circular no-08, 26/05/2008

Table (8): Medium enterprises

| Particulars | Total assets (Tk.) | Number of employees |
|-----------------------|--|-----------------------|
| Service concern | 0.50 to 10.00 crore (excluding land & building) | Less than 50 persons |
| Trading concern | 0.50 to 10.00 crore (excluding land & building) | Less than 50 persons |
| Manufacturing concern | Above 1.50 to 20.00 crore (excluding land & building) | Less than 150 persons |

Source: Bangladesh bank, ACSPD circular no-08, 26/05/2008

To further strengthen the process of industrialization, the Government has identified the Small and Medium Enterprise (SME) as a priority sector. To attract foreign investment, facilities for the Potential investors have been enhanced in the new industrial policy which is expected to be finalized by January, 2010. Cottage, small and medium industries will be an important component of the industrial landscape playing a critical role in decentralized employment generation, women's entrepreneurship development and poverty alleviation. The industrial sector will be environment- friendly and compliant with health, safety and other standards required under the rules of the World Trade Organization.

449637

Quantum Index of production of Manufacturing Industries

The Quantum Index of Production (QIP) is important tool for measuring the production performance of manufacturing industries. Data available from Bangladesh Bureau of Statistics (BBS) shows that QIP (1988-89=100), representing medium to large-scale industries, rose to 413.40 in FY2008-09 from 228.43 in FY2000-01. Following table shows the index during FY2000-01 to FY2008-09.

Table (9): Quantum Index of Production for Medium to Large Scale Manufacturing Industries.

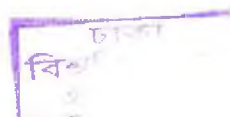
FY2000-01 to FY2008-09 (1988-89=100)

| Industry | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09(Provisional) |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|----------------------|
| Medium to Large Scale Industries | 228.43 | 238.75 | 254.45 | 272.13 | 294.72 | 328.35 | 360.33 | 386.48 | 413.40 |

Small and Medium Enterprises (SMEs)

Sources: Bangladesh Economic Review-2009, English version, p-106.

Small and Medium enterprises (SMEs), by producing exportable surpluses of commodities together with local value additions and creation of employment opportunities, can make significant contribution to the economy of Bangladesh. Although financing of SMEs in off-farm rural economic activities are largely dependent on equity financing from personal and family savings, currently banks and financial institutions are also coming forward to provide finance to this sector.



As the large potential of employment generation by SMEs has attracted attention of the policy makers, a range of initiatives for channeling loans to SMEs are being taken.

The Government has taken up programmes to provide financial assistance to expand SMEs through commercial banks. Alongside the disbursement of loans, since FY2004-05, Bangladesh Bank has taken up a scheme of Tk. 100 crore for refinancing the scheduled banks and financial institutions as revolving fund. Recently, the scheme has been widened with an enhanced allocation of Tk.600 crore. Up to June2009, Tk.716.44 crore has been disbursed among different scheduled banks and financial institutions for refinancing potential entrepreneurs. In addition to this, IDA has provided US\$10 million and the Government of Bangladesh has provided Tk. 112.32 crore through 'Enterprises Growth and Bank Modernization Project (EGBMP)' with the stipulated revolving fund of Tk. 224.50 crore up to June 2009, refinancing facilities have been provided to different scheduled banks and financial institutions. Moreover, in an attempt to provide incentives to the sector, ADB has been providing an additional US\$30 million to Bangladesh Bank. These resources would contribute both in employment generation as well as in enhancing the purchasing power of the poor. Up to June 2009, Bangladesh Bank has disbursed Tk. 334.25 crore for refinancing of this programme. Detailed refinancing of Bangladesh Bank to various financial institutions and banks is shown at following table.

Table (10): Summary Information on SME Refinancing (up to June 2009)

| Refinancing Source | Amount Refinanced (in crore Taka) | | | | No. of Beneficiary Enterprises | | | |
|---------------------|-----------------------------------|---------------|----------------|----------------|--------------------------------|-----------------|-------------|--------------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industrial Loan | Commercial Loan | Service | Total |
| (a) Bangladesh Bank | 178.48 | 336.40 | 201.56 | 716.44 | 1724 | 4150 | 1127 | 7001 |
| (b) IDA | 61.51 | 96.40 | 66.59 | 224.50 | 899 | 1220 | 358 | 2477 |
| (c) ADB | 138.68 | 112.82 | 52.75 | 304.25 | 728 | 1864 | 331 | 2923 |
| Total | 378.68 | 545.62 | 320.90 | 1245.20 | 3351 | 7234 | 1816 | 12401 |

Source: Bangladesh Bank, Bangladesh Economic Review-2009, English version, p-107.

**Table (11)(a): Summary information on SME Refinancing from Bangladesh Bank.
(up to June 2009)**

| Name of Bank/FIs Refinanced | Amount Refinanced (in crore Taka) | | | | No. of Beneficiary Enterprises | | | |
|-----------------------------|-----------------------------------|---------------|----------------|------------|--------------------------------|-----------------|---------|-------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industrial Loan | Commercial Loan | Service | Total |
| (a) Bank | | | | | | | | |
| 1. NCC Bank Ltd. | 8.72 | 14.33 | 2.53 | 25.57 | 16 | 366 | 8 | 390 |
| 2. Jamuna Bank Ltd. | 22.45 | 5.07 | 1.15 | 28.67 | 160 | 184 | 47 | 391 |
| 3. National Bank Ltd. | 1.86 | 2.07 | 0.40 | 4.33 | 35 | 25 | 58 | 118 |
| 4. One Bank Ltd. | 9.42 | 5.60 | 0.00 | 15.02 | 31 | 231 | 8 | 270 |
| 5. The Premier Bank Ltd. | 37.64 | 2.66 | 1.24 | 41.54 | 102 | 154 | 51 | 307 |
| 6. BRAC Bank Ltd. | 3.87 | 30.91 | 0.00 | 34.77 | 164 | 896 | 16 | 1076 |
| 7. Southeast Bank Ltd. | 2.79 | 0.18 | 0.00 | 2.97 | 1 | 31 | 10 | 42 |
| 8. Dutch Bangla Bank Ltd. | 5.78 | 0.00 | 0.00 | 5.78 | 11 | 24 | 0 | 35 |
| 9. Mercantile Bank Ltd. | 1.04 | 36.12 | 2.10 | 39.26 | 61 | 734 | 88 | 883 |
| 10. Eastern Bank Ltd. | 0.08 | 31.37 | 38.41 | 69.86 | 78 | 342 | 10 | 430 |

| Name of Bank/FIs Refinanced | Amount Refinanced (in crore Taka) | | | | No. of Beneficiary Enterprises | | | |
|-----------------------------|-----------------------------------|---------------|----------------|---------------|--------------------------------|-----------------|------------|-------------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industrial Loan | Commercial Loan | Service | Total |
| 11. Dhaka Bank Ltd. | 45.00 | 12.09 | 1.35 | 58.94 | 158 | 138 | 21 | 317 |
| 12. Comm. Bank of Ceylon | 0.00 | 0.45 | 0.20 | 0.66 | 0 | 1 | 3 | 4 |
| 13. Uttara Bank Ltd. | 10.36 | 0.04 | 0.00 | 10.40 | 1 | 82 | 1 | 84 |
| 14. Mutual Trust Bank Ltd. | 1.52 | 5.25 | 0.43 | 7.20 | 41 | 93 | 3 | 137 |
| 15. Trust Bank Ltd. | 0.73 | 0.00 | 0.00 | 0.73 | 1 | 4 | 3 | 8 |
| 16. The City Bank Ltd. | 3.56 | 0.82 | 0.65 | 5.03 | 17 | 11 | 0 | 28 |
| 17. AB Bank Ltd. | 2.69 | 0.34 | 0.00 | 3.03 | 4 | 14 | 0 | 18 |
| Sub-Total (a) | 158.02 | 147.28 | 48.45 | 353.75 | 881 | 3330 | 327 | 4538 |

| (b) Non-Bank Financial Institutions | | | | | | | | |
|--|-----------------------------------|---------------|----------------|------------|--------------------------------|-----------------|---------|-------|
| Name of Bank/FIs Refinanced | Amount Refinanced (in crore Taka) | | | | No. of Beneficiary Enterprises | | | |
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industrial Loan | Commercial Loan | Service | Total |
| 1. Uttara Finance & Inv. Ltd. | 0.78 | 11.21 | 23.67 | 35.65 | 1 | 2 | 186 | 189 |
| 2. Prime Finance & Inv. Ltd. | 1.95 | 3.09 | 1.93 | 6.96 | 7 | 15 | 10 | 32 |
| 3. Midas Financing Ltd. | 0.07 | 45.12 | 16.81 | 61.99 | 282 | 497 | 177 | 956 |
| 4. IDLC of Bangladesh | 0.00 | 40.37 | 4.91 | 45.28 | 112 | 94 | 55 | 261 |
| 5. Phoenix Leasing Co. Ltd. | 1.61 | 7.50 | 8.23 | 17.34 | 53 | 41 | 27 | 121 |
| 6. United Leasing Co. Ltd. | 8.90 | 30.28 | 17.35 | 56.53 | 140 | 45 | 97 | 282 |
| 7. Vanik Bangladesh Ltd. | 0.08 | 0.05 | 0.00 | 0.13 | 2 | 0 | 0 | 2 |
| 8. Bay-Leasing Co. Ltd. | 0.25 | 0.52 | 0.47 | 1.24 | 7 | 0 | 1 | 8 |
| 9. Fidelity Assets & Securities Co. Ltd. | 0.00 | 1.47 | 25.14 | 26.61 | 22 | 14 | 99 | 135 |
| 10. Islamic Finance & Inv. Ltd. | 0.36 | 12.74 | 0.95 | 14.04 | 47 | 45 | 29 | 121 |
| 11. Peoples Leasing & Fin. | 0.40 | 19.59 | 21.08 | 41.07 | 60 | 40 | 50 | 150 |
| 12. Bangladesh finance & Inv. Ltd. | 0.50 | 3.62 | 8.35 | 12.47 | 4 | 7 | 18 | 29 |
| 13. IIDFC | 3.88 | 6.87 | 13.08 | 23.82 | 83 | 6 | 9 | 98 |
| 14. GSP Financing | 0.50 | 0.00 | 2.08 | 2.58 | 2 | 1 | 3 | 6 |
| 15. National Housing Ltd. | 0.40 | 1.26 | 0.97 | 2.63 | 7 | 1 | 6 | 14 |
| 16. Oman Bangladesh Leasing | 0.00 | 0.13 | 4.08 | 4.21 | 1 | 0 | 20 | 21 |
| 17. International Leasing | 0.30 | 1.94 | 0.13 | 2.37 | 2 | 4 | 4 | 10 |
| 18. Premier Leasing & | 0.00 | 1.67 | 0.81 | 2.48 | 6 | 4 | 0 | 10 |

| | | | | | | | | |
|------------------------|---------------|---------------|---------------|---------------|-------------|-------------|-------------|-------------|
| Finance Ltd. | | | | | | | | |
| 19. Unian Capital Ltd. | 0.50 | 1.05 | 2.16 | 3.71 | 2 | 4 | 6 | 12 |
| 20. BIFC | 0.00 | 0.67 | 0.60 | 1.27 | 3 | 0 | 2 | 5 |
| 21. National finance | 0.00 | 0.00 | 0.30 | 0.30 | 0 | 0 | 1 | 1 |
| Sub-Total (b) | 20.47 | 189.11 | 153.11 | 362.70 | 843 | 820 | 800 | 2463 |
| Total (a+b) | 178.48 | 336.40 | 201.56 | 716.44 | 1727 | 4150 | 1127 | 7001 |

Table (11) (b): Summary information on SME Refinancing from IDA(up to June-09)

| Name of Bank/FIs Refinanced | Amount Refinanced (in crore Taka) | | | | No. of Beneficiary Enterprises | | | |
|-----------------------------|-----------------------------------|---------------|----------------|------------|--------------------------------|-----------------|---------|-------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industrial Loan | Commercial Loan | Service | Total |
| (a) Bank | | | | | | | | |
| 1. NCC Bank Ltd. | 4.21 | 5.59 | 4.13 | 13.93 | 2 | 259 | 5 | 266 |
| 2. BRAC Bank Ltd. | 1.00 | 32.88 | 0.00 | 33.88 | 298 | 356 | 6 | 660 |
| 3. Southeast Bank Ltd. | 5.33 | 0.17 | 0.35 | 5.85 | 6 | 36 | 3 | 45 |
| 4. The Premier Bank Ltd. | 8.64 | 0.27 | 0.00 | 8.91 | 26 | 21 | 14 | 61 |
| 5. One Bank Ltd. | 0.33 | 1.14 | 0.00 | 1.47 | 1 | 30 | 0 | 31 |
| 6. Dutch-Bangla Bank Ltd. | 9.29 | 0.13 | 0.00 | 9.42 | 19 | 28 | 2 | 49 |
| 7. Jamuna Bank Ltd. | 9.27 | 1.32 | 0.63 | 11.67 | 66 | 13 | 0 | 79 |
| 8. Dhaka Bank Ltd. | 7.52 | 3.76 | 0.00 | 11.28 | 105 | 35 | 12 | 152 |
| 9. National Bank Ltd. | 0.44 | 0.75 | 0.25 | 1.44 | 18 | 18 | 1 | 37 |

| Name of Bank/FIs Refinanced | Amount Refinanced (in crore Taka) | | | | No. of Beneficiary Enterprises | | | |
|--|-----------------------------------|---------------|----------------|---------------|--------------------------------|-----------------|-----------|-------------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industrial Loan | Commercial Loan | Service | Total |
| 10. Trust Bank Ltd. | 4.95 | 0.58 | 0.24 | 5.76 | 31 | 32 | 7 | 70 |
| 11. Eastern Bank Ltd. | 0.04 | 12.65 | 9.41 | 22.10 | 77 | 184 | 1 | 262 |
| 12. Mercantile Bank Ltd. | 0.00 | 3.99 | 0.00 | 3.99 | 19 | 67 | 16 | 102 |
| 13. Mutual Trust Bank Ltd. | 0.00 | 2.01 | 0.00 | 2.01 | 5 | 37 | 9 | 51 |
| 14. Uttara Bank Ltd. | 4.00 | 0.00 | 0.00 | 4.00 | 0 | 24 | 0 | 24 |
| Sub-Total (a) | 55.46 | 65.23 | 15.01 | 135.70 | 673 | 1140 | 76 | 1889 |
| (b) Non-Bank Financial Institutions | | | | | | | | |
| 1. Fidelity Asset Securities Co. Ltd. | 0.00 | 0.94 | 7.02 | 7.96 | 6 | 9 | 28 | 43 |
| 2. IDLC of Bangladesh | 0.78 | 8.67 | 1.14 | 10.59 | 52 | 16 | 19 | 87 |
| 3. Phoenix Leasing Co. Ltd. | 0.25 | 1.89 | 7.17 | 9.32 | 22 | 9 | 15 | 46 |
| 4. Uttara Finance & Inv. Ltd. | 0.10 | 2.75 | 19.62 | 22.47 | 0 | 0 | 114 | 114 |
| 5. Far East Finance & Inv. Ltd. | 0.00 | 0.13 | 0.00 | 0.13 | 1 | 0 | 1 | 2 |
| 6. United Leasing Co. Ltd. | 3.27 | 2.64 | 1.74 | 7.65 | 25 | 2 | 40 | 67 |
| 7. Midas Finance Ltd. & Vanik Bangladesh | 0.00 | 5.31 | 2.58 | 7.89 | 65 | 17 | 28 | 110 |

| | | | | | | | | |
|--------------------------------|-------|-------|-------|--------|-----|------|-----|------|
| Ltd. | | | | | | | | |
| 8. Islamic Finance & Inv. Ltd. | 0.25 | 3.44 | 0.05 | 3.74 | 24 | 13 | 4 | 41 |
| 9. Prime Finance & Inv. Ltd. | 0.30 | 0.10 | 0.00 | 0.40 | 1 | 0 | 1 | 2 |
| 10. IIDFC | 1.11 | 3.48 | 3.90 | 8.48 | 20 | 9 | 6 | 35 |
| 11. Bangladesh Fin. & Inv. | 0.00 | 0.71 | 2.54 | 3.25 | 2 | 3 | 15 | 20 |
| 12. International Leasing | 0.00 | 0.10 | 0.45 | 0.55 | 0 | 0 | 3 | 3 |
| 13. BIFC | 0.00 | 0.00 | 0.88 | 0.88 | 3 | 0 | 2 | 5 |
| 14. Peoples' Leasing | 0.00 | 1.00 | 4.50 | 5.50 | 5 | 2 | 6 | 13 |
| Sub-Total (b) | 6.05 | 31.17 | 51.58 | 88.81 | 226 | 80 | 282 | 588 |
| Total (a + b) | 61.51 | 96.40 | 66.59 | 224.50 | 899 | 1220 | 358 | 2477 |

Source: Bangladesh Bank

Table (11) (c): Summary Information on SME Refinancing from ADB (up to June 2009)

| Name of Bank/FIs Refinanced | Amount Refinanced (in crore Taka) | | | | No. of Beneficiary Enterprises | | | |
|--|-----------------------------------|---------------|----------------|---------------|--------------------------------|-----------------|------------|-------------|
| | Working Capital | Mid Term Loan | Long Term Loan | Total Loan | Industrial Loan | Commercial Loan | Service | Total |
| (a) Bank | | | | | | | | |
| 1. One Bank Ltd. | 23.90 | 11.51 | 1.49 | 36.90 | 43 | 347 | 12 | 402 |
| 2. Eastern Bank Ltd. | 11.54 | 25.99 | 24.80 | 62.33 | 117 | 440 | 13 | 570 |
| 3. Prime Bank Ltd. | 39.65 | 3.40 | 1.41 | 44.45 | 81 | 342 | 25 | 448 |
| 4. Dhaka Bank Ltd. | 44.96 | 19.66 | 0.00 | 64.62 | 262 | 280 | 83 | 625 |
| 5. NCC Bank Ltd. | 0.16 | 0.22 | 0.19 | 0.57 | 3 | 11 | 0 | 14 |
| 6. Bank Asia Ltd. | 8.75 | 2.95 | 1.36 | 13.06 | 36 | 76 | 5 | 117 |
| 7. Trust Bank Ltd. | 0.03 | 10.51 | 1.67 | 12.21 | 35 | 124 | 4 | 163 |
| 8. Trust Bank Ltd. | 4.41 | 0.19 | 0.14 | 4.74 | 11 | 20 | 6 | 37 |
| 9. AB Bank Ltd. | 5.13 | 0.00 | 0.00 | 5.13 | 3 | 39 | 3 | 45 |
| Sub Total (b) | 138.52 | 74.43 | 31.05 | 244.00 | 591 | 1679 | 151 | 2421 |
| (b) Non-Bank Financial Institutions | | | | | | | | |
| 1. People's Leasing Co. Ltd. | 0.00 | 1.61 | 5.98 | 7.59 | 0 | 0 | 66 | 66 |
| 2. Midas Financing Ltd. | 0.00 | 4.84 | 1.41 | 6.25 | 6 | 16 | 17 | 39 |
| 3. IDLC of Bangladesh | 0.00 | 2.63 | 1.90 | 4.53 | 24 | 22 | 14 | 60 |
| 4. Islamic Financing & Inv. Ltd. | 0.00 | 24.63 | 3.94 | 28.56 | 93 | 125 | 62 | 280 |
| 5. Uttara Finance & Inv. Ltd. | 0.00 | 2.50 | 5.87 | 8.37 | 7 | 18 | 9 | 34 |
| 6. International Leasing | 0.16 | 1.25 | 2.30 | 3.71 | 2 | 4 | 10 | 16 |
| 7. Premier Leasing | 0.00 | 0.94 | 0.30 | 1.24 | 5 | 0 | 2 | 7 |
| Sub-Total (b) | 0.16 | 38.39 | 21.69 | 60.25 | 137 | 185 | 180 | 502 |
| Total (a+b) | 138.68 | 112.68 | 52.75 | 304.25 | 728 | 1864 | 331 | 2923 |

Source: Bangladesh Bank, Bangladesh Economic Review-2009, English version, p-107-109.

Above table shows that up to June 2009, Bangladesh Bank and IDA have distributed Tk. 940.94 crore as refinancing to 17 banks and 22 non-bank financial institutions. It may be mentioned that the fund has been disbursed (by the mentioned banks and financial institutions) to a total of 9478 SMEs earlier as loan. Out of the total loan, Tk. 239.99 crore has been provided as working capital, Tk.432.79 crore as medium-term loan and Tk. 268.15 crore as long-term loan.

Bangladesh Small and Cottage Industries Corporation (BSCIC)

Bangladesh Small and Cottage Industries Corporation (BSCIC) promote small and cottage industries in the private sector as well as provide necessary services and facilities to the private entrepreneurs. In FY2008-09, the number of small and cottage industrial units established under direct and indirect assistance of BSCIC is 6, 020 and 4,691 respectively. The total amount of investment made in these units is Tk. 2,445.99 crore. Of the total investment, Tk.1,544.68 crore has been financed as loan assistance by bank, BSCIC and other financial institutions, Tk. 675.44 crore came as entrepreneurs' equity and the rest Tk 225.87 crore has been invested from entrepreneur's own fund.

BSCIC has 74 industrial estates throughout the country to provide infrastructural facilities to establish industrial units. A total of 9,168 industrial units have so far been established in these industrial estates and the amount invested in these units is Tk. 11,999.25 crore. These units have produced products worth of Tk.24,683.67 crore in FY2008-09 of which, products worth of Tk. 13,325.80 crore have been exported. During this period, industrial units of these industrial estates have paid Tk. 1,781.69 crore as revenue to the Government. BSCIC has completed most of the infrastructural works for establishing a new tannery industrial state on 200 acres of land on the border of Savar and Keraniganj to transfer the tannery industries from the capital city. All of the plots of the industrial estate have been allotted in favor of 154 tannery units. This industrial estate is expected to create employment opportunity of nearly 1 lakh people.

IBSCIC has taken an initiative to establish a pharmaceutical industrial park to set up industrial units which will produce ingredients for pharmaceutical industries. For this purpose, a memorandum of understanding has been signed between BSCIC and Bangladesh Association of Pharmaceutical Industries. This industrial park will be set up at Gazaria upazila under Munsiganj district at a Cost of Tk. 213.00 crore. The production units of this industrial park are expected to provide employment of about 25,000 people.

SME financing position in Bangladesh:-

Chart (5): The SME is beginning in Bangladesh

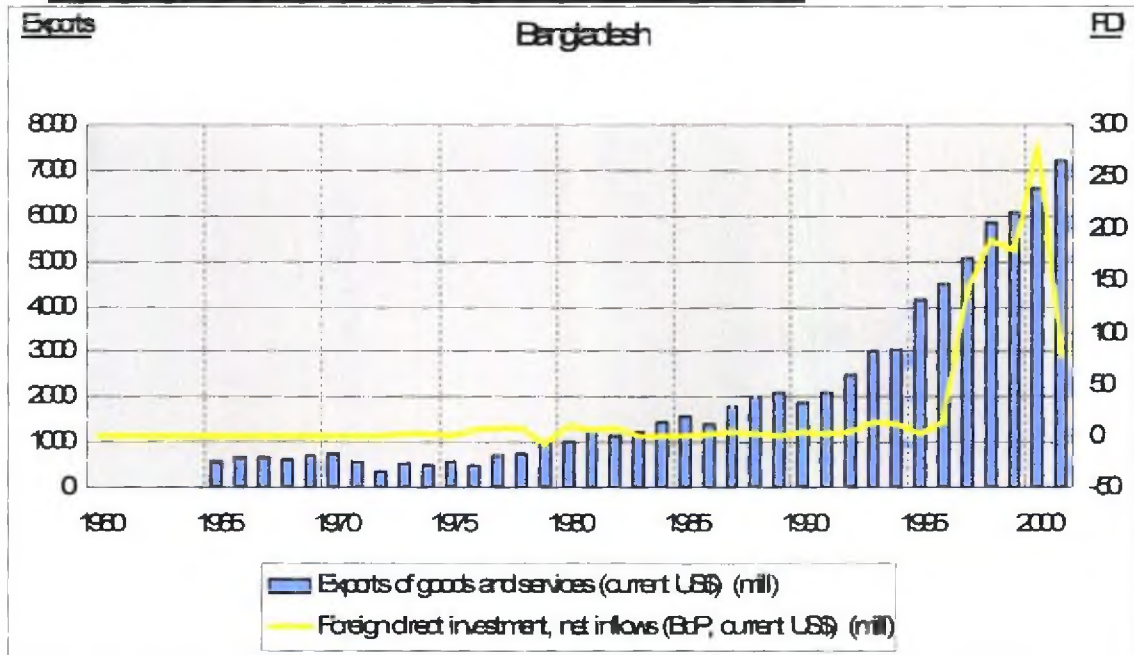
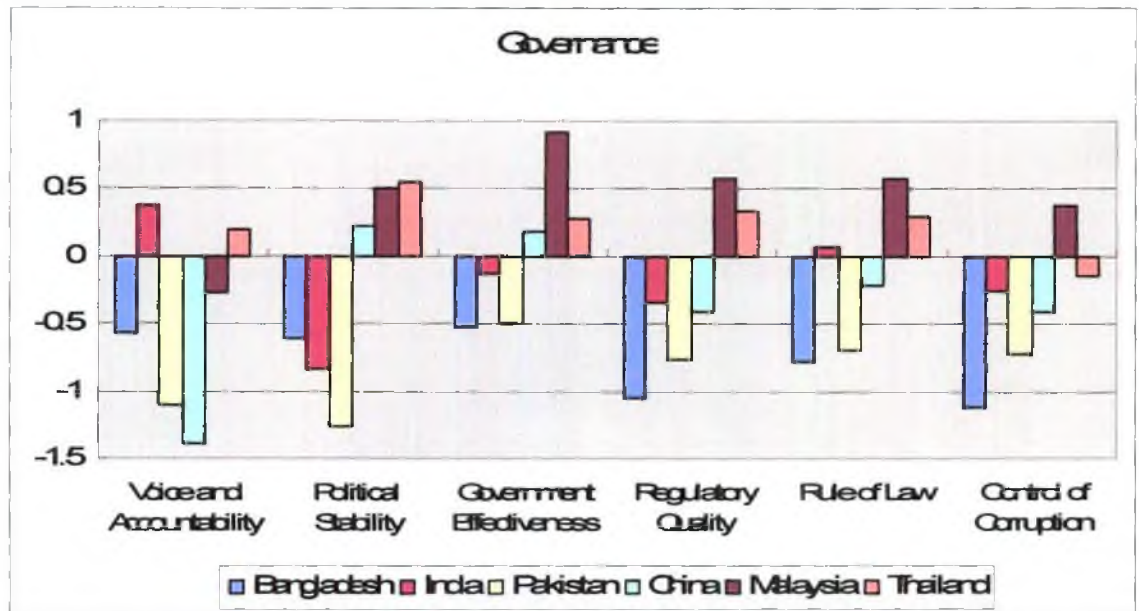


Chart (6): Number of SMEs

- ► It is very difficult to get actual number of SMEs. A recent study of CIDA mentioned that among the 6 m SMEs of Bangladesh 27,000 are nearly ready to expand or to export.
- ► SMEs are contributing 50% of the industrial output of Bangladesh
- ► SMEs are employing 82% of the industrial Labor force

Chart (7): Weak governance limits growth potential.



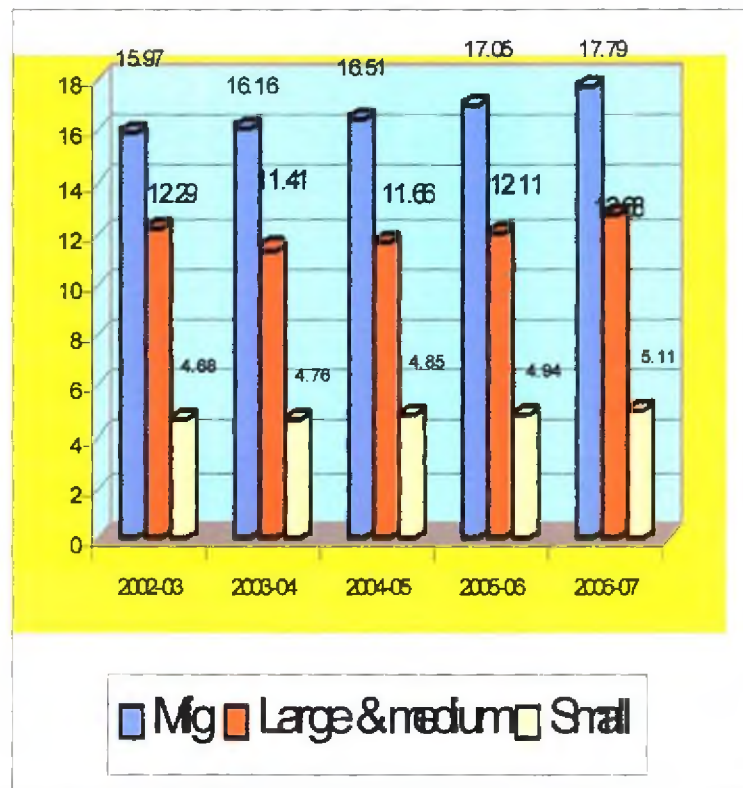
SME financing position in the world:-

The following charts are used to observe the world's SMEs position overlooking:-

Chart (8): Contribution of SMEs

Contribution of manufacturing sector to GDP is 17.79% in the year 2006-07

Contribution of **Medium** and **Large** was 12.68 where contribution of **Small** was 5.11%



Source : World Bank, World Development Indicators 2003

Chart (09): World SMEs

- SMEs make up over 90% of business world wide and typically account for 50% of GDP and 60% of employment
- SMEs generate 30% of exports and attract a smaller proportion of FDI

Chart(10): SMEs in Asia.

| <u>Country</u> | <u>Employees</u> | <u>Financials</u> |
|---------------------------|---|--|
| <u>Korea</u> | <u>Mfg. <300</u> <u>Svs. <20</u> | - |
| <u>Malaysia</u> | <u><75</u> | <u><\$1.0 MM equity</u> |
| <u>Pakistan</u> | <u>200</u> | <u><\$690T assets</u> |
| <u>Philippines</u> | <u><100 Mfg.</u> | <u><\$1.8 MM assets</u> |
| <u>Sri Lanka</u> | <u><200</u> | <u><\$516T assets</u> |
| <u>Taiwan</u> | <u><200</u> | <u><\$1.2 MM assets</u> |
| <u>Thailand</u> | <u>Mfg/Svs <200</u> <u>W'Sale <50</u> <u>Retail <30</u> | <u><\$4.7MM F/assets</u> <u><\$2.3 MM</u> <u><\$1.4 MM</u> |

Chart (11): SMEs in Europe

| <u>Country</u> | <u>Employees</u> | <u>Financials</u> |
|-----------------------|-------------------------|--|
| <u>Belgium</u> | <u>Up to 50</u> | <u><\$4.0 MM</u> <u>revenues</u> |
| <u>Canada</u> | <u><200</u> | - |
| <u>Denmark</u> | <u>5 – 499</u> | - |
| <u>France</u> | <u>10 – 499</u> | - |
| <u>Germany</u> | <u><500</u> | - |
| <u>Greece</u> | <u>Up to 500</u> | - |
| <u>Ireland</u> | <u><500</u> | - |

Chart (12): SMEs in America and Europe

| <u>Country</u> | <u>Employees</u> | <u>Financials</u> |
|---------------------------|-------------------------|--|
| <u>Italy</u> | <u><200</u> | - |
| <u>Mexico</u> | <u><300</u> | <u><\$3.5 MM</u> <u>revenues</u> |
| <u>Netherlands</u> | <u>Up to 100</u> | - |
| <u>Portugal</u> | <u><500</u> | - |
| <u>Spain</u> | <u><500</u> | - |
| <u>Sweden</u> | <u><200</u> | - |
| <u>U.S.A.</u> | <u><500</u> | - |

Source: CHART NO 07—31 WERE COLLECTED WITH THE HELP OF ABDUL JALIL CHOUDHURY, ASSOCIATE PROFESSOR, BIBM, DHAKA.

Chart (13): World Bank Survey 2002

| Issues Identified | Percentage |
|-------------------------------|-------------------|
| • Lack of finance | 55% |
| • Shortage of skilled labour | 39% |
| • Getting business site | 38% |
| • Bribes | 21% |
| • Orders/Marketing of Product | 28% |
| • Lack of Knowledge | 12% |
| • Government interference | 12% |
| • Raw Material | 10% |
| • License for work | 8% |
| • New Technology | 8% |

SME Policy Note – World Bank 2002

3.4 Investment on large sector

The Contribution of the industry sector to the economy of Bangladesh has been increasing day by day. In FY1980-81 the contribution of the broad industry sector to real GDP was 17.31 percent which has increased to 29.73 percent in FY2000-09. For the purpose of national income accounting, Bangladesh Bureau of Statistics (BBS) divides the economy into fifteen sectors. The broad industry sector includes four sub-sectors—mining & quarrying, manufacturing, construction and electricity, gas & water supply. Among these sub-sectors, the contribution of the manufacturing sector is the highest. According to the provisional estimate of national income, in FY2008-09, the Contribution of the manufacturing sector to GDP is 17.78 percent, which is marginally higher than that of the previous year. However, being affected by the global economic crisis, the growth rate of the manufacturing sector has declined to 5.92 percent (estimated) in FY2008-09, which is 1.29 percent lower than that of the previous fiscal year. The size and growth performance of the manufacturing sector in the country's GDP from FY2000-01, to FY 2008-09 is shown in the following table.

Table (12): Size and Growth Rate of Manufacturing Sector

(At constant prices of 1995-96)

| Type of Industry | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 (Provisional) |
|------------------|------------------|------------------|------------------|-------------------|------------------|-------------------|------------------|------------------|-----------------------|
| Small & Cottage | 9267.4 (6.6) | 9980.1 (7.7) | 10699.6 (7.2) | 11496.5 (7.45) | 12408.5 (7.9) | 13551.5 (9.2) | 14865.1 (9.7) | 15920.0 (7.1) | 16969.1 (6.6) |
| Medium-Large | 23130.2 (7.0) | 24194.1 (4.6) | 25780.8 (6.6) | 27572.3 (6.95) | 29860.5 (8.3) | 33268.2 (11.4) | 36507.1 (9.7) | 39157.2 (7.3) | 41370.2 (5.7) |
| Total | 32397.6 (6.7) | 34174.2 (5.5) | 36480.4 (6.8) | 39068.8 (7.1) | 42269.0 (8.2) | 46819.7 (10.8) | 51372.2 (9.7) | 55077.2 (7.2) | 58339.3 (5.9) |

Source: Bangladesh Bureau of Statistics. Bangladesh Economic Review-2009

Note: Figures in parentheses indicate rate of growth.

The above table reveals that products of both 'Medium-Large Industry' as well as 'Small and Collage Industry' are increasing gradually. The vision of the draft Industrial Policy, 2009 is that Bangladesh will have, by 2021, a dominant Industrial sector where manufacturing will account for at least 30 percent of the gross domestic product (GDP) with a capacity to absorb 20 percent of the workforce. The structure of the industrial sector will be consistent with the comparative advantage of the economy, which will make the sector globally competitive. In the context of globalization, the Government believes that private sector-led industrial development could be the appropriate strategy for promoting economic growth where public

sector will play only a Complementary role. Public-Private Partnership (PPP) will feature prominently the Industrial growth. In line with that Strategy, the government has liberalized the trade regime by introducing a range of reforms to allow the entrepreneurs to Set up industries and operate them profitably without any misgivings. As a result, contribution of private sector in overall economic activities has increased remarkably. Foreign Direct Investment (PDI) will have a complete presence along with domestic investment and will act as a principal agent for skill and technology transfer and link with international supply chains. The Government has also taken initiatives W set up industrial zones and special economic zones to create huge employment opportunities

The industrial sector of Bangladesh will have a dominant export orientation. Significant diversification of the export base will be achieved both with respect to product composition and market destination. There will be a complete graduation from resource based export to process based export and the skill and technology content of export will be markedly higher to ensure higher degree of value addition.

Production Performance of State Owned Enterprises (SOEs)

a. Bangladesh Chemical Industries Corporation (BCIC):

BCIC is currently managing thirteen enterprises under its control. Among these enterprises, there are six urea fertilizer factories, one TSP fertilizer factory, one DAP fertilizer factory, one paper mill, one cement factory, one glass sheet factory, one insulator and sanitary ware factory and one hardboard mill. It may be mentioned that as per the government decision, ten enterprises of BCIC were included in the privatization list of which, four enterprises have recently been privatized and handed over to the private entrepreneurs by the privatization commission. Out of the six remaining enterprises.

Khulna Hardboard Mills Ltd. resumed its operation in September 2005 and Caustic Chlorine plant of Karnaphuli Rayon and Chemicals Ltd. in June 2005 through merger with KPM. The Chittagong Chemical Complex Ltd. has recently been inaugurated for re-start. Privatization decision will be taken after getting feasibility report about the rest 4 closed factories namely Dhaka leather Co. Ltd. North Begal Paper Mills Ltd. Khulna Newsprint Mills Ltd. and Karnaphuli Rayons Ltd. During FY 2008-09, thirteen enterprises of BCIC have produced goods worth Tk. 2013.90 crore which is higher by Tk. 499.41 crore than the production of FY 2007-08. However, the production is only 75 percent of the target. Total sale of BCIC enterprises during FY 2008-09 was Tk. 437.08 crore than those of FY 2007-08. The

contribution of BCIC to the national exchequer in FY 2008-09 was Tk. 136.23 crore. A provisional calculation shows that BCIC enterprises incurred a total loss of Tk. 49.94 crore during FY 2008-09. Thirteen factories under BCIC produce Urea, TSP, SSP, Ammonium Sulphate DAP, paper hard board, cement, glass sheet, sanitary ware and insulator. During FY2008-09, the running factories under BCIC produced 12,80,294 metric tones of ASP, 24,200 metric tones of sanitary ware, 102 metric tones of insulator and 95,48 L/Sqm of glass sheet, 2493 metric tones of sanitary war 102 metric tones of insulator and 95.48 L/Sqm of hard board. Due to an increase in the Urea price by the Government in June 2008 from Tk. 4,800 to Tk. 10,000 at factory site and from Tk. 5,300 to Tk. 10,700 at buffer site, the Urea fertilizer factories under BCIC are expected to become profitable. With a view of attaining self sufficiency in Phosphatic fertilizer and to reduce dependence on Triple Super phosphate (TSP), Di-Ammonium Phosphate (DAP) plant I was constructed at a cost of Tk. 510.64 crore and Di-Ammonium Phosphate (DAP) plant-2 was constructed at a cost of Tk. 519.64 crore at the premises of Chittagong Urea Fertilizer Limited. The production capacity of each plant is 800 metric tons per day. Since inception of these two plants a total of 1, 88,678.00 metric tons Di-Ammonium Phosphate was produced up to June 2009.

b. Bangladesh Textile Mills corporation (BTMC):

The textile industry is the largest labor intensive manufacturing sector of the country, which employs about 5.0 million people (including apparel industry). This sub-sector accounts for 82 percents of the country's foreign exchange earnings. In addition to meeting the major domestic demand for textile products, the primary textile industry can now meet more than 85 percent of the knit fabrics required for export-oriented knit-wear industry and 26 percent of the knit fabrics required for the export-oriented woven RMG industry of the country of which 352 units belong to the private sector. Moreover, there are 1098 units of knitting and dyeing 310 units) 148342 units of handlooms, 1200 units of knitting and dyeing, 310 units of dyeing-finishing and about 2000 units of local hosiery in the country. Majority of the textile industry of the country belongs to the private sector. Only twenty four old textile mills are now under the public sector (BTMC) some of which have been put into operation by the private entrepreneurs under the service charge system. The total production level of yarn and fabrics in FY 1996-97 was 193.69 million kg, which has increased to 879.33 million kg in FY 2008-09. On the other hand the fabric production in FY 1996-97 was 135.09 million metres, which has increased to 6380.00 million meters in FY 2008-09.

c. Bangladesh Sugar and Food Industries Corporation (BSFIC):

At present, there are fifteen sugar mills one molasses based distillery producing exportable industrial Alcohol and one engineering unit operating under the control of BSFIC. Annual sugar production capacity of the sugar mills is 2.10 lakh metric tones while present demand for sugar in the country is about 13.30 lakh metric tones. Considering the population growth rate and the change of good habit due to rapid urbanization, the demand of sugar is expected to increase to 15.63 lakh metric tones in FY2015 and 18.30 lakh metric tones in FY 2019-220. In FY 2008-09, BSFIC produced 79,922 metric tons of sugar against the target of 1, 73,100 metric tones which is only 46 percent of the target. However actual sale of sugar was 1,12,323 metric tones. The contribution of BSFIC to the national exchequer in FY 2008-09 was Tk. 61.35 crore. To keep the market of sugar stable as per sugar distribution policy, sugar is marketed in the form of monthly quote basis through whole sale dealers throughout the country. BSFIC faces problems is selling sugar due to fluctuating sugar price in both the domestic and international markets.

d. Bangladesh Jute Mills Corporation :

In FY 2008-09, Bangladesh Jute Mills Corporation (BJMC) has produced 1,10,000 metric tones and exported 89,000 metric tones of jute goods worth of Tk. 431.3 crore. It has also sold 19,000 metric tones of jute products locally, worth of Tk. 81.3 crore. The contribution of national exchequer towards the payment of duties and fees by the BJMC mills in FY 2006-07, FY 2007-08 and FY 2008-09 were Tk. 2.66, 2.39 and 1.36 crore respectively.

e. Bangladesh Steel and Engineering Corporation:

Enterprise under the control of Bangladesh Steel and Engineering Corporation (BSEC) are playing a vital role in electrification, communication and infrastructure development of the country. Presently, nine industrial units are operational under BSEC; of which seven enterprises are profitable while remaining two are losing. However, 49 percent shares of three units viz. Atlas Bangladesh Ltd., National Tubes Ltd. and Eastern Cables Ltd., had been off-loaded to public. Nine operating units of BSEC produced goods worth of Tk. 728.80 crore in FY2008-09 against production worth of Tk. 692.05 crore in FY2007-08. In FY2008-09, BSEC earned foreign currency worth of Tk. 3.50 crore by selling 42 metric tons of electric cables by Eastern Cables Ltd., Tk. 1.32 crore by Chittagong Dry Dock Ltd. and Tk. 9.72 crore by General Electric Manufacturing Co. Ltd. Total export sales is worth of Tk. 14.54 crore. BSEC has earned highest net profit of Tk. 55.29 crore in FY2008-2009 as against the target of Tk. 46.08 crore, implying an achievement of 120 percent. In FY2008-09, total contribution to

national exchequer by the nine enterprises of B SEC is Tk. 276.96 crore, which is the highest.

Bangladesh Standards and Testing Institution (BSTI)

Bangladesh Standard and Testing Institution (BSTI) came into being in 1985 through an Ordinance titled 'The Bangladesh Standard Testing Institution Ordinance 37 of 1985' with the merger of Bangladesh Standards Institute and the Central Testing Laboratories. In 1995, the department of Agricultural Grading and Marketing Concern of the Ministry of Trade and Commerce was also merged with BSTI. The main functions of BSTI include formulation of national standards of industrial, food and chemical products quality control of the products which are ensured as per specific national standards made by the technical committee's introduction and implementation of metric system of weight and measures in the country. BSTI performs its function through its six wings and six regional offices. Legal actions are taken under the Bangladesh Standard and Testing Institution (Amendment) Act, 2003 against sale and distribution of illegal and sub-standard products.

During FY 2008-09, around 1059 mobile courts and surveillances have been carried out with 3,700 cases filed. Fine to the tune of Tk. 1.75 crore have been realized from the offenders under "The weights measures ordinance, 1982" and "The weights & measures (amendment) act, 2001". During the same period, a total of 3181 licenses have been issued/ renewed in favor of different manufactures and importers.

A project titled "Quality Management System and Conformity Assessment Activity for Bangladesh Quality Support Programmed (Post MFA)" has been taken up to develop Central Metrology Laboratories of BSTI up to the international standards. This project, with a total cost of Tk. 36.32 crore, is being implemented with the financial assistance of UNIDO and the Government of Bangladesh. Another project, namely "Establishment, Modernization and Development of Bangladesh Standards and Testing Institution (BSTI) Regional Office at Sylhet and Barisal" financed by the Government of Bangladesh, is also being implemented at a total cost of Tk. 21.18 crore.

On going Reform programmes in State Owned Industrial Sector:

The Privatization Commission has been revamping the sick, closed and non-profitable state-owned enterprise through privatization process with a view to turning them into profitable entities. As many as 74 enterprises have to far been privatized since the establishment of the Privatization Board in 1993 and subsequently the Privatization Commission. Out of those, 54 enterprises were privatized through direct sale and 20 enterprises/ companies were privatized by offloading shares. About Tk. 707.00 crore has been deposited into government exchequer as sale proceeds of these enterprises.

Recently twenty-one industrial enterprise were taken up for privatization. Of them, one enterprise has already been handed over to the private sector and after finalization the sale proposal of two enterprises; proposals for signing agreements have been sent to the concerned ministry. On the other hand, tender has been invited for privatization of one enterprise steps have been taken to privatize two other enterprise through an alternative process of direct sale process.

Privatization Commission has also set up its information management centre and updated its website in order to attract investors from home and abroad. Meanwhile, the Commission has sent books containing privatization policy, privatization process, and present privatization activities and necessary co-operation extended to, incentive and future strategy regarding privatization to different foreign High Commissions/Embassies in Bangladesh High Commission/Embassies abroad. Major initiatives taken for strengthening the State Owned Enterprises (SOEs) are as follows:-

- Strengthening the SOEs to stabilize the price of essentials.
- Gradual privatization of the SOEs along with the arrangement for alternative employment for retrenched workers;
- Creation of Special Economic Zones in various parts of the country, to enhance the domestic and overseas markets;
- Formation of Jute Commission to develop the jute sector through co ordination among SOEs and private jute industries; and
- Formulation of projects and programmes for production and supply of HYV and quality seeds, developed through agricultural research.

Industrial Investment Status

Industrial Loan

Rapid industrialization is a sine qua non for achieving desired level of economic development of an agro-based developing country. For this purpose, the Government continued its efforts to achieve this goal by providing loans and other ancillary supports to promote SMEs alongside the large-scale industries. The disbursement and recovery of the industrial loan was Tk. 65,001 crore and Tk. 52,900 crore respectively in FY2008-09 which is 8.13 percent and 24.55 percent higher respectively than those of the previous fiscal year. The table below shows year wise disbursement and recovery of loan during FY1995-96 to FY2008-09.

Table(13): Year wise Disbursement and Recovery of heavy Industrial Loans

| Fiscal Year | Disbursement | | | Recovery | | |
|-------------|-----------------|-----------|----------|-----------------|-----------|----------|
| | Working Capital | Term Loan | Total | Working Capital | Term Loan | Total |
| 1995-96 | 3675.69 | 1230.44 | 4906.13 | 3402.88 | 519.69 | 3922.57 |
| 1996-97 | 6979.75 | 1200.00 | 8179.75 | 5692.70 | 887.19 | 6579.89 |
| 1997-98 | 6599.03 | 1120.34 | 7711.37 | 5409.72 | 859.43 | 6269.15 |
| 1998-99 | 7905.49 | 1330.10 | 9235.59 | 5281.65 | 1093.39 | 6374.96 |
| 1999-00 | 10681.74 | 1627.26 | 12309.00 | 7200.13 | 1653.34 | 8853.47 |
| 2000-01 | 13382.19 | 3057.07 | 16439.46 | 9777.47 | 2795.10 | 12572.57 |
| 2001-02 | 13765.12 | 3505.15 | 17270.27 | 9638.34 | 3212.97 | 12851.31 |
| 2002-03 | 15671.16 | 3961.99 | 19033.45 | 12283.21 | 3835.12 | 16118.33 |
| 2003-04 | 18,703.10 | 6675.99 | 25379.09 | 15435.09 | 4963.44 | 20398.44 |
| 2004-05 | 22175.78 | 8704.52 | 30880.30 | 18189.65 | 8546.98 | 26736.63 |
| 2005-06 | 28448.53 | 9650.02 | 38098.55 | 22975.95 | 6759.52 | 29735.47 |
| 2006-07 | 31651.32 | 12394.78 | 44046.10 | 23790.54 | 9068.45 | 32858.99 |
| 2007-08 | 39963.49 | 20150.82 | 60114.31 | 28849.60 | 13624.20 | 42473.80 |
| 2008-09 | 45028.28 | 19972.69 | 65000.97 | 36597.89 | 16302.48 | 52900.37 |

Source: Bangladesh Bank. Bangladesh Economic Review-2009,P-115

Bangladesh Export Processing Zones (EPZs)

There are eight EPZs in Bangladesh namely Chittagong EPZ, Mongla EPZ, Comilla EPZ, Ishwardi EPZ, Uttara EPZ, Adamjee EPZ and Karnaphuli EPZ. Total investment in these EPZs stood at US \$ 1582.47 million up to June 2009. In FY 2008-09, total investment in the EPZs was US \$ 148.03 million. BEPZAs export proceeds stood at US \$ 2.58 billion, as against the target of US \$ 2.83 billion set for the fiscal year.

Presently, 300 industries are in operation in the EPZs of Bangladesh. Of these, 146 are in Chittagong EPZ, 97 in Dhaka EPZ, 21 in Comilla EPZ, 8 in Mongla EPZ, 4 in Uttara EPZ, 5 in Ishwardi EPZ, 8 in Adamjee EPZ and 11 in Karnaphuli EPZ in addition, about 212 industrial units are now at various stages of implement. Of these, 38 belong to Chittagong EPZ, 23 to Dhaka EPZ, 22 to Comilla EPZ, 8 to Mongla EPZ, 1 to Uttara EPZ, 20 to Ishwardi EPZ, 39 to Adamjee EPZ and 61 to Karnaphuli EPZ.

EPZ wise statistics of industries, investment, employment and exports are shown in the following table.

Table(14): Number of Industries, Investment, Export and Employment of EPZs

| Name of EPZs | Number of Industries | | Investment (million US \$) | Export (million US \$) | Employment (Nos) |
|--------------|----------------------|------------|----------------------------|------------------------|------------------|
| Chittagong | 146 | 38 | 715.12 | 10,178.38 | 1,38,612 |
| Dhaka | 97 | 23 | 649.17 | 8,231.73 | 71,459 |
| Comilla | 21 | 22 | 79.87 | 323.14 | 7,712 |
| Mongla | 08 | 08 | 4.37 | 39.30 | 253 |
| Uttara | 04 | 01 | 3.06 | 0.41 | 1,945 |
| Ishwardi | 05 | 20 | 16.27 | 7.86 | 1,537 |
| Adamjee | 08 | 39 | 66.46 | 84.92 | 7,772 |
| Karnaphuli | 11 | 61 | 48.15 | 49.99 | 5,403 |
| Total | 300 | 212 | 1,582.47 | 18,914.74 | 2,34,693 |

EPZs have already employed about 2,34,693 Bangladeshi nationals in their attempt to contribute to the National poverty alleviation efforts. Among them 64 percent are female. Out of the total work force, 1,38,612 are employees in Chittagong EPZ, 71,459 in Dhaka EPZ, 7,712 in Comilla EPZ, 253 in Mongla EPZ, 1,945 in Uttara EPZ, 1,537 in Ishwardi EPZ, 7,772 in Adamjee EPZ and 5,403 in Karnaphuli EPZ. It is to be noted that by the end of FY2008-09, a total of 33 countries have invested in these EPZs. Product wise enterprise, investment and employment in EPZs are shown in the following Table.

Table(15): Products wise Enterprise, Investment and Employment in EPZs

| Sl. No. | Products Name | Number of Industries | Investment (million US \$) | Employment |
|---------|-----------------------------------|----------------------|----------------------------|-----------------|
| 1. | Garments | 70 | 449.790 | 1,32,512 |
| 2 | Textile | 33 | 359.147 | 19,017 |
| 3 | Terry Towel | 16 | 54.524 | 6,878 |
| 4 | Knitting & Other Textile products | 33 | 159.957 | 29,146 |
| 5 | Garments Accessories | 43 | 171.516 | 10,414 |
| 6 | Caps | 07 | 43.476 | 6,475 |
| 7 | Tent | 06 | 34.873 | 5,847 |
| 8 | Electronics & Electrical goods | 15 | 66.508 | 2,617 |
| 9 | Footwear & Leather goods | 13 | 63.290 | 9,548 |
| 10 | Metal Products | 12 | 24.162 | 1,427 |
| 11 | Plastic goods | 14 | 22.554 | 2,245 |
| 12 | Cover Items | 02 | 0.849 | 116 |
| 13 | Fishing Reel & Golf Equipment | 01 | 32.028 | 411 |
| 14 | Ropes | 02 | 6.256 | 468 |
| 15 | Service Oriented Industries | 03 | 6.947 | 652 |
| 16 | Agro Products | 07 | 2.720 | 219 |
| 17 | Miscellaneous | 23 | 83.873 | 6,701 |
| | Total = | 300 | 1582.47 | 2,34,693 |

Sources: Bangladesh Economic Review-2009

In FY2008-09 goods worth of US \$ 2581.71 million have been exported from the EPZs. Zone wise contribution to export is Chittagong EPZ \$ 1188.15 million, Dhaka EPZ-US \$ 1190.36 million, Mongla EPZ-US \$ 7.06 million, Comilla EPZ US \$ 95.85 million, Ishwardi EPZ US \$ 0.79 million, Adamjee EPZ- US \$ 60.13 million, Uttara EPZ US \$ 0.24 million and Karnaphuli EPZ US \$ 39.13 million. The contribution to the national export from the EPZs in FY2008-09 is about 17 percent. We have discussed here large sector investment position by government; Islamic banks and other financial institutions have also been contributing the private large sector investment.

3.5 Economic stability and Islamic banking

Stability efficiency is measured by the capacity of banking systems to minimize cyclical fluctuations in an economy. The economy by nature is subject to cyclical fluctuations. The intensity of the fluctuations may differ from system of different banking systems may produce cyclical functions of different scale. Here the hypothesis is that an investment financing system that produces minimum fluctuations in an economy may be considered more efficient. In measuring stability efficiency of the two system of banking under study, the model developed in line with Christi may be used. He reviewed the Miller- Modigliani theorem and Kleczka's theory of investment and also went deeply into Minsk's approach to analyzing the process of cyclical fluctuations.

According to Minsky the fragility of the financial system depends on the relation between contractual commitments, and the cash flows from regular operations (which are essentially profits). With respect to this relationship he classifies business firms into three groups, namely hedge, speculative and ponzi.²⁷ For hedge units, cash flows are expected to exceed payment commitments on outstanding debts in every period. For speculative units, cash commitment on debts exceeds cash flows from regular operations only for some periods. For ponzi units, cash payment exceeds cash flows for almost all near term periods.

During a prolonged period of tranquility, prices of capital assets tend to rise, and portfolio preference shifts towards more speculative and ponzi financing. This makes the economy very sensitive to interest rate variations. Thus, the cost of short-term debt in the financial structure increases and the weight of cash in the economy will decline. Falling profits and rising interest costs turn some hedge units into speculative units, and some speculative unit into ponzi ones. When many speculative and ponzi finds find it difficult to meet payment commitments with cash flows they issue more debts. Where it becomes increasingly difficult to meet payment commitments by emitting more debts, ponzi/speculative units starts selling out their assets.

However, when many business resorts generate cash by selling out their assets, it causes a fall in asset prices. If the asset prices fall to the level of the cost of production or even below, new investment virtually stops. This very low level of investment exerts pressure on profits to rise and this merry-go-round starts all over. The following diagram is used on this regard.

²⁷ Minsky, H.P. (1932). Can it happen again. In M.E. Sharpe 9ed.), Essays on instability and finance

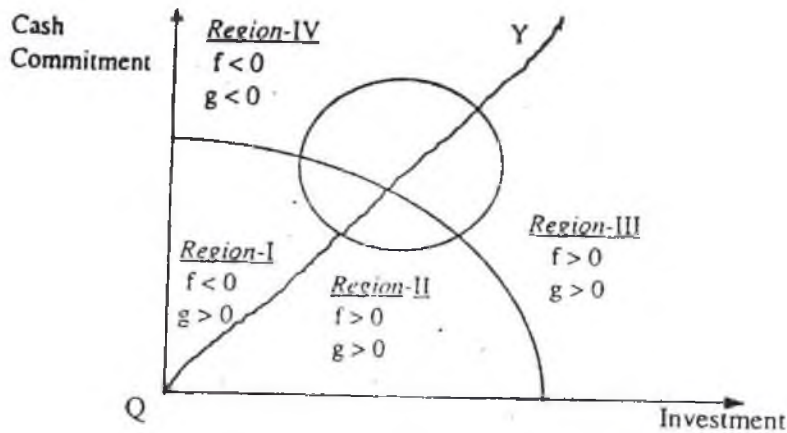


Fig-4: Phase Diagram - Cyclical Fluctuations in Investment

In region-I, both the levels of investment and payment commitments are low. Internal funds, at this low level of investment, may be sufficient to its financing and excess of cash flows over investment expenditures may be used to retire some existing debts. At this low level of investment, prospective returns are high which accelerates investment. This indicates the upswing of the business cycle.

In region-II, general optimism regarding investment continues. People forecast, in this situation high capitalization rates. As a result, prices of existing and new capital goods tend to rise with in investment. Under these optimistic conditions, banks will be willing to provide more financing to meet new investment plans. The situation is such that general long-term assets are acquired by emitting relatively short-term liabilities; that means a faster rise in debt payment commitments than cash flows.

Region-III is characterized by a boom in the ceremony. At this stage, the investment level is so high that it dampens optimism regarding yields. High level of cash commitments tends to lower the capitalization factor. As a result, the prices of existing capital as well as new investment start falling, which leads to a fall in profits, i.e. before. For many operating units it becomes difficult to meet their cash commitment with their cash flows. The gap between the two widens as businesses borrow additional funds to cover existing obligations. At this stage, banks find lending to be very risky, which makes refinancing more difficult.

Therefore, given no other option, the entrepreneurs are compelled to sell their assets to generate cash to meet their payment commitments. When many adopt the same prices fall and the sellers have to accept capital losses. Foreclosure, bankruptcies and liquidating subsidiary companies increase during this stage. With the significant fall in asset prices, new investment

virtually stops. This corresponds to Region-IV. Once the economy reaches this region the process starts from the bottom.

In summary, it is the difference between uncertain cash flows and fixed payment commitments that is a major source of instability in the economy. The magnitude of this difference depends on the particular type of investment financing system available in the economy. Since the concepts of cash flows and payment commitments have their different connotations in conventional and Islamic banking due to differences in their operational structure, acceleration of cyclical fluctuations in the two systems certainly differs in magnitude. The aforementioned model can conveniently be applied to measure roles of the two banking system in aggravating/reducing cyclical fluctuations in the economy and thereby tracing their relative stability efficiency.

Stability efficiency and Islamic banking: Islamic banking has a different cash flow and payment commitment arrangement with the entrepreneurs. Cash flows under Islamic banking are defined as yields generated from regular operation of projects (which essentially mean profits for entrepreneurs). Payment commitments, on the other hand are promises made to the bank by the entrepreneurs to pay a certain percentage of profits generated by the project along with repayment of principal. In other words, entrepreneurs commit to pay a certain percentage of profits, not a fixed percentage of the loaned amount.

Thus, entrepreneurs pay less when profit is lower and they more when it is higher. Moreover, if profit is zero, they pay nothing to the bank and if there is loss entrepreneurs are not obliged to pay any profit, rather the bank shares the loss in proportion to its capital participation. This system of payment, by its very nature, results in the reduction of the spread between profits or cash flow and payment commitments.

Now let us show how the payment commitment arrangement under Islamic banking helps reduce cyclical fluctuations. Let us recall the phase-diagram (Fig-4), Suppose we are in the region I. At this stage, both the cash commitments (C) and investment (I) is low. Thus $f > 0$; $g < 0$. The low level of investment can be financed by internal funds. Prospective yields being high, stimulates further investment.

Region II characterized by a continuous rise in investment, Here, entrepreneurs go on expecting still higher prospective returns. This leads them to increase investment by returning to external financing. In addition they are further encouraged by the financing arrangement that part of the risk will be borne by the financier. On the other hand, financiers will be

cautious in financing since they are aware that if there is any loss they will be obliged to share in proportion to their capital contribution, thus, an increase in investment as.

In region III, the economy enters into the late stage of the boom. High levels of investment, at this stage, dampen forecasts of prospective and actual yields. However, unlike the fixed interest rate case, where cash payments remain the same, payment commitments under the Islamic banking system are adjusted to the decline in cash flows.

Therefore, there is not as large a need to refinance existing debts or to take on additional debt in order to meet current payment obligations, like in the Conventional banking system. Moreover, the terms of refinancing may not be as stringent as the situation that arises when a borrower is unable to meet his current obligations. Therefore, one can expect that level of investment will not fall as drastically as it does in the Conventional banking system.²⁸

In Region IV, the final phase of the cycle, there is a drastic reshuffling of portfolios to generate additional cash to meet the payment commitments. This results in chaos in the financing industry. The main reason for this chaos is the 'Spread' between cash flows and payment commitment. In the Islamic banking system, however, the difference between cash flows and payment commitments is not as many foreclosures, bankruptcy cases and liquidations of business assets, resulting in a more stable economy during these stages.

The flexibility and built-in stabilizing capacity of the Islamic banking system automatically adjust the spread and keeps the capital markets and financing under control. Thus, given this natural stabilizing attribute of the Islamic banking system automatically adjusts the spread and keeps the capital markets and financing under control.

Thus, given this natural stabilizing attribute of the Islamic banking system, it can be stated that the Islamic banking system has higher stability than its Conventional banking system counterpart.

²⁸ Hasan M. Kabir, 2003, The Text Book on Islamic Banking. IERB, Dhaka, p.95.

3.6 Few Islamic Banks: Performance overview

To compare the business performance of few Islamic banks and their current situation of capital-investment position, we have represented here bank's data from four leading Islamic Banks i.e. Islami Bank Bangladesh Ltd (IBBL), Social Islami Bank Ltd (SIBL), Sahajalal Islami Bank Ltd (SJIBL) and Exim Bank Ltd. From the data presentation we have seen that investment position of all Islamic banks is going to uplift day by day. The recovery position is quite satisfactory. The rate of profit is not high but standard with other banks. It is observed that the future of Islamic banks is hopeful and optimistic. A comparative over view is as follows:-

Islami Bank Bangladesh Ltd.

Table (16): Performance Feature of IBBL.

| SL# | PARTICULARS | 2007 | 2008 | 2009 | (TK-Million) JUNE-2010 (ESTIMATED) |
|-----|--|----------|----------|----------|--|
| 01 | Authorized capital | 5,000 | 10,000 | 10,000 | 10,000 |
| 02 | Paid up capital | 3,802 | 4,752 | 6,178 | 7,413 |
| 03 | Reserve fund | 7,418 | 9,308 | 13,928 | 18,075 |
| 04 | Total deposits | 1,66,325 | 2,00,343 | 2,44,292 | 2,72,146 |
| | Current deposits | 24,225 | 27,642 | 30,492 | 36,390 |
| | Fixed deposits | 1,42,100 | 1,72,701 | 2,13,800 | 2,35,756 |
| 05 | Total Investment | 1,44,921 | 1,91,230 | 1,73,096 | 2,52,852 |
| 06 | Total Assets | 1,91,362 | 2,30,879 | 2,78,302 | 3,17,591 |
| 07 | Total income | 17,699 | 24,230 | 25,404 | 15,000 |
| 08 | Total expenditure | 13,918 | 17,396 | 18,886 | 10,000 |
| 09 | Total foreign exchange business | 2,29,503 | 4,02,695 | 4,62,370 | 3,15,000 |
| | 1).Export | 59,097 | 93,962 | 1,06,424 | 71,000 |
| | 2).Import | 1,03,293 | 1,68,329 | 1,61,230 | 1,09,000 |
| | 3).Remittance | 67,113 | 1,40,404 | 1,94,716 | 1,35,000 |
| 10 | Number of employees | 8,083 | 9,397 | 9,588 | 9,830 |
| 11 | Number of foreign correspondents Banks | 884 | 904 | 919 | 975 |
| 12 | Branches (number) | 186 | 196 | 231 | 235 |

Table (17): Sector Wise Investment Disbursement & Recovery of IBBL

| Particulars | Agricultural investment | Industrial Investment | | | Others | Grand Total |
|--------------------|-------------------------|-----------------------|-----------------|-----------|----------|-------------|
| | | Term investment | Current capital | Sub-Total | | |
| 2007 | | | | | | |
| Disbursement | 23 | 24,068 | 50,421 | 74,489 | 61,325 | 1,35,837 |
| Recovery | 13 | 14,949 | 44,451 | 59,400 | 7,231 | 66,644 |
| 2008 | | | | | | |
| Disbursement | 30 | 38,441 | 62,104 | 1,00,545 | 83,460 | 1,84,035 |
| Recovery | 20 | 24,496 | 56,631 | 81,127 | 66,770 | 1,47,917 |
| 2009 | | | | | | |
| Disbursement | 3,106 | 62,008 | 90,020 | 1,52,028 | 1,59,220 | 3,14,354 |
| Recovery | 1,889 | 45,527 | 75,281 | 1,20,809 | 1,18,330 | 2,41,028 |
| June-2010** | | | | | | |
| Disbursement | 1,288 | 30,729 | 45,992 | 76,721 | 86,364 | 1,64,373 |
| Recovery | 803 | 25,040 | 41,405 | 66,445 | 86,365 | 1,53,613 |

**means Estimated

Source: Functions of banks & financial institution-2009-10, Ministry of Finance. Govt of Bangladesh. Page-69

Table (18) : Profit rate of IBBL in Accounts (%)

| Duration | Deposits | | | | Investment disbursement | | | |
|------------|------------|----------------------|-------------------|------------------|-------------------------|-------------|-------------|------------------|
| | Saving A/c | Other short term A/c | Fixed deposit A/c | Weighted average | Agriculture | Industry | Service | Weighted average |
| 2007 | 6.30 | 4.39 | 9.92 | 6.87 | 10.00 | 14.00-15.00 | 15.00 | 13.17 |
| 2008 | 6.10 | 4.20 | 10.10 | 6.80 | 10.00 | 12.50-13.25 | 14.50-15.00 | 12.54 |
| March-2009 | 6.00 | 4.10 | 10.00 | 6.70 | 10.00 | 12.50-13.25 | 14.50 | 12.46 |
| June-2009 | 6.00 | 4.10 | 10.00 | 6.70 | 10.00 | 10.00-13.00 | 13.50 | 11.63 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-71

Table (19) : Investment Balance of IBBL as per Economic Purpose

| (TK-Million) | | | | | |
|--------------|---|----------|----------|------------|-----------|
| SL # | Sectors | 2007 | 2008 | March-2009 | June-2009 |
| 01 | <u>Agriculture, Fisheries & Forest.</u> | 3,427 | 3,097 | 3,271 | 3,434 |
| | a). Crops | 8 | 1,942 | 2,051 | 2,153 |
| | b). Others (except crops) | 3,379 | 1,081 | 1,142 | 1,199 |
| | c). Fisheries | 36 | 61 | 64 | 68 |
| | d). Forest | 4 | 13 | 14 | 14 |
| 02 | <u>Industry</u> | 28,203 | 53,511 | 56,508 | 59,337 |
| | a). Large & Medium | 21,182 | 53,134 | 56,110 | 58,919 |
| | b). Small & cottage | 7,021 | 377 | 398 | 418 |
| 03 | Finance into the current capital | 30,910 | 52,790 | 55,746 | 58,537 |
| 04 | Manufacturing | 7,407 | 10,172 | 10,742 | 11,280 |
| 05 | Electricity, Gas & water supply | 00 | 00 | 00 | 00 |
| 06 | Transport & Communication | 1,118 | 3,129 | 3,304 | 3,470 |
| 07 | <u>Trade</u> | 69,568 | 61,887 | 65,352 | 68,625 |
| | a). Whole sale & retail | 32,318 | 32,112 | 33,910 | 35,608 |
| | b). Export | 13,387 | 8,143 | 8,599 | 9,030 |
| | c). Import | 23,863 | 21,632 | 22,843 | 23,987 |
| | d). Hotel & restaurant | 00 | 00 | 00 | 00 |
| 08 | Poverty reduction | 2,301 | 3,012 | 3,181 | 3,340 |
| 09 | Others | 1,987 | 3,632 | 3,835 | 4,027 |
| 10 | Grand Total | 1,44,921 | 1,91,230 | 2,01,939 | 2,12,050 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-7

Social Islami Bank Ltd.

Table (20): Performance Feature of SIBL.

(TK-Million)

| SL# | PARTICULARS | 2007 | 2008 | MARCH-2009 (PROVITIONAL) | JUNE-2009 (ESTIMATED) |
|-----|---|--------|--------|-----------------------------|--------------------------|
| 01 | Authorized capital | 4,000 | 4,000 | 4,000 | 4,000 |
| 02 | Paid up capital | 585 | 1,119 | 1,310 | 2,692 |
| 03 | Reserve fund | 992 | 659 | 655 | 672 |
| 04 | <u>Total deposits</u> | 18,176 | 22,688 | 24,497 | 27,000 |
| | Current deposits | 4,060 | 4,814 | 3,726 | 4,200 |
| | Fixed deposits | 14,116 | 17,874 | 20,771 | 22,800 |
| 05 | Total Investment | 501 | 922 | 860 | 1,000 |
| 06 | Total Assets | 21,920 | 29,262 | 31,188 | 33,000 |
| 07 | Total income | 1,194 | 1,611 | 1,313 | 3,000 |
| 08 | Total expenditure | 972 | 1,190 | 1,136 | 2,400 |
| 09 | <u>Total foreign exchange</u> | 26,373 | 27,024 | 9,417 | 25,000 |
| | <u>business</u> | | | | |
| | 1).Export | 11,741 | 8,696 | 3,719 | 9,000 |
| | 2).Import | 13,977 | 17,286 | 4,790 | 14,000 |
| | 3).Remittance | 655 | 1,042 | 908 | 2,000 |
| 10 | Number of employees | 669 | 694 | 780 | 790 |
| 11 | Number of foreign correspondents Banks | 2,480 | 2,200 | 2,200 | 2,200 |
| 12 | Branches (number) | 24 | 28 | 28 | 33 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-109

Table (21): Sector Wise Investment Disbursement & Recovery of SIBL

(TK-Million)

| Particulars | Agricultural investment | Industrial Investment | | | Others | Grand Total |
|--------------------|-------------------------|-----------------------|-----------------|-----------|--------|-------------|
| | | Term investment | Current capital | Sub-Total | | |
| 2007 | | | | | | |
| Disbursement | 273 | 88 | 1,044 | 1,132 | 15,036 | 16,441 |
| Recovery | 99 | 170 | 736 | 906 | 12,099 | 13,104 |
| 2008 | | | | | | |
| Disbursement | 777 | 5,019 | 5,131 | 10,149 | 25,907 | 36,834 |
| Recovery | 292 | 1,118 | 2,909 | 4,027 | 28,723 | 33,042 |
| March-2009* | | | | | | |
| Disbursement | 855 | 5,521 | 5,644 | 11,165 | 4,336 | 16,356 |
| Recovery | 310 | 1,136 | 2,928 | 4,064 | 30,159 | 34,533 |
| June-2009** | | | | | | |
| Disbursement | 940 | 6,073 | 6,208 | 12,281 | 3,719 | 16,940 |
| Recovery | 341 | 1,250 | 3,220 | 4,470 | 31,667 | 36,478 |

*means provisional

**means Estimated

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-

Table (22) : Profit rate of SIBL in Accounts.

(Percentage %)

| Duration | Deposits | | | | Investment disbursement | | | |
|------------|------------|----------------------|-------------------|------------------|-------------------------|-------------|-------------|------------------|
| | Saving A/c | Other short term A/c | Fixed deposit A/c | Weighted average | Agri-culture | Industry | Service | Weighted average |
| 2007 | 6.12 | 5.62 | 7.00-11.75 | 10.38 | 00 | 13.00-16.00 | 13.00-16.00 | 14.03 |
| 2008 | 6.12 | 5.62 | 8.00-12.50 | 10.94 | 10.00 | 13.00-16.00 | 13.00-16.00 | 14.00 |
| March-2009 | 6.00 | 5.50 | 8.00-12.50 | 10.89 | 10.00 | 13.00-16.00 | 13.00-16.00 | 14.00 |
| June-2009 | 4.50 | 4.00 | 10.00 | 8.40 | 13.00 | 13.00 | 16.00 | 13.00 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-112

Table (23): Investment Balance of SIBL as per Economic Purpose

(TK-Million)

| SL # | Sectors | 2007 | 2008 | March-2009 | June-2009 |
|------|---|--------|--------|------------|-----------|
| 01 | <u>Agriculture, Fisheries & Forest.</u> | 466 | 543 | 489 | 493 |
| | a). Crops | 21 | 50 | 21 | 21 |
| | b). Others (except crops) | 236 | 284 | 371 | 375 |
| | c). Fisheries | 209 | 209 | 97 | 97 |
| | d). Forest | 00 | 00 | 00 | 00 |
| 02 | <u>Industry</u> | 1,751 | 2,168 | 3,030 | 3,333 |
| | a). Large & Medium | 1,082 | 1,126 | 960 | 1,056 |
| | b). Small & cottage | 669 | 1,042 | 2,070 | 2,277 |
| 03 | Finance into the current capital | 1,748 | 1,903 | 2,201 | 2,641 |
| 04 | Manufacturing | 1,860 | 1,860 | 1,686 | 1,938 |
| 05 | Electricity, Gas & water supply | 89 | 89 | 79 | 83 |
| 06 | Transport & Communication | 475 | 429 | 425 | 468 |
| 07 | <u>Trade</u> | 7,874 | 9,778 | 11,239 | 13,365 |
| | a). Whole sale & retail | 4,621 | 6,093 | 7,144 | 8,573 |
| | b). Export | 1,123 | 1,287 | 1,326 | 1,591 |
| | c). Import | 2,008 | 2,176 | 2,590 | 3,013 |
| | d). Hotel & restaurant | 122 | 222 | 179 | 188 |
| 08 | Poverty reduction | 231 | 280 | 298 | 313 |
| 09 | Others | 1,375 | 1,675 | 1,793 | 1,882 |
| 10 | Grand Total | 15,869 | 18,725 | 21,240 | 24,516 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-112

Exim Bank Ltd.

Table (24): Performance Feature of Exim Bank Ltd.

| SL# | PARTICULARS | (TK-Million) | | | |
|-----|--|--------------|----------|-----------------------------|--------------------------|
| | | 2007 | 2008 | MARCH-2009 (PROVITIONAL) | JUNE-2009 (ESTIMATED) |
| 01 | Authorized capital | 3,500 | 3,500 | 3,500 | 3,500 |
| 02 | Paid up capital | 2,142 | 2,678 | 2,678 | 2,678 |
| 03 | Reserve fund | 2,427 | 3,086 | 3,086 | 3,086 |
| 04 | <u>Total deposits</u> | 41,547 | 57,587 | 62,441 | 67,650 |
| | Current deposits | 5,853 | 8,032 | 8,162 | 8,197 |
| | Term deposits | 35,694 | 49,555 | 54,280 | 59,453 |
| 05 | Total Investment | 2,458 | 2,894 | 2,965 | 3,471 |
| 06 | Total Assets | 51,503 | 68,446 | 74,656 | 80,865 |
| 07 | Total income | 6,408 | 11,029 | 3,203 | 7,688 |
| 08 | Total expenditure | 4,490 | 8,359 | 2,731 | 6,554 |
| 09 | <u>Total foreign exchange business</u> | 1,17,899 | 1,56,434 | 40,349 | 81,690 |
| | 1).Export | 55,790 | 76,466 | 20,400 | 41,000 |
| | 2).Import | 61,399 | 78,540 | 19,619 | 40,000 |
| | 3).Remittance | 710 | 1,428 | 330 | 690 |
| 10 | Number of employees | 1,104 | 1,312 | 1,353 | 1,403 |
| 11 | Number of foreign correspondents Banks | 250 | 278 | 278 | 280 |
| 12 | Branches (number) | 35 | 42 | 44 | 49 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-129

Table (25): Sector Wise Investment Disbursement & Recovery of Exim Bank Ltd.

(TK-Million)

| Particulars | Agricultural investment | Industrial Investment | | | Others | Grand Total |
|--------------------|-------------------------|-----------------------|-----------------|-----------|--------|-------------|
| | | Term investment | Current capital | Sub-Total | | |
| 2007 | | | | | | |
| Disbursement | 27 | 3,386 | 9,983 | 13,369 | 42,716 | 56,112 |
| Recovery | 125 | 2,354 | 11,096 | 13,450 | 46,113 | 59,688 |
| 2008 | | | | | | |
| Disbursement | 36 | 4,264 | 10,922 | 15,186 | 55,881 | 71,103 |
| Recovery | 152 | 3,423 | 10,777 | 14,200 | 58,345 | 72,697 |
| March-2009* | | | | | | |
| Disbursement | 4 | 426 | 1,092 | 1,518 | 5,588 | 7,110 |
| Recovery | 15 | 342 | 1,078 | 1,420 | 5,835 | 7,270 |
| June-2009** | | | | | | |
| Disbursement | 7 | 853 | 2,184 | 3,037 | 11,176 | 14,220 |
| Recovery | 30 | 685 | 2,155 | 2,840 | 11,669 | 14,539 |

*means provisional

**means Estimated

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-130

Table (26) : Profit rate of Exim Bank Ltd in Accounts.

(Percentage %)

| Duration | Deposits | | | | Investment disbursement | | | |
|------------|------------|----------------------|-------------------|------------------|-------------------------|----------|---------|------------------|
| | Saving A/c | Other short term A/c | Fixed deposit A/c | Weighted average | Agri-culture | Industry | Service | Weighted average |
| 2007 | 6.00 | 5.00 | 10.91 | 9.51 | 10.00 | 15.00 | 15.00 | 14.15 |
| 2008 | 6.00 | 5.50 | 11.91 | 10.36 | 13.50 | 15.00 | 15.00 | 14.19 |
| March-2009 | 6.00 | 5.50 | 11.82 | 10.40 | 13.50 | 15.00 | 15.00 | 14.35 |
| June 2009 | 5.00 | 5.50 | 11.50 | 10.40 | 13.50 | 14.50 | 14.50 | 14.35 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-132

Table (27) : Investment Balance of Exim Bank Ltd as per Economic Purpose

| (TK-Million) | | | | | |
|--------------|---|--------|--------|------------|-----------|
| SL # | Sectors | 2007 | 2008 | March-2009 | June-2009 |
| 01 | <u>Agriculture, Fisheries & Forest.</u> | 16 | 45 | 52 | 58 |
| | a). Crops | 1 | 23 | 27 | 30 |
| | b). Others (except crops) | 7 | 16 | 18 | 20 |
| | c). Fisheries | 8 | 6 | 7 | 8 |
| | d). Forest | 00 | 00 | 00 | 00 |
| 02 | <u>Industry</u> | 9,826 | 13,242 | 15,493 | 17,042 |
| | a). Large & Medium | 8,856 | 11,641 | 13,620 | 14,982 |
| | b). Small & cottage | 970 | 1,601 | 1,873 | 2,060 |
| 03 | Finance into the current capital | 5,147 | 7,430 | 8,693 | 9,562 |
| 04 | Manufacturing | 2,707 | 4,855 | 5,681 | 6,249 |
| 05 | Electricity, Gas & water supply | 00 | 00 | 00 | 00 |
| 06 | Transport & Communication | 1,055 | 1,356 | 1,586 | 1,745 |
| 07 | <u>Trade</u> | 19,732 | 24,866 | 29,093 | 32,001 |
| | a). Whole sale & retail | 7,082 | 9,641 | 11,280 | 12,408 |
| | b). Export | 6,143 | 8,407 | 9,836 | 10,819 |
| | c). Import | 6,507 | 6,818 | 7,977 | 8,774 |
| | d). Hotel & restaurant | 00 | 00 | 00 | 00 |
| 08 | Poverty reduction | 00 | 00 | 00 | 00 |
| 09 | Others | 1,714 | 1,845 | 2,159 | 2,375 |
| 10 | Grand Total | 40,197 | 53,639 | 62,757 | 69,032 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance.
Govt of Bangladesh. Page-132

Sahjalal Islami Bank Ltd.

Table (28): Performance Feature of SJIBL.

(TK-Million)

| SL# | PARTICULARS | 2007 | 2008 | MARCH-2009 (PROVITIONAL) | JUNE-2009 (ESTIMATED) |
|-----|--|--------|--------|-----------------------------|--------------------------|
| 01 | Authorized capital | 2,000 | 4,000 | 4,000 | 4,000 |
| 02 | Paid up capital | 1,872 | 2,246 | 2,246 | 2,740 |
| 03 | Reserve fund | 1,169 | 1,823 | 2,002 | 1,765 |
| 04 | <u>Total deposits</u> | 22,618 | 36,484 | 40,730 | 44,980 |
| | Current deposits | 2,124 | 3,252 | 3,124 | 3,450 |
| | Fixed deposits | 20,494 | 33,232 | 37,606 | 41,530 |
| 05 | Total Investment | 859 | 1,144 | 1,261 | 1,500 |
| 06 | Total Assets | 28,347 | 45,217 | 50,250 | 55,500 |
| 07 | Total income | 3,589 | 5,285 | 1,498 | 3,400 |
| 08 | Total expenditure | 2,274 | 3,475 | 1,163 | 2,600 |
| 09 | <u>Total foreign exchange business</u> | 44,869 | 78,369 | 17,841 | 41,000 |
| | 1).Export | 15,084 | 26,347 | 6,669 | 15,000 |
| | 2).Import | 25,490 | 42,551 | 8,708 | 20,300 |
| | 3).Remittance | 4,295 | 9,498 | 2,464 | 5,700 |
| 10 | Number of employees | 555 | 878 | 974 | 1,075 |
| 11 | Number of foreign correspondents Banks | 24 | 29 | 30 | 31 |
| 12 | Branches (number) | 26 | 33 | 33 | 35 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance, Govt of Bangladesh. Page-15

Table (29): Sector Wise Investment Disbursement & Recovery of SJIBL.
(TK-Million)

| Particulars | Agricultural investment | Industrial Investment | | | Others | Grand Total |
|--------------------|-------------------------|-----------------------|-----------------|-----------|--------|-------------|
| | | Term investment | Current capital | Sub-Total | | |
| 2007 | | | | | | |
| Disbursement | 109 | 1,265 | 2,017 | 3,282 | 8,165 | 11,556 |
| Recovery | 57 | 942 | 1,568 | 2,510 | 5,399 | 7,966 |
| 2008 | | | | | | |
| Disbursement | 113 | 1,536 | 6,210 | 7,746 | 9,546 | 17,405 |
| Recovery | 39 | 723 | 1,629 | 2,352 | 4,728 | 7,119 |
| March-2009* | | | | | | |
| Disbursement | 33 | 317 | 786 | 1,103 | 1,026 | 2,162 |
| Recovery | 7 | 172 | 362 | 534 | 683 | 1,224 |
| June-2009** | | | | | | |
| Disbursement | 75 | 700 | 1,500 | 2,200 | 3,000 | 5,275 |
| Recovery | 40 | 400 | 700 | 1,100 | 2,000 | 3,140 |

*means provisional

**means Estimated

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-158

Table (30) : Profit rate of SJIBL in Accounts.

(Percentage %)

| Duration | Deposits | | | | Investment disbursement | | | |
|------------|------------|----------------------|-------------------|------------------|-------------------------|----------|---------|------------------|
| | Saving A/c | Other short term A/c | Fixed deposit A/c | Weighted average | Agri-culture | Industry | Service | Weighted average |
| 2007 | 5.50 | 5.00 | 8.00-11.75 | 9.00 | 11.00 | 15.50 | 15.50 | 14.78 |
| 2008 | 5.50 | 5.00 | 8.50-13.00 | 9.31 | 11.00 | 15.00 | 15.50 | 14.79 |
| March-2009 | 5.50 | 5.00 | 12.50-13.00 | 9.91 | 11.00 | 15.00 | 15.50 | 14.77 |
| June 2009 | 5.00 | 4.50 | 9.50-10.50 | 9.15 | 11.00 | 13.00 | 15.50 | 13.50 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance. Govt of Bangladesh. Page-159

Table (31) : Investment Balance of SJIBL as per Economic Purpose

| SL # | Sectors | (TK-Million) | | | |
|------|---|--------------|--------|------------|-----------|
| | | 2007 | 2008 | March-2009 | June-2009 |
| 01 | <u>Agriculture, Fisheries & Forest.</u> | 262 | 365 | 376 | 500 |
| | a). Crops | 00 | 00 | 00 | 00 |
| | b). Others (except crops) | 238 | 302 | 317 | 400 |
| | c). Fisheries | 24 | 63 | 59 | 100 |
| | d). Forest | 00 | 00 | 00 | 00 |
| 02 | <u>Industry</u> | 2,848 | 3,730 | 4,227 | 4,590 |
| | a). Large & Medium | 2,792 | 3,687 | 4,185 | 4,500 |
| | b). Small & cottage | 56 | 43 | 42 | 90 |
| 03 | Finance into the current capital | 3,976 | 9,402 | 9,786 | 10,000 |
| 04 | Manufacturing | 1,368 | 3,111 | 3,547 | 3,750 |
| 05 | Electricity, Gas & water supply | 465 | 619 | 674 | 800 |
| 06 | Transport & Communication | 483 | 1,296 | 1,572 | 1,750 |
| 07 | <u>Trade</u> | 6,748 | 8,042 | 9,157 | 10,500 |
| | a). Whole sale & retail | 1,833 | 3,272 | 3,880 | 4,000 |
| | b). Export | 1,818 | 1,983 | 2,252 | 2,750 |
| | c). Import | 3,097 | 2,787 | 3,025 | 3,750 |
| | d). Hotel & restaurant | 00 | 00 | 00 | 00 |
| 08 | Poverty reduction | 332 | 472 | 544 | 600 |
| 09 | Others | 4,135 | 5,882 | 5,713 | 6,000 |
| 10 | Grand Total | 20,617 | 32,919 | 35,596 | 38,490 |

Source: Functions of banks & financial institution-2008-09, Ministry of Finance, Govt of Bangladesh. Page-159

CHAPTER-4

Consumer welfare under Islamic banking

Focus:-

Social welfare services of Islamic banking

Welfare services by IBBL

Welfare services by SIBL

Survey analysis

Increasing level of consumer welfare under Islamic modes of investment

4.1 Social welfare services of Islamic banking

Welfare is a condition of having good health, comfortable living and pleasant working conditions. Hence, it can be said that welfare services are those which ensure conditions of having good health, comfortable living and working conditions, which are generally one's basic needs. Islam views works as the primary means of earning and acquiring income and wealth. As such a well-known example may be cited here, Recall beggar who approached the Prophet Muhammad (Peace be upon him) for alms, he (the beggar) was asked to bring what he had in his house.

Accordingly, the man brought a blanket. The Prophet (peace be upon him) asked him to sell it out and buy an ax, which could then be used to cut wood from the jungle to sell at the market for income. Thus, instead of begging, he could be self-reliant which more dignified life than begging is. Therefore, in the Islamic way of life, productive and remunerative work (employment and self-employment) and consequently-real income becomes the primary source for buying necessities such as food, clothing, shelter, household good, transportation, fuel and medicines. But if real income is not sufficient to purchase necessities of life, then welfare services become essential in a society to maintain the minimum standard of living of the people. In fact, in very society, there are many people who lack the necessary income and, consequently, face inadequate lifestyles due to unemployment and under-employment. Their condition cannot improve if welfare services remain absent and concentration wealth remains in certain segments of society. The Quran states the principle that "wealth should not circulate only among the rich" (59;7).

Ifran-Ul Haq opined that "this verse, revealed in the context of the utilization of stare income, when read completely, asserts that such income besides being meant for necessary state expenditures is also meant to uplift the weaker section of society and not intended to be a benefit for those who may already be well off." The quran also encourages people to contribute generously to social welfare and helping the needy in society. This is again clearly stated,

"They will ask you as to what they should spend on others. Say (O Muhammad), whatever of year wealth you spend shall be for your parents, and for the near of kin, and the orphans and the needy and the way fare, and whatever good you do verily, god has full knowledge thereof (2:215)."

Thus the Quran established the general principle of generous welfare spending while encouraging sacrificial levels of spending perhaps for social crises and for conditions demanding high financial support. Thus Islam calls for the meeting of the basic needs of the poverty groups through welfare services, which might include:-

(i) Care for others and (ii) Zakat, Both are discussed below:-

(i) Care for others:

It mentioned that care for others, or helping behavior, is another cardinal principle of Islamic economic behavior. It tempers the self-interest that is ingrained in human nature to ensure survival. It is a natural concomitant of trusteeship, since one serves the Master by caring for His people. The Prophet, peace be upon him, Said: "Mankind are God's dependants, so the most beloved of people in the Sight of Allah are those who do good to His dependants." (Mishkat, Bab-al shafqah wa'l-Rahmah 'ala'a-Khalq).

Helping behavior is required because of the interdependent nature of manhood life. There is no fulfillment in life without interaction with others; individual facility requires socialization. The exclusive pursuit of self-interest in social relations is counter-productive; it defeats its own purpose. Men serve their individual and collective interest best when each individual cares for the welfare of others while striving to protect and promote his own interest. This is what religion teaches. Those who deny it, deny religion.

Allah says, "Thus, when they are told, 'spend on others out of what God has provided for you as sustenance, those who are bent on denying the Truth say unto those who believe, Shall we feed anyone whom, if (your) God had so willed, He could have fed (Himself)? Clearly, you are but lost in effort.'" (36:47). "Have you observed him who denies religion? That is he who repeals the orphan, and urges not feeding of the needy?" (107: 1-3).

(ii) Zakat :-

Zakat is one of the five pillars of Islam. In a broad sense, it is only for social welfare purposes as specified by the Quran: The Zakat is (meant) only for the poor and the needy, those who collect the tax, those whose hearts are to be won over, for the freeing of human beings from bondage, for the relief of those overwhelmed by debts, for the cause of God (all priority social needs), and for the wayfarer: (this is) an ordinance from God and God is all-knowing, Wise" (9:60).

Mr Huq mentioned that "the first verse on Zakat (73:20) was revealed in the early Meccan period signifying the importance of welfare expenditures in the Islamic Scheme of life. Since the Muslims were a relatively small group without formal installations, Zakat was given privately, without specific rules or rates. It was essentially used for two purposes: to assist the indigent and the poor and to buy the freedom of those, in slavery or bondage. In the initial Madanian period, Zakat was given both privately to needy individuals and families as well as to the state. All Islamic banks opened their Zakat accounts in where people can give their zakat fund.

4.2 Welfare services by IBBL

Islamic banks, as a part of the Islamic economic system, are being operated with the objective to implement the economic and financial principles of Islam. “The objective of Islamic banking is not only to earn profit, but to do well and bring welfare to the people, Islam upholds the concept that money income and property belong to Allah and this wealth is to be used for the good of the society. It was mentioned earlier that welfare service might include (i) care for other and (ii) Zakat. Islamic banks take care of other through Qard Hasan (benevolent loan) financing transactions. It also mobilized Zakat resources. The Islamic Bank Bangladesh Ltd (IBBL) has also taken the following social welfare services:-

(i) Qard Hasan (benevolent loan):

Since interest on all kinds of loan is prohibited in Islam, a loan which is to be given in accordance with the Islamic principle has to be, by definition, a benevolent loan (Qard Hasan), i.e. a loan without interest. It has to be granted on the grounds of compassion; to remove the financial distresses caused by the absence of sufficient money in the face of the need. Since banks are profit oriented organizations, it would seem that there is not much scope for the application of this technique. However Islamic banks also play a socially useful role. Hence, they make provisions to provide Qard Hasan besides engaging in income generating activities. However practices differ in this respect. “Some banks provide the privilege of interest free loans to the holders of investment accounts at the bank. Some other banks have the provision to provide interest free loans to needy students and other economically weaker sections of the society. Yet, some other banks provide interest free loans to small producers, farmers, entrepreneurs who are not qualified to get financing from other sources. The purpose of these interest-free loans is to assist them in becoming financially independent or assist in raising their incomes and standard of living.” Islamic bank of Pakistan provide Qard Hasan loans without service charges. Islamic banks can charge the cost of disbursement account maintenance and recovery of these Qard Hasan Loans, though they cannot realize excess profits. The method and schedule of repayment of these loans are determined at the time of funding the request. However, the bank must keep in mind what is convenient to its customer.

(ii) Mobilization of Zakah:

A pioneering experiment putting the principles of Islamic banking into practice was conducted in Mit-Ghamr in Egypt from 1963 to 1967 in which three types of accounts were operated. A Zakah account was one of them. The Zakah account attracted the stipulated amount of Zakah for redistribution amongst the poor. Since Islamic banks follow the rules of The Islamic Shariah they have to pay Zakah on their own resources (capital assets etc), which paved the way for mobilization of financial resources for the needy and poor. An Islamic bank accumulates its Zakah in the Zakah fund and distributes amongst the poor as Islamic Shariah.”

In Bangladesh, the Islamic Bank Bangladesh Limited manages The Islamic Bank Foundation (IBF) with its Zakah fund. Charitable donations and miscellaneous income that cannot be taken into account for distribution as profit are deposited into this fund. The other Islamic banks have the separated Zakat account for the same purpose. One of the aims and objectives of Islamic Bank Foundation is to serve the distressed people, and to extend health and Medicare facilities among the poverty- stricken population. In brief, the fundamental objectives of the Foundation are to serve the distressed humanity and work for sustainable socioeconomic development of the country. The IBF has multifarious activities aimed at social welfare. Those are discussed below:

(a) Income generating programs

In Bangladesh able manpower is in abundance but employment is scarce. So, many unemployed men entangle themselves into various kinds of anti-social activities. However, with a little assistance they can easily be made self-reliant. Therefore, in Bangladesh, the following income generating projects and schemes were developed by the foundation:-

- a) Rickshaw Project.
- b) Sewing Training Project.
- c) Poultry project.
- d) Rural Health Worker Project.
- e) Milk cow project
- f) Self-employment project
- g) Small Industry project.

(b) Educational programs

Education is the backbone of a nation. Unfortunately, the rate of literacy is very low in Bangladesh. Most of the children have been remaining deprived of the light of education due to poverty, lack of sufficient

educational institutions, non-availability of text books and insufficient equipment. In other words, the unfavorable socio-economic conditions are responsible for the poor educational system. The Foundation has, also taken up the following programs to improve the country's educational system.

- a) Model Forqania Maktab.
- b) Scholarship for poor and Meritorious Students.
- c) Financial support for Educational Institutions.
- d) Lump-sum Grant for poor and meritorious Students.
- e) Khilgaon Night High School for the distressed.
- f) Food for Education.

(c) Health and Medicare Programs

Health and Medicare facilities are basis and fundamental rights of each individual but most of the people of Islam are deprived of it. The Foundation has, therefore, taken up the following programs to extend health, Medicare and sanitation facilities to the urban rural areas:-

- a) Establishment of Medical Center.
- b) Supporting Charitable dispensaries
- c) Lump sum held for treatment.
- d) Tube well Installation.
- e) Sanitary Latrine construction etc.

(d) Humanitarian help program

This program aims at providing instant help to distressed people who are unable to provide themselves with food, clothing, shelter and such other basic needs. This program aims at meeting their emergent needs. In addition, the program expends assistance in the establishment and operation of orphanages, provides funds for the marriage of poor girls, assists indebted people, and helps distressed way farers and other charitable activates.

(e) Relief and Rehabilitation Program

Participation in relief and rehabilitation activities after natural disasters and in emergency situations is among the highest priorities of the Islami Bank Foundation. The foundation operates relief and rehabilitation activities during natural calamities like flood, tornado, tidal surge and earthquakes. Among the relief activates, relief in Urirchar in 1985, relief during flood in 1988 and 1999, relief in Mankgonj in 1989, relief after tidal bore and flood in 1991, relief for war- torn people of Bosnia-Herzegovina deserve mention.

In addition, the Foundation operates relief and rehabilitation activities after river erosion, conflagration and other natural calamities. The foundation has also donated to the relief fund of the President and prime Minister of the country and has also give financial assistance to other volunteer organizations.

(f) Special Projects

The Foundation has funded some special projects with the objective of ensuring integrated social development, to render Medicare services to the common people, to extend assistance to enlighten common people with the beacon of light, to create a productive and healthy atmosphere for women to earn a decent living and to provide vocational and technical assistance to youth of society, thereby delivering them from the course of unemployment and abject poverty.

(iii) Islami Bank Hospital :

The Islami Bank Hospital is a non-profit institution that extends medical services to the common people. The Hospital has started functioning at Motijheel, Dhaka, for rendering treatment at minimum cost the people of middle and lower class. The following services are provided;-

- **Out-door service:**

Male and female medical Officer treat patients here form 9 A.M. to 10 P.M the out-door fee is only Tk. 20/- Patients with complicated diseases are referred to specialists. The specialist fee is also very affordable.

- **Full time emergency service:**

Day and night 24 hours emergency service is also available in the Hospital.

- **Specialist Service :**

The Hospital extends specialist service by highly qualified and eminent doctors of the country in the field of General Surgery, Gynecology, Obstetrics, and pediatrics, Medicine. Specialist services are available from 5.00 P.M. to 8.00 P.M.

- **Fast Ambulance Service:**

The Hospital renders fast Ambulance Service to the patients.

- **Modern Pathological Laboratory:**

All facilities for modern pathological tests are available in the Hospital.

- **Drug Store:**

All Kinds of Medicine are available in the Hospital Drug Store at lowest possible price.

(iV) “Monoram” (Sales Center for products of Distressed Women):

This project has been taken up for marketing of home-made garments, handicrafts and other items produced by distressed women, assisted them in becoming self-reliant. The main objective of the project is to create a conducive and healthy atmosphere for women to earn a decent living by working within the limits of the Shariah. The other objective of this project is to develop attractive garments for women that will strictly conform to the principles of decency and modesty set forth by Islam without being monotonous. To materialize this, a multi-purpose shopping complex has been established and has already started functioning at Sonargaon Road in Dhaka City.

Service Center:

To save the people of the costal belt form natural disasters and calamities, a special project has been taken in the name of “SERVICE CENTRE” The Service Center, engages in programs to construct shelters in the coastal areas and off-shore Islands to be used for the purpose of integrated social development as well as a safe harbor during natural calamities. The “Sheikh Salah-A-Kamel Unit” of this project has already been functioning partially at Abdullah Mira Hat in the district of Noakhali.

4.3 Welfare services by SIBL

Social Islami Bank Ltd (SIBL) of Bangladesh, a newly incorporated Islamic Bank, also has some welfare programs under its non-formal and voluntary sector of banking. Those are as follows:-

a) Rotating Saving and Credit Association

This credit program is intended to alleviate poverty. Under this program a small number of individuals, typically six to forty, form a group and select a leader who periodically collects a given amount (a share) from each member. The money collected (the fund) is then given in rotation to each member of the group. The leader receives no special consideration

(other than possible getting the first fund). He may also get commission, who in return may assume liability for defaults. Loans are interest-free. The popularity of this program among low and middle-income groups shows that people like to save even under trying circumstances. It also shows the potential for pooling individual savings among small farmers or micro-entrepreneurs. This program helps to generate economic activities among the poor in the non-corporate sector. It deals with informal finance and credit packages that improve the situation of poorer families and create local income opportunities for the people. It also discourages internal migration. At a grass root village and local level it is directed towards landless laborers, marginal farmers, fishermen, small artisans, (e.g. blacksmith, carpenter, potter and handicraft producer), urban unemployed, small traders, rural industries, and small to medium scale business enterprises.

(b) Empowerment and humanizing Family Credit Program

Under this program, the bank is operating with a human face. For example, it offers financing of consumer durable assets for the newly married couple provided marriage is dowry free.

(c) Environmental Friendly Business Program

This credit program is directed towards small traders to Tokai (mainly street children of distressed parents) with a recovery rate of 100% .

(d) Social Fund

SIBL has already established its social fund by mobilizing voluntary social saving, linked to its all Formal, Non-formal and Voluntary Sector Banking operations. SIBL has been able to mobilize a surplus Social Fund for social investment purposes in the family empowerment action program, social education fellowship program, and in the health and social services sector.

(e) Cash Waqf Certificate

SIBL has already introduced the Cash Waqf Certificate Scheme intended to empower the family heritage of the rich and to benefit society as a whole. It could, be the most effective and perpetual mode of deposit mobilization and use of its profit for perpetual social investment and benefits is virtually unlimited. A waqif can choose the purpose (s) to be served by his investment from the list of 32 purposes identified by SIBL; which are related with Family Rehabilitation, Education and Culture, Health and Sanitation, Social Utility Service, or any other purpose (s) approved by Islamic Shariah.

Not only have the above works, Social Islamic banks have done different types of welfare services by there all accounts while accounts are lead by Islamic Shariah. For example few scheme accounts of SIBL are mentioned below those are creating consumer welfares.

Table(32) DIFFERENT TYPES OF SCHEME A/C.

| |
|-------------------------------------|
| Millionaire Scheme- 15 Years |
| Millionaire Scheme- 20 Years |
| Millionaire Scheme- 25 Years |
| Education Savings Scheme- 7 Years |
| Education Savings Scheme- 10 Years |
| Education Savings Scheme-15 Years |
| Education Savings Scheme- 20 Years |
| Mudaraba Pension Schemes-5 Years |
| Mudaraba Pension Schemes-10 Years |
| Term Savings Scheme-5 Years |
| Term Savings Scheme-8 Years |
| Term Savings Scheme-10 Years |
| Term Savings Scheme-12 Years |
| M.Marriage Savings Sch- 2 Years |
| M.Marriage Savings Sch- 3 Years |
| M.Marriage Savings Sch- 5 Years |
| M.Marriage Savings Sch- 10 Years |
| M.Mohorana Savings Sch- 5 Years |
| M.Mohorana Savings Sch- 10 Years |
| Bashastan Deposit Scheme |
| M.Double Benefit Deposit Scheme |
| M.Lakhopoti Deposit Scheme-2 Years |
| M.Lakhopoti Deposit Scheme-3 Years |
| M.Lakhopoti Deposit Scheme-5 Years |
| M.Lakhopoti Deposit Scheme-10 Years |
| MMPDR |
| HAJJ Deposit |
| Cash Waqff |

Sources: SIBL, Head Office, Bulletin of special service month-2010.

From the above different types of accounts few accounts are discussed below:-

1)Mudaraba Education Savings Scheme:-

Education expenditure especially for higher studies is increasing day by day. In many cases children loses the chance of education as their guardians become unable to adjust with the expenditure. But if proper financial planning is adopted earlier then it is easier for the parents to bear the expenses.

General Rules & Regulations of Mudaraba Education Savings Scheme:-

- Any amount of Tk. 25,000/- or multiple is accepted in this scheme.
- For the above mentioned reason the depositor may get more or less amount of monthly allowance also.
- The depositor will get a receipt on the deposited amount.
- In order to receive the monthly education allowance the depositor will have to submit all the Receipts duly discharged and proper instruction must be provided in writing to nominate a person for receiving the allowance
- The instrument cannot be en cashed before maturity. In case of emergency if the depositor wants to en cash before maturity the following rules will be applicable:
 - If the instrument is encased before 7 years then Mudaraba Savings Deposit will be applied on the deposited amount.
 - If the amount is en cashed after 7 years then amount will be given as per rules of 7 years scheme and for the rest years Mudaraba Savings Deposit rate will be applied.
 - In case of Death of the of the depositor the amount payable will be paid to the nominee. If there is no nominee by submitting Succession certificate the amount will be paid to legal successor of the depositb.
 - In case of death of the depositor if the nominee wants to take monthly allowance for 6 six years then the instrument must be submitted to bank and should be duly discharged.
 - To issue a duplicate instrument the rules for issuing duplicate Term deposit will be applicable.
 - TAX, VAT, Excise Duty as applicable by Government will have to be borne by the depositor.
 - Bank authority has the authority to change/amend the rules and regulations regarding the scheme as and when required and the depositor must abide by the rules.
-

2)Mudaraba Bashstan Savings Scheme:-

Housing has become one of the most fundamental needs of human civilization. But in this early 20th century most of the people of Bangladesh are lacking to fulfill this basic need. As a follower of Islamic Shariah, Social Investment Bank Ltd focuses forward to help people to fulfill this basic need.

Main features of this scheme:-

- The applicant has to fill the application form duly.
- An amount of Tk. 500/-, 1000/-, 1500/-, 2000/- or any amount multiple can be deposited under this scheme.
- The depositor will enjoy earnings from investments under Islami Shariah based Mudaraba rules.
- In case of failing of 3 (Three) consecutive installments the account will be closed. In such cases profit will be given as per savings account rate, but no profit will be given if the account is closed within 6(Six) months.
- After successful continuation of the scheme for 5 years the depositor may take upto 80% loan of the deposited amount.
- Income tax imposed on the earnings from the deposited amount should be deducted from depositors account.

3)Hajj Scheme:-

Hajj is one of the most important bases of Islam. Religious Muslims tends to perform Hajj when they gather financial ability. But they find it difficult to gather the required amount to perform as there is no such systematic way of saving the money. To help our Muslim brothers Social Islami Bank Limited introduced Hajj/Umrah scheme.

The basic rules of this scheme are:-

- This account shall be called as Hajj/Umrah Savings Scheme.
- Any Muslim Residing in Bangladesh may open an account under this scheme.
- The depositor will be provided with a Deposit book and the deposited amount must be written and verified by the Bank's authorized official. In case of losing the deposit book Tk. 20 has to be deposited for issuing a new one.

- An introducer must be there to open an account.
- Any installment size can be chosen during the opening of the account, which cannot be changed afterwards.
- In case of closing the account before maturity profit will be given as per rules of Alwadiah Current account. No profit will be given in case of closing the account before 6 (Six) months.

4) **Mudaraba Monthly Profit:-**

Social Islami Bank Ltd is an Islamic Bank ruled by Islamic Shariah. The bank is operating in Formal, Non-Formal and Voluntary banking sector for alleviating poverty in the Bangladesh. But to reduce poverty in a country like Bangladesh there is no other alternative but increase internal deposit. Increase in deposit will increase investment and new investment will result in more employment. For this reason SIBL have introduced "Mudaraba Monthly Profit Scheme". Under this scheme the depositor will get monthly profit on the deposited amount.

The features of this scheme are as follows:-

- Tk. 1,00,000/-, 1,10,000/-, 1,20,000/- or 1,25,000/- or any amount multiple can be deposited under this scheme.
- The duration of the amount should be for Five years.
- Profit shall be distributed under this scheme as follows:
 - a. 1,00,000/- Tk. 900 (net)
 - b. 1,10,000/- Tk. 1000 (net)
 - c. 1,20,000/- Tk. 1,100 (net)
 - d. 1,25,000/- Tk. 1150 (net)
- The payable profit will become due after 1 month of deposit. But the amount will be deposited to account in the last week of the month.
- If the scheme is closed before 1 year then no profit will be given.

5)Mudaraba Millionaire Scheme:-

People of Bangladesh are the followers of Islam. They are mostly interested to make interest free deposits. Taking these facts into consideration SIBL a joint venture Islamic bank introduced a monthly installment based "Mudaraba Millionaire Scheme".

Rules and regulations of this scheme:-

- Tk. 550/-, Tk. 1050/- or Tk. 2050/- is taken as monthly installment under Mudaraba principles of Islami Shariah. Duration of this scheme will be 15, 20 and 25 yrs.
- The amount in the above is an estimated amount and may vary at maturity.
- After starting of operation of this scheme size of installment cannot be change.
- Any depositor may open one or more account in the same name in the same branch.
- Any Tax, VAT or Excise duty as applicable by Govt will be deducted from the account.

6)Mudaraba Special Savings (Pension) Scheme:-

Generally people wants save a portion of their income for economic assurance at old ages. For this reason a unique kind of savings scheme has to be introduced so that a portion of income can be deposited regularly for a long time span. This enables a person to get quite a considerable amount after maturity. Taking the above reasons into account Social Islami Bank Limited, a joint venture Islamic bank have introduced monthly installment based "Mudaraba Special Savings (Pension) Scheme".

Intentions and Goal of the scheme:-

- To create awareness to deposit among average income people.
- To create a chance for attractive deposit scheme.
- To create an interest free investment
- Rate of installment: Tk. 100/-, Tk. 200/-, Tk. 300/-, Tk. 400/-, Tk. 500/-, Tk. 1000/-

4.4 Survey analysis

We have submitted a 'close ended questionnaire' made by fourteen (14) questions to the 105 borrowers /clients of different business owner of seven (7) Islamic banks i.e.

- 1)Islami Bank Bangladesh Ltd,
- 2)Social Islami Bank Ltd,
- 3)Exim Bank Ltd,
- 4)Al-Arafah Islami Bank Ltd,
- 5) Shajalal Islami Bank Ltd,
- 6) ICB Islami Bank Ltd and
- 7) First Security Islami bank Ltd.

Our survey area was the Halishahar, Agrabad, CDA, Nasirabad of Chittagong district during 2009-10. The Question types were MCQ system choosing among four. The sample size was 105 because 15 clients of each Islamic banks and total fourteen (14) questions made by two (2) for each banks. The main objectives of the questionnaire for measurement of consumer welfare those are availing investment facility from any Islamic banks. The specialization of the clients is that they are well-known about financing system and rate of profit/interest of both Islamic banks and conventional banks. The sample size and number of questions is quite limited because of time and expenditure constraints. The questionnaire is as follows:-

1). Do you know about financing system of both Islamic banks and conventional banks?

- A. well known
- B. known
- C. something heard
- D. not both system

Answer type: A=75, B=18, C=8, D=4

2). How long have you gathered experience in your business track?

- A. 5 years above
- B. 10 years above
- C. 3 years above
- D. New entrepreneur

Answer type: A=55, B=35, C=10, D=5

3). How many employees are serving with you?

- A. 70 above
- B. 50 above
- C. 20 above
- D. 10 above

Answer type: A=35, B=44, C=18, D=8

4). Suppose you need to avail business loan or investment facility for your business growth, from which institutions would you like to choose?

- A. Banks
- B. Non banking institutions
- C. Relative sources
- D. Others

Answer type: A=82, B=18, C=3, D=2

5). Suppose each bank agree to finance you for your business goodwill and best transaction records. Which one of the bank would you like to select for smooth financing?

- A. Islamic banks
- B. Nationalized commercial banks
- C. Foreign commercial banks
- D. Private commercial banks

Answer type: A=48, B=15, C=22, D=20

6). Islamic banks deal their investment operations in terms of Islamic Shariah and they are financing only into the produced of Halal goods supported by Islam. Do you know it?

- A. Yes, surely
- B. Yes, quite known
- C. No
- D. Silence

Answer type: A=65, B=35, C=6, D=4

7). Availing investment facilities from Islamic banks borrowers are benefited and level of satisfaction is as?

- A. Very satisfied
- B. Quite satisfied
- C. Neither satisfied nor dissatisfied
- D. Dissatisfied

Answer type: A=62, B=28, C=10, D=5

8). Consumers satisfaction is highly achieved by Islamic banks financing system if investment is properly implemented said good investment.

- A. Strongly agree
- B. Agree
- C. Disagree
- D. Uncertain

Answer type: A=68, B=30, C=2, D=5

9. The functions of Islamic banking are day by day growing up; do you agree that the service quality of Islamic banks is standard to achieve consumer satisfaction?

- A. Standard
- B. Partial standard
- C. Occasionally
- D. Never

Answer type: A=48, B=25, C=15, D=17

10. All investment modes of Islamic banks are based on Islamic Shariah. These modes of investment are batter than that of conventional banking credit operations?

- A. Surely batter
- B. Batter
- C. Not good all
- D. Something is good

Answer type: A=56, B=33, C=9, D=7

11. Suppose you are a client of an Islamic bank. You are committed to maintain Islamic law and ethics in your business. The probability of justice and morality by you in your business is as:

- A. Try best
- B. Quite possible
- C. sporadically
- D. Silence

Answer type: A=58, B=25, C=13, D=9

12. Islam prohibited interest and declared halal on profit loss sharing business. On these regard Islamic banks teaches us who to make Islamic economic society and how our business can deal with Islamic ethics. Do you agree it is supportive to increase our moral and social welfare?

- A. 100% supportive
- B. Partial helpful
- C. Occasionally
- D. May be

Answer type: A=38, B=35, C=25, D=7

13. Suppose you were a client of a conventional bank. Now you are became a client of IBBL. The investment, monitoring, recovery system, portfolio management are applied best to you. Do you agree that you & your employee's economic welfare are increasing under IBBL?

- A. Highly increased
- B. increased
- C. partially benefited
- D. not best at all

Answer type: A=51, B=29, C=19, D=6

14. Compound interest system is absent in Islamic financial system. Do you think that profit rate and other service charge is lower or not more than other bank?

- A. standard
- B. lower than others
- C. Regarding same
- D. High

Answer type: A=48, B=31, C=16, D=10

Total outcomes= A=714,

B=401,

C=176,

D=109,

Answer pattern total=1400 MCQ

Among the 105 interviewees of 1400 answer pattern, at least 714 responded their view to answer no A, 401 marked their opinion to answer no B, and another 176 supported to MCQ answer no C, and remaining 109 MCQ are found for answer no D.

From the above collected primary data it is observed that 51% population supported their view to answer no A, 29% of the population sustained opinion to answer B, 12% supported to answer no C, and remaining 8% voted for answer no D.

By the above information it can mention that investment facilities of Islamic Banks can assist to ensure the consumer satisfaction and welfare that will provide an affirmative role to reduce our national poverty. A graphical representation is mentioned below:-

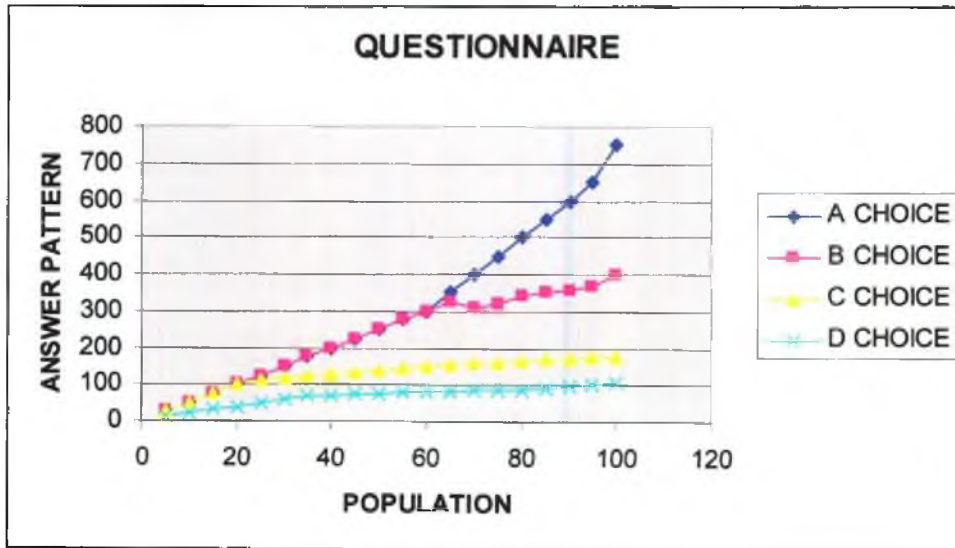


Chart (15): Survey analyses, answer pattern measurement.

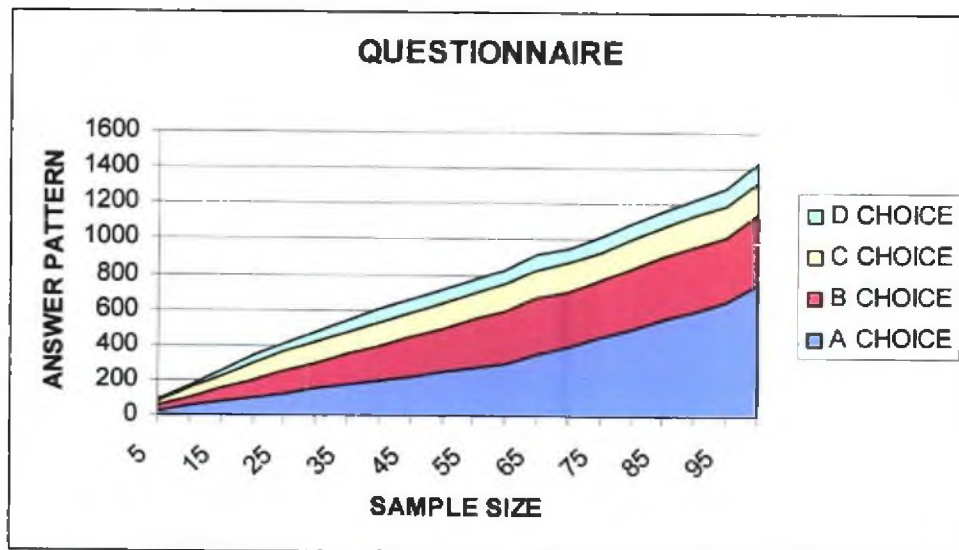


Chart (16): Survey analysis, sample size measurement.

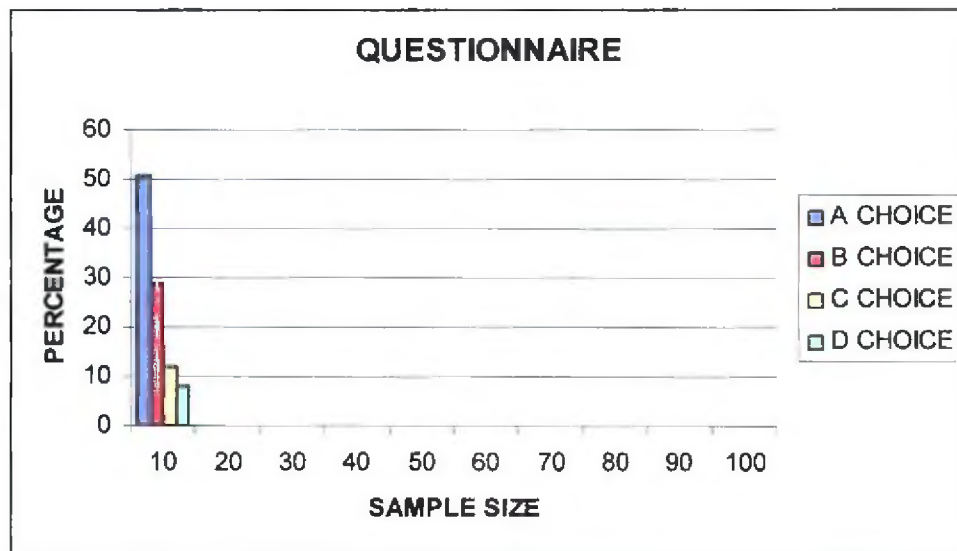


Chart (17): Survey analyses, percentage measurement.

Chart analysis: In the chart no-14 we see that choice A captured highest position with 714 MCQ and choice D is the lowest with 109 MCQ. In the chart no-18 choice A shaded the widest area of sample size and D is the lowest. In the fig no-19, choice A is the highest percentage of 51%, B=29%, C=12% and D=8% of the total population. So we can assume that by Islamic mode of financing consumer gets more social welfare.

Interpretation of result: In the survey choice A and B were our measurement criteria for consumer welfare increasing and changing purpose. A was the first criteria and it is chosen by 51% population from which we got our result. We emphasized on the questions that are related with consumer's economic welfare, social welfare, business welfare, ethical welfare, moral welfare and service related welfare. If we did not get the answer from choice A & B which supported by above 50% of the population then it was difficult to say that Islamic mode of investment can increase the level of consumer's welfare. Therefore we got the expected result from choice A that indicates consumer welfare increasing.

- **HYPOTHETICAL EXAMPLE OF CONSUMER WELFARE:**

This is the part of welfare economics. An economist quoted that, welfare economics is that branch of economic analysis which is concerned primarily with the establishment of criteria that can provide a positive basis for adopting policies which are likely to maximize social welfare. Italian economist Vilfredo Pareto said that, any change which harms no one and which makes some people better-off must be considered to be an

improvement. The borrowers of Islamic banks who used their capital in the producing sectors and really benefited, we will be addressing them as consumers. By comparing with conventional bank we would like to say how the consumer can increase its welfare so that social welfare will be increasing.

Suppose Mr. *A* takes loan of TK1.00 crore for his wine producing firm from a conventional bank by 15% interest for the duration of five years. After one year his business has been fall down then Mr. *A* is unable to repay the installments, the bank is counting rate of interest as compound system.

After five years the court declared to Mr. *A* as defaulter and after six years the bank issued a notice against Mr. *A* as his total outstanding should to repay 1.75 crore. About 500 employees were been unemployed and finally Mr. *A* declared himself as bankrupt.

On the other hand say Mr. *B* takes investment facilities of TK1.00 crore for his garments factory at 13% (approximate) profit rate from an Islamic bank for the duration of five years. During 1st year Mr. *B* has been fallen his business and makes a loose of Tk 10.00 lac, therefore as per terms and condition of Islamic banking i.e. profit & loose sharing system thus Mr. *B* and bank both received the loose portion.

From the 2nd year the bank enlarged its monitoring & supervision on the business and finally the business became growth up by their joint participation. After five years Mr. *B* has adjusted his total outstanding with the bank and earned net profit of TK50.00 lac. Mr. *B* recruited more 100 employees i.e. his total number of employees would be 600 over.

These are the separated case study of two banks. We can say Mr. *B* is gainer than Mr. *A* by banking with Islamic bank. After five years consumer Mr. *B* has been increased his welfare. Producing more Halal (not prohibited by Islam) goods, recruiting more employees, earning more profits Mr. *B* supports our national economy i.e. social welfare has been increased.

So it is proved that social welfare can be increased by the consumer of Islamic bank while the investment is profit and loose sharing conditioned under properly monitoring and supervising. In this section we will discuss few investment modes of Islamic banks which will sustain consumer welfare in practice of Islamic Banking.

4.5

Increasing level of consumer welfare under Islamic modes of investment

All Islamic banks used to open different investment accounts of their clients those are formulated by Islamic modes of investment. Therefore few investment accounts are presented below of Social Islamic Bank Ltd which is similar to other Islamic banks.

Table (33) INVESTMENT A/C.

| |
|---------------------------------|
| First Home Owners Scheme |
| HPSM- Transport (Staff) |
| Bai-Muazzal Trust Receipt |
| Bai-Muazzal –Commercial |
| Bai-Muazzal- Household |
| Hire Purchase-Real Estate |
| Hire Purchase-Industrial |
| Hire-Purchase- Household |
| Musaraka (pre-shipment) |
| Hire-Purchase-Transport |
| Murabaha –Commercial |
| Hire Purchase-Commercial |
| Quard against Scheme |
| Quard Against Mtdr. |
| Quard –e- Hasana |
| Quard Others |
| Murabaha (Post Import) |
| Murabaha Bill of Exchange |
| Inland Bills Purchased |
| Musharaka (Preshipment) Comm. |
| Baim Wes Bills |
| Bai-Muazzal (com) Micro- Credit |
| Bai-Muazzal (com) Micro-Enter. |

From the above investment accounts few important A/c are explained below which are much used and consumer welfare is ensured by this modes of accounts.

1). **BAI-MURABAHA**

We have discussed about Murabaha details in chapter six. An undersized definition of it is, ‘the terms “Bai-Murabaha” have derived from Arabic words Bai and Ribhun. The word Bai means purchase and sale and the word Ribhun means an agreed upon profit. Bai-Murabaha means sale for an agreed upon profit. Bai-Murabaha may be defined as a contract between a Buyer and a Seller under which the Seller sells certain specific goods permissible under Islamic Shariah and the Law of the land to the Buyer at a cost plus an agreed upon profit payable today or on some date in the future in lump-sum or by installments. The profit may be either a fixed sum or based on a percentage of the price of the goods.’

The key benefits of this mode for a consumer are as follows:

- Three parties are required of this business, goods producer, bank & buyer. Each party is aware about market price of goods. The buyer will agree to purchase from bank where bank is the second sales agent & will sale with profit. The buyer or consumer will repay total price of goods to the bank by installment basis/ lump-sum in future which is fixed by two party's agreement. The buyer is well known about rate of profit of the bank and he will charge further profit rate on goods for sale to the customers. In this case we see that bank can not charge more profit rate to buyer but it is made by mutual understanding. So buyer gets feasible investment facility from Islamic bank its welfare of fund management facility for existing business which provide by Islamic banks.
- In Murabaha, bank takes security & risk while the goods are in the custody of bank. The portion of goods will be discharged from the custody of banks when the same value is paid. The remaining goods are held in the custody of bank until the due will be paid. The bank sold the goods for ever in certain time but if the market price of goods will be increase bank can not charge more prices on the same product. So by increasing prices buyer gets more benefits or more profits but bank gets the same. By this feature of Murabaha buyer gets security of goods and gets the opportunity of higher price to be charged if market price will vary, it's a one kind of profit mechanism welfare for consumer.

CASE STUDY

Mr. XYZ is a client of SIBL Halishahar Branch. He has imported 10,000 quintal wheat @ per quintal of Tk2,000/- i.e. total value of imported goods Tk2.00 crore. The bank financed him under the murabaha letter of credit. After the delivery order, the price of wheat is going to increase and within one month price became @ per quintal Tk2,500 i.e. total value of imported goods became of Tk2.50 crore. Mr, XYZ committed with bank to sale wheat @ 5% profit per quintal i.e. total profit will be made Tk 10.00 lac only. But when market price of wheat becomes more, then the profit on sale will become Tk12.50 lac @ Tk5%. It shows that consumer gets more Tk2.5 lac profits due to market price is higher but bank will not charge any more profit hence market price will increase. This is a case of economic welfare of Mr. XYZ.

2) MUSHARAKA (Partnership)

Musharaka means a partnership between the bank and the client for a particular business in which both the bank and the client provide capital at an agreed upon ratio manage the business jointly share the rent as per agreed upon ratio and the bear the loss if any in portion to their respective equity. Elaborately, one two or more entrepreneurs approach an Islamic bank to request the financing required for a project. The bank along with other partners provides the necessary capital for the project.

All partners, including the bank have the right to participate in the project. They can also waive this right. The profits are to be distributed according to an agreed ratio, which need not be the same as the capital proportion. However losses are shared in exactly the same proportion in which the different partners have provided the finance for the project.

From Musharaka the following welfares are achieved by consumer:-

- According to terms & condition of this business as a partner bank will carry the losses if any as per capital/equity ratio along with client. Any business is the name of risk taking risk covering. Only Musharaka investment mode gives this facility to the client for risk sharing, it can say a great opportunity of risk sharing benefits for the consumer which means that risk coverage welfare.
- Under the Musharaka financing, when an entrepreneur falls his business then the bank will not do any quick action to recovery it's invested funds but will take the necessary steps as a shareholder with portfolio management to over come the business cycle. The client gets the benefits from Islamic bank about monitoring, advising and risk sharing to proper utilize of funds. We can say it is co-operational business welfare for the client.

CASE STUDY

Mr. ABC is the client of IBBL Agrabad branch. He communicated with Mr. AB and Mr. XY to start a joint venture business and they agreed upon with IBBL for musharaka financing. The IBBL invested of Tk5.00 crore for five years and each share holder invested same Tk 5.00 crore i.e. total invested money becomes Tk20.00 crore. They had started the business on 1st January 2008 named M/S Sony & Brothers with paid up capital of Tk20.00 crore. At the end of 2008 the M/S Sony & Brothers declared its dividend Tk20.00 lac thus each share holder gets the same amount of profit of Tk5.00 lac. At the end of 2009 the company declared its losses of Tk 16.00 lac then each share holder received the losses of Tk 4.00 lac including bank. We see that when the company gets profit then bank gets the profit portion simultaneously and when the company offers losses the bank shares the losses as proportionate rate. Therefore we can say that under Musharaka mode of investment consumer gets the benefit from Islamic bank as risk sharing welfare.

3) MUDARABAH

The term Mudarabah refers to a contract between two parties in which one party supplies capital to the other party for the purpose of engaging in a business activity with the understanding that any profits will be shared in a mutually agreed upon. Losses on the other hand are the sole responsibility of the provider of the capital. Mudarabah is also known a Qirad and Muqaradah. Mudaraba is a contract of those who have capital with those who have expertise where the first party provides capital and the other and the other party provides the expertise with the purpose of earning “halal” (Lawful) profit which will be shared in a mutually agreed upon proportion. This type of business venture serves the interest of the capital owner and the Mudharib (agent). The details of this mode explained in chapter six. The client or consumer gets the following welfares from this mode of investment:

- Under the Mudarabah investment mode bank supplies fund and consumer who will become entrepreneur supplies his own business policy and merits. Every new entrepreneurs desire to become a good entrepreneur but due to inadequate capital this dream become to drop. By this mode of investment consumer can able to create innovative quality about business policy using bank’s fund. Undoubtedly this investment mode makes a consumer as good and skill industrialist.

- Islamic banks don't finance everybody who will desire to business. A general criterion for getting investment facility under this mode is to be honest, pious, well characterized, good track of previous business, and must be a qualified business man. So this mode creates socially well characterized man. It's a one type of social welfare.

CASE STUDY

Mr. YY is a client of Exim bank CDA avenue branch. He is an educated young entrepreneur and honest man. He desires to start a net wear producing factory but enable to work due to lack of capital. Once upon a day he have come to bank and applied to manager for investment facility. The authority justified him and finally approved Tk50.00 lac only. Mr. YY started his expected business with the help of bank & going to improve and after five years later he have paid all dues of bank. The total capital of the business is now of Tk4.50 crore receiving net profit at least Tk5.00 lac per month and he desired his expectation to bank to open a new sister concern firm. The total employees of his firm are more than 250 people. The bank is thinking about him positively for refinancing. Under this mode of investment consumer have been benefited technological, financial and social welfare from the bank.

4) BAI-MUAJJAL (Deferred Sale)

The terms “Bai” and “Muajjal” are derived from the Arabic words ‘Ajal’ means a fixed time or a fixed period, “ Bai-Muajjal” is a sale on Credit. The Bai-Muajjal may be defined as a contract between a buyer a and seller under which the seller sells certain specific goods, permissible under Shariah and law of the Country, to the buyer at an agreed fixed price payable price payable at a curtains fixed future date in lump sum or in fixed installments.

In this bank, the Bai-Muajjal is treated as a contract between the bank and the client under which the bank sells to the client certain specific goods, purchased as per order and specification of the client at an agreed price payable within a fixed future date in lump-sum or by fixed installments.

There are some important features of Bai-Muajjal as given below:-

- i) If is permissible and most cases, the client will approach the bank with an offer to purchase a specific good through a Bai-Muajjal agreement. There are three parties' bank, client and goods. Under this system client got the ownership of goods while payment is due. Client/consumer will pay the value by installment basis in a certain period of time. Under the terms & conditions of this mode client can sale the good at a time but bank payment can repay installment basis. We may say this is assets ownership welfare facility which is given by bank to its client.
- ii) It is permissible to make the make promise binding upon the client to purchase the goods from the bank. In other words, the client is require to either satisfy the promise or to indemnify the bank for damages caused by breaking caused by breaking the promise without excuse. The bank sold the goods forever to the client but if the client will not pay the bank's payment within schedule time then bank can't charged further value on goods because under Islamic banking bank can not sale twice on a goods. On this case bank can charged only compensation on goods as a fewer or less rate. This is great opportunity of a consumer when his business is worse. This is one type of business cooperation welfare facility made by Islamic banks.

CASE STUDY

Mr. W is a client of First Security Islamic Bank Ltd of EPZ branch. He has been availing investment facility for 5 years of Tk40.00 lac under this mode of investment. He has paid his loan regularly with bank up-to 4 years by installment basis. In the year of fifth his business is fall and he became bankrupt and can not paid dues of bank. After the fifth years his business is removed and going to develop. The bank charged it's due to him but no compound profit rate is included. Because of Islamic bank can not charged profit rate as compound basis? Notwithstanding bank did not charge any additional profit rate due to overdue. Because Islamic bank can not claim any profit on classified investment. This is a great profit relaxation for the client. It may say social sympathetic welfare for the client of an Islamic bank.

CHAPTER-5

Poverty reduction under Islamic banking

FOCUS:-

Present economic features of Bangladesh

Poverty & its estimation

Poverty in Bangladesh

Measurement of the incidence of poverty in Bangladesh

Policy adopted by Govt for rural poverty alleviation

Policy adopted by Govt for national poverty alleviation

Survey analysis

Decreasing level of poverty under Islamic modes of investment

5.1 Present economic features of Bangladesh

Bangladesh is a developing country of the third world and a member of LDCs. The maximum features of a developing country are applicable for Bangladesh. There are some important features are mentioned as follows:-

1).Economic Backwardness:

In underdeveloped countries particular manifestations of economic backwards are low labor efficiency, factor immobility, and limited specialization in occupation and in trade, economic ignorance, Values and social structure that minimize the incentives for economic change.

The basic cause of backwardness is to be found in low labor productivity as compared with the developed countries. This low labor efficiency results from general poverty, which is reflected, in low nutritional standards, ill health, illiteracy and lack of training and occupational mobility, etc.

There is also occupational immobility of labor due to the joint family system and the caste system. Certain cultural and psychological factors are more dominant than wage rates in determining the supply of labor. The joint family system makes people lethargic and stays at- home. In many underdeveloped countries, certain occupations are reserved for members of some particular caste, religion, race, tribute or sex, In Latin America, cloth making falls within the exclusive jurisdiction of women. In-Indian sub continent area, a janitor always belongs to a particular caste. According to Stephen Enke, underdeveloped countries have what might be termed “an uneconomic culture.” Primarily this means that traditional attitudes discourage the full utilization of human resources. More specifically, it means that men are less likely to strive for extra consumption. In underdeveloped countries people are mostly illiterate, ignorant, conservative, superstitious and fatalists. Poverty in such countries is abysmal, but it is considered to be God-given, something preordained. It is never attributed to personal lack of thrift and industry.²⁹ There is extensive prevalence of child labor and women’s status and position in society is inferior to men. Dignity of labor is conspicuously absent. Government jobs, even of a clerical nature, have more prestige than manual work. People are ranked not according to their capacity to do a particular job but by age, sex, caste, clan and kinship. They are governed by customs and traditions.

²⁹. Jhingan, M.L. 1993, *The Economics of Development & Planning*, 26th edition. Delhi.p-26

Individualistic spirit is absent. Exchange by barter is widespread and money economy is hardly understood. "The value system minimizes the importance of economic incentives, material rewards, intendance and rational calculation. It inhibits the development and acceptance of new ideas and objectives and fails to compare the costs and advantages of alternative methods to achieve objectives. In short, the cultural value system within many poor countries is not favorable to economic achievement and the people remain economically, backward."

2).Lack of Enterprise and Initiative:

Another characteristic feature of underdeveloped countries like Bangladesh is the lack of entrepreneurial ability. Entrepreneurship is inhibited by the social system, which denies opportunities for creative facilities. "The force of custom, the rigidity of status and the distrust of new ideas and of the exercise of intellectual curiosity, combine to create an atmosphere inimical to experiment of innovation." The small size of the market, lack of capital, absence of private property, absence of freedom of contract and law and order hamper enterprise and initiative.

Besides, there exist a few entrepreneurs who are engaged in the manufacture of some consumer goods, and in plantations and mines that tend to become monopolistic and quasi-monopolistic. They develop personal and political contacts with the government officials, enjoy a privileged position, and receive preferential treatment in finance taxation, exports, imports, etc. It is they who start new industries and thus found individual business, empires which inhibit the growth of fresh entrepreneurship within the country. The thin supply of entrepreneurs in such countries is also attributed to the lack of infrastructure facilities, which add to the risk, and uncertainty of new entrepreneurship. LDCs lack in properly developed means of transport and communications, cheap and regular power supply, availability of sufficient raw materials, trained labor, well-developed capital and money markets, etc.

Further, entrepreneurship is hindered by technological backwardness in underdeveloped countries. This reduces output per man and the products are of substandard quality. Such countries do not possess the necessary technical know how and capital to evolve their own techniques which may be output-increasing and labor-absorbing. Mostly they have to depend upon imported capital intensive techniques which do not fit in their factor endowments. No wonder, LDCs lack dynamic entrepreneurship which Schumpeter regarded as the focal point in the process of economic development.

3).Insufficient Capital Equipment:

Insufficiency of capital equipment is another general characteristic of such countries like Bangladesh. The basic characters of an underdeveloped country are as a low income, low capital, low-saving and low-investment” of economy. There is not only an extremely small capital stock but the current formation is also very low. In most underdeveloped countries gross investment is only 5-6 per cent of GNP whereas in advanced countries gross investment is only 15-20 per cent. Such low rates of the growth of capital stock are hardly enough to provide a rapidly growing population (at 2 to 2.5 per cent annum), let alone invest in new capital projects. In fact, these countries find it difficult to cover even depreciation of capital and replace the existing capital equipment.

The root cause of this capital deficiency is the problem of under-saving or, more precisely, that of under-investment in productive instruments capable of increasing their rate of economic growth. The per capita income being very low, people on the edge of subsistence cannot save much thereby leaving very little for further investment. There are extreme inequalities in the distribution of incomes in such countries. But this does not mean that the volume of savings available for capital formation is high. In fact, large savings are possible only in the case of 3-5 per cent of the people at the top of the income pyramid. Moreover, the persons at the peak of the income pyramid are traders and landlords who have a tendency to invest in unproductive channels such as in gold, Jewellery, precious stones, idle inventories, luxurious real estates and money markets abroad, etc. Another reason as to why the saving ratio does not rise with the increased level of incomes in the long run is the “demonstration effect”. In everybody there is a great urge “to keep up with the Joneses,” that is, to imitate the standard of living of our prosperous neighbors. Similarly, there is a tendency on the part of the people of the underdeveloped countries to emulate the higher consumption standards of advanced countries. As a result of the demonstration effect, the rise in incomes is spent on increased expenditure on conspicuous consumption and thus savings are almost static or negligible. This demonstration effect is usually caused by foreign films, magazines and visits abroad.

This tendency to emulate the consumption patterns of advanced countries is to be found not only in the case of private individuals but also in the case of governments. The governments in LDCs emulate social security programmes found in developed countries, viz, minimum wage legislation, health insurance, pension and provident fund schemes, etc, but these

measures put obstacles in the way of entrepreneurship and thus retard capital formation. It is not surprising writes Haberler, 'that poor and backward economics when they wake up and set their minds to develop in a hurry and catch up with more developed economies are tempted to overspend and live beyond their means.' Thus such countries suffer from chronic capital deficiency and the factors responsible for this are not only economic but also socio-political in nature.

4).Technological backwardness

Like such underdeveloped countries Bangladesh is also in the backward state of technology. Its technological backwardness is reflected, firstly, in high average cost of production despite low money wages. Secondly, in high labor-output and capital-output ratios as a rule, and on the average, given constant factor prices thus reflecting a generally low productivity of labour and capital: thirdly, in the predominance of unskilled and untrained workers, and lastly in the large amount of capital equipment required to produce a national output. "Deficiency of capital hinders the process of scrapping off the old techniques and the installation of modern techniques. Illiteracy and absence of a skilled labor are the other major hurdles in the spread of techniques in the backward economy. Thus it may be pointed out that technological backwardness is not only the cause of economic backwardness, but it is also the result of it"

This technological backwardness is due to technological dualism, which implies the use of different production functions in the advanced sector and the traditional sector of the economy. The existence of such dualism has accentuated the problem of structural or technological unemployment in the industrial sector and disguised unemployment in the rural sector. Underdeveloped countries are also characterized by structural disequilibrium at the factor level which leads to technological unemployment. This technological unemployment arises from mal-allocation of resources, the structure of demand and technological restraints.

5).Foreign Trade Orientation

We are generally foreign trade-oriented. This orientation is reflected in exports of primary products and imports of consumer goods and machinery. The percentage share of fuels, minerals, metals, and other primary products in the merchandise exports of the majority of LDCs, as revealed by the recent World Bank data is on the average about 80 per cent. For instance, the share of Ethiopia is 99 per cent, of Burma 97 per cent, of Uganda 99 per cent, of Indonesia 96 per cent, of Malaysia 80 per cent, Algeria 100 per cent, and of Kenya 86 per cent.

This too much dependence on exports of primary products leads to serious repercussions on their economies. Firstly, the economy concentrates mainly on the production of primary exports to the comparative neglect of the other sectors of the economy. Secondly, the economic becomes particularly susceptible to fluctuations in the international prices of the export commodities. A depression abroad brings down their demand and prices. As a result, the entire economy is adversely affected. Lastly, too much dependence on a few export commodities to the utter neglect of other consumption goods has made these economies highly dependent on imports. Imports generally consist of fuel, manufactured articles, primary commodities, machinery and transport equipment, and even food. Coupled with these is the operation of the demonstration effect which tends to raise the propensity to import still further.

Of late, there has been a secular decline in the income terms of trade (capacity to import) of the underdeveloped countries so that they are faced with the balance of payments difficulties. An undeveloped country's weak export capacity relatively to its strong import needs is reflected in its persistent external indebtedness. For instance, the gross inflow of public medium and long-term loans to Mexico was 72,510 million dollars and the repayment of principal was 7,502 million dollars in 1985. The foreign trade-orientation also manifests itself through the flow of foreign capital to underdeveloped countries. It plays a dominant role in developing and expanding the export sector. It also controls and manages those services which are ancillary to the export sector.

In this way foreign capital has tended to monopolize its position in certain selected fields like minerals, plantations, and petroleum in underdeveloped countries. The multi-national corporations (MNCs) from the developed countries have spread themselves in developing countries in manufacturing, export-oriented plantations, petroleum and mining. Such a widespread hold of foreign capital drains their resources. The foreigners are interested only in maximizing their gains at the expense of the developing countries.

6).Low rate of Capital Formation

The most pertinent obstacle to economic development is the shortage of capital. This stems from the vicious circles of poverty analyzed above. Poverty is both a cause and a consequence of a country's rate of capital formation. In an underdeveloped country, the masses are poverty-ridden. They are mostly illiterate and unskilled, use outmoded capital equipment and

methods of production. They practice subsistence farming, lack mobility and have little connection with the market sector of the economy. Their marginal productivity is extremely low. Low productivity leads to; low real income, low saving, low investment and to a low rate of capital formation. The consumption level is already so low that it is difficult to restrict it further to increase the capital stock. That is why millions of farmers in such countries use outmoded and obsolete capital equipment. Such small sums as they may be able to save are often hoarded in the form of currency or used in purchasing gold and jewellery, etc. The inclination to hoard money is due to the absence of banking facilities in rural areas. No wonder, there is little capital formation in underdeveloped countries.

It is the high income group that does most of the saving in underdeveloped countries like Bangladesh. But these savings do not flow into productive channels. On the other hand, they are dissipated “into real estate, gold, jewellery, commodity hoards and hoards of foreign or domestic currency, money lending and speculation,” thus value retaining objects and durable consumer goods dominate their expenditure pattern. In addition, conspicuous consumption plays an important part in their consumption patterns. Consequently, they prefer an imported article for its prestige value to an equally good domestic article. But what are the main reasons for the lack of incentives to save and invest in underdeveloped countries?

These include “imperfect maintenance of law and order, political instability, unsettled monetary conditions, lack of continuity in economic life, the extended family system with its drain on resources, and its stifling of personal initiative and certain system of land tenure.”

Thus, there is no addition to the real stock of capital in these countries. In between the low income and high-income groups, there is a small middle income group. It is mostly engaged in well-established and less risky ventures, such as providing marketing and other services. This group, though not lacking in entrepreneurial ability, is reluctant to invest in manufacturing industries for the reasons which are not far to seek.

There is the difficulty of obtaining institutional and corporate finance, advanced technology, trained labor and management. Above all, the difficulties enumerated in the preceding Para go together to inhibit the growth of capital in such countries.

Present Economic Status: GDP, Saving And Investment

Bangladesh Bureau of Statistics has provisionally estimated the GDP growth rate to 6.21 percent in FY 2007-08. The GDP growth rate is assumed slightly lower compared to the previous fiscal year due to the decline of growth in agriculture and manufacturing sectors. It may be noted here that, according to the final estimate, the GDP growth rate was 6.43 percent in FY 2006-07. As per Medium Term Macroeconomic Framework (MTMF), the real growth of GDP for the fiscal year 2008-09, 2009-10 and 2010-11 have been forecasted to be 6.5 percent, 7.0 percent and 7.2 percent respectively.

Despite growth in the forestry sub-sector, the growth rate of agriculture sector is assumed lower compared to the previous fiscal year due to the decline of growth in crops and horticulture sub-sector. Growth rate of industry sector, in particular, manufacturing sector is assumed to decline slightly. In spite of growth in some sectors, overall growth in services sector estimated to decline. The GDP growth rate and per capita GDP growth at constant price for FY 2002-03 to FY 2007-08 are shown below, shows the DGP, GNI, Per Capita GDP and GNI at Current Market Prices.³⁰

Table (34): GDP, GNI, Per Capita GDP and GNI at Current Market Prices

| Item | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10* P |
|--------------------------|---------|---------|---------|---------|---------|------------|
| GDP (In Crore Tk.) | 370707 | 415728 | 472477 | 545822 | 614795 | 690571 |
| GNI (In Crore Tk.) | 389635 | 442935 | 507752 | 594212 | 670696 | 756875 |
| Population (In Crore) | 13.70 | 13.88 | 14.06 | 14.24 | 14.42 | 14.61 |
| Per Capita GDP (In Tk.) | 27061 | 29955 | 33607 | 38330 | 42628 | 47281 |
| Per Capita GNI (In Tk.) | 28443 | 31915 | 36116 | 41728 | 46504 | 51821 |
| Per Capita GDP (In US\$) | 441 | 447 | 487 | 559 | 620 | 684 |
| Per Capita GNI (In US\$) | 463 | 476 | 523 | 608 | 676 | 750 |

Source: Bangladesh Bureau of Statistics (BBS); *p-Provisional.
Bangladesh Economic Review-2010, P-19

It is observed that the per capita GDP and national income is increasing over time, At current prices, the per capita GNI for FY 2007-08 is estimated at Tk. 41103 which is 13.81 percent higher compared to the previous fiscal year. Per capita GDP was Tk. 33607 in FY 2006-07 which increased to Tk. 38056 in FY 2007-08. In FY 2007-08 the growth rate of per capita GDP is 13.75 percent which was 12.19 percent in the preceding fiscal year. In FY 2007-08, the per capita national income and GDP are growing per year.

³⁰ Bangladesh Economic Review-2008. P.1

Table (35): Medium Term Macroeconomic Framework: Key Indicators

| Indicators | Actual | | Revised | Estimated | | |
|--|---------|---------|---------|-----------|---------|---------|
| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| Growth Rate of GDP (percent) | 6.6 | 6.5 | 6 | 6.5 | 7 | 7.2 |
| GDP Deflator | 5.2 | 5.6 | 8 | 7.5 | 6.5 | 6 |
| Average inflation (CPI) | 7.2 | 7.2 | 9 | 9 | 7.5 | 7 |
| Gross Domestic Investment | 24.7 | 24.3 | 23.7 | 24.4 | 26.3 | 27 |
| Total Revenue | 10.3 | 10.3 | 11.3 | 11.3 | 11.7 | 11.9 |
| Tax | 7.8 | 7.7 | 8.6 | 8.9 | 9.2 | 9.4 |
| Non-tax | 2.2 | 2.2 | 2.3 | 2 | 2.1 | 2.1 |
| Total Expenditure | 14 | 13.5 | 16.1 | 16.3 | 16.1 | 15.9 |
| Current Expenditure | 9.3 | 9.5 | 11.9 | 12.2 | 12 | 11.9 |
| Annual Development Programme | 4.7 | 4.1 | 4.2 | 4.2 | 4.1 | 4 |
| Overall Balance | -3.7 | -3.2 | -4.8 | -5 | -4.4 | -4 |
| Financing (Net) | 3.7 | 3.2 | 4.8 | 5 | 4.4 | 4 |
| Domestic Financing | 2.1 | 2.2 | 2.3 | 2.8 | 2.2 | 2 |
| Banking System | 1.4 | 1.2 | 1.9 | 2.2 | 1.8 | 1.7 |
| Non-bank Borrowing (Net) | 0.7 | 0.9 | 0.4 | 0.6 | 0.4 | 0.3 |
| Foreign Financing | 1.5 | 1 | 2.4 | 2.1 | 2.2 | 2 |
| Money and Credit (end of year; percent change) | | | | | | |
| Net domestic asset | 19.5 | 12.6 | 18.5 | 17.5 | 17.3 | 17.1 |
| Domestic credit | 21.1 | 14.5 | 21.6 | 18 | 18.2 | 17.9 |
| Credit in private sector | 18.3 | 15.1 | 16 | 17 | 19 | 19 |
| Broad money (M2) | 19.3 | 17.1 | 16.5 | 16.9 | 15.8 | 15.3 |
| Balance of payment (percent change) | | | | | | |
| Exports (f.o.b) | 16.8 | 17.8 | 17.9 | 18.5 | 19.3 | 20.3 |
| Imports (f.o.b) | 21.5 | 22.9 | 24.7 | 26.7 | 28.8 | 31.1 |
| Remittances | 7.8 | 8.8 | 9.8 | 10.8 | 12 | 13.4 |
| External current account balance (in percent of GDP) | 1.3 | 1.4 | -0.6 | -0.9 | -1.3 | -1.7 |
| Balance of payment (in million US dollars) | | | | | | |
| Export (f.o.b) | 10.4 | 12.1 | 14 | 16.3 | 19.1 | 22.4 |
| Imports (f.o.b) | 13.3 | 15.5 | 19.4 | 23.5 | 28.4 | 34.4 |
| Remittance | 4.8 | 6 | 7.5 | 9.5 | 12.1 | 15.5 |
| Gross official reserves (in million US dollars) | 3.5 | 5.1 | 5.6 | 6 | 6.4 | 65. |

Source: BBS, Bangladesh Bank and CGA data system, Finance Division.
Bangladesh Economic Review, 2008, p.7.

5.2 Poverty & its estimation

Concept of Poverty: The term poverty is a complex one with its various dimensions. In defining this multi dimensional term, some put stress on the lack of certain basic capabilities of human beings while some consider the various aspects of human deprivations. Different indicators are required to be considered to deal effectively with different dimensions of poverty. However in defining poverty one common factor comes to the forefront and this is the concept of well being. Poverty is said to exist in a given society when one or more persons do not attain a level of material well being deemed to constitute a reasonable minimum by the standards of the society (Ravallion, 1992).

For better understanding of the concept of poverty some aspects of its measurement need to be addressed. Any measurement of poverty can be split into two distinct operations.

- i) The identification of the poor and
- ii) The aggregation of their poverty characteristics into an overall measure. The identification exercise is clearly prior to the aggregation (Sen 1981).³¹

Although many efforts have been exerted by economists to solve the aggregation problem, there are also a large number of difficult issues unresolved concerning the identification problem in applied economic research. Analysis of poverty is directly related to the concept of well being at the individual level. Sen (1981) has explained two different approaches for measuring well being welfarist and non-welfarist. The former approach compares well being based on individual utility level as assessed by the individuals themselves while the latter approach does not (Sen 1979).

For example if poverty comparison is made in terms of nutritional attainment as frequently done in the developing countries, one need not believe that individuals themselves are always good judges of the nutrition to well being. A non welfarist poverty comparison therefore asserts that the poor are better off even if they do not agree. Views differ widely on the relative merit of both approaches (for details see Sen 1979, 1987).

³¹. BRAC publication, July 1998, *Poverty Alleviation and Empowerment*, Dhaka, p-22-25

The poverty line has been estimated by first calculating the cost of bundle of goods deemed to assure that basic consumption needs are met in the domain of the poverty comparison. The bundle of goods has been taken from the list of per capita normative daily requirement presented in the paper of 'Ravallion and Sen (1996)'. Thirty five percent (35%) non food expenditure has been added to the amount derived by earlier estimate. The most compelling argument in favor of the CBN method for making poverty comparisons is that it explicitly aims to control for differences in purchasing power over basic consumption needs. Now we are to estimate poverty and it may be by two ways:-

- 1) Head count ratio way
- 2) Caloric Requirements way, those are as follows-

1). Poverty estimation, head count ratio :-

The most commonly practiced method for poverty estimation is the head count ration (H) defined as the proportion of the total population that happens to be identified as the poor e.g. the proportion falling below the poverty line expenditure (or income).

$$H = q/n$$

Where q= population below poverty line

n = total number of population

Poverty measure based on the estimate of H has been severely criticized by Sen (Sen, 1981). Suppose a person below the poverty line have increased his income or expenditure but not sufficiently enough to cross the line. This is an improvement in terms of lowering the poverty level but the head count index remains unchanged. A better measure is the poverty gap (PG), based on the aggregate poverty deficit of the poor relative to the poverty line which gives a good indication of the depth of poverty in that it depends on the distance of the poor below the poverty line.

$$PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{q} \right]$$

This index can be expressed as the percentage short fall of the average income of the poor from the poverty line which can be termed as income gap ratio (I).

$$PG = I.H$$

$$\text{Where } I = \frac{z - y^p}{z}$$

and y^p denotes the consumption of the poor.

This method has also been criticized by Sen (sen, 1981) for being ‘completely insensitive transfers of income among the poor so long as nobody cross the poverty line by such transfers’. It also pays no attention whatever to the number or proportion of people below the poverty line, concentrating only on the aggregate short-fall, no matter how it is distributed and among how many’ (Sen, 1981). The measure proposed by Sen (Sen, 1976, 1981) though a very good one to measure the severity of poverty, does not satisfy “additively” property (for details see Ravallion, 1992). A measure of the severity of the poverty taking “additively” into consideration is Foster-Greer-Thornback (FGT) measure whereby the poverty gaps of the poor are weighted by those poverty gaps in assessing aggregate poverty.

$$FGT = \frac{1}{n} \sum_{j=1}^q \left[\frac{z - y_j}{z} \right]^2$$

A review of the studies on poverty measurement in the case of Bangladesh over the last two decades shows considerable variation in the results. Discrepancies in estimates are found even for studies in the same year when researchers were different (Hye, 1996). The basic problem lies in the methodology applied by the different researches as different methods of estimation produce significantly different results (Ravallion and sen, 1996). The most crucial point that raises the debate about the methods of poverty measurement is how to set up a poverty line and what poverty measures are used. Taking all these things into consideration we have applied the method, which we hope would best suit our purposes as mentioned earlier.

2). Poverty estimation, on the basis of calorie requirement:-

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihoods of almost everyone in an increasingly inter-connected world.

Countries in Asia are increasingly worried about what is happening in the West. A number of nations urged the US to provide meaningful assurances and bailout packages for the US economy, as that would have a knock-on effect of reassuring foreign investors and helping ease concerns in other parts of the world.

Many believed Asia was sufficiently decoupled from the Western financial system. Asia has not has a sub prime mortgage crisis like many nations in the West have, for example. Many Asian nations have witnessed rapid growth and wealth creation in recent years. This leads to enormous investment in the Western countries. In addition, there was increased foreign investment in Asia, mostly from the West. Let's here discuss the multitude of poverty determinants in terms of Bangladesh. In practice, the measure of poverty is the number of households/people below a poverty line which is calculated on the basis of expenditure required to attain a minimum calorie requirement.

However, poverty is multi faced phenomenon determined by both material and non-material well being which is assumed by a means of quality of life earned through his functioning.³² The functioning normally generate from fulfilling one's basic needs of food, nutrition and good health. As such, higher levels of functioning include being happy or having self respect. The various contributions of functioning available at the disposal of an individual determine his potential to lead a certain life while his functioning are the actual occurrences that can be aggregated to asses to what extent that person is able to lead that life. Here we can quote an example in respect of functioning of a person stating two capability sets C1 and C2 where C is the set of all possible functioning in life.

Thus in the following general capability set :-

$$C \{f_1, f_2, f_3, \dots, f_n\} \dots \dots \dots (i)$$

f1 to fn represent functioning of being adequately nourished to be an influential personality in one's community.

Further C1 C2 as being comprised of the following functioning:

$$C1 \{ (f_1, f_2, f_3) \text{ and } C2 (f_1, f_2, f_3, f_4, f_5, f_6, f_7, f_8) \}$$

Denote here,

f1 = adequately nourishment,

f2 = good health,

f3 = housing,

f4 = access to clean water & sanitation,

f5 = education,

f6 = longevity,

f7 = self confidence and

f8 = social status.

³² Bangladesh Economic Review, 2008, p.16.

Here person 1, where life comprises C1 is potential poorer than person 2, where life faces the capability set of C2, because person 2 has greater freedom to pursue access to clean drinking water & sanitation, housing & education to upgrade his living condition than person 1, who does not have the access to these things. Person 2 however, does not have the change to pursue longevity, self confidence or social status. However C1 and C2 denote varying potential of two persons to lead their lives. Determine of poverty are comprised of one's existing potential to lead a certain life as well as one's actual ability to lead it. Poverty reduction/alleviation is consequently about being able to achieve the full potential of one's life as well as improve one's freedom to achieve additional combinations of various elements of functioning that constitute one's desired well being.³³

Determination of poverty & characteristics of the poor:-

The study of the characteristics of the poor is an important step to discern the causes and determinants of the poverty. Although poverty profiles may differ between countries and within countries though time, depending on structural and cultural characteristics of various countries, there seems to be quite a number of similarities in the socio-economic characteristics of the poor in OIC countries.³⁴ Various studies conducted about the poverty profiles and characteristics of the poor in different developing countries have established that:-

- a). Poverty is more extended and people are more affected by poverty in rural than in urban areas.
- b). Largest families suffer more than smaller ones from severe poverty, and poverty itself is a factor behind larger families a cause and effect relationship.
- c). Poor people are generally landless and hence they are mostly agricultural laborers in the rural areas.
- d). People who are illiterate have no or little access to education, have low levels of human capital and capacity to work are particularly vulnerable to poverty.
- e). Poor people are settled, generally in regions and areas which are not planned and lack the necessary infrastructure and facilities and are hence prone environmental risks and hazards.

³³ Hannan, S.A, 2003, *Zakat and Poverty Alleviation, Islamic Economic Research Bureau, p.179-180.*

³⁴ *Ibid.P.140.*

- f) Poor people have a very high propensity to consume food items. Expenditure on food absorbs the greatest portion of a poor family income.
- g). Access to and usage of public goods and services are very limited in the case of the poor people.
- h). Poor people in the urban areas are mostly employed in difficult, low paid and socially looked down upon jobs such as construction workers, street cleaners, etc.
- i). Poor people lack the ownership of physical and financial assets, and accordingly are usually wage earners.
- j). In many societies, poverty is associated with certain racial or ethnic groups and in other cases with some marginalized and/or forgotten regions.
- k). Poverty has some seasonal dimensions in that people get poorer in a cyclical manner. Examples of such situations are crop cycles, before harvesting, and climatic cycles, during drought.

5.3 Poverty in Bangladesh

The recent study by World Bank (1998) in an attempt to determine the micro-economic determinants of poverty showed that education is the key determinant of urban living standards and to a lesser extent also of rural living standards. And that land ownership is the key determinant of rural living standards. The study also showed that differences in poverty between regions depend more on area characteristics than on differences in the characteristics of households living in those areas.

But it should be noted that all of the studies identified factors responsible for poverty in Bangladesh in aggregated sense and neither of the studies identified the determinants of poverty in order of priority. According to the report of strategy for Danish-Bangladeshi Development Corporation (Ministry of Foreign Affairs, 1999a), traditional anti-poverty theories focus on employment, and credit and education projects as some of the significant parameters for alleviating poverty.

The report argues that since employment programs seldom bring about lasting improvements in Bangladesh, they should be integrated in the sector programmes that aim at increasing agricultural and fish production and improved marketing. According to the report, although credit programmes have proven to be one of the effective means of encouraging production by the poorest groups in Bangladesh, the availability of credit is only a part of program in and should therefore be included as an integrated part of the sector program. The World Bank poverty assessments reports in Bangladesh (World Bank, 1998b) suggest five pillars for a poverty reduction strategy:-

- (1) accelerating economic growth;
- (2) promoting education for the poor: particularly primary education and particularly for girls,
- (3) investing in poor areas to take advantage of strong location effects on poverty reduction;
- (4) improved targeting of public expenditures and safety nets to reach the poor better and
- (5) forming further partnership with NGOs to reach the poorest and not so poor in ways designed to make a stronger attack on poverty.

The report also adds that apart from board-based growth, targeted investments in the human and physical capital of the poor can reduce poverty and limit inequality. It shows that education and landownership are key determinants of living standards. This finding suggests that occupation is also important determinant affecting poverty, and concludes that investment policies aimed at poor will reduce poverty and that developing the rural non-farm sector hold considerable potential for poverty reduction. But the report fails to identify the determinants of poverty in order of priority. Although poverty is the overarching goal of the govt. of Bangladesh, it has never had a homegrown approach to combat poverty nor had a clearly articulated operational approach to address the issue. Rather agendas for poverty alleviation had remained largely donor driven. As a result what has served as a strategy for poverty alleviation in Bangladesh has been like more than aggregation of a large number of various donor-funded micro-projects supplemented by some discrete domestically funded programmes (CPD, 2000)

From a huge study about poverty in Bangladesh observed that the majority of the poor people live in rural areas and are landless. On the other hand, the poorest and chronically deficit households are mostly engaged as agricultural wage laborers. Furthermore, the same study observed that while 40% or more of households suffer from food deficits in the pre-harvest period, the incidence of poverty falls to about 33% during and after the harvest season.

Regarding the environmental aspects of poverty in Bangladesh have been recorded in the flood and drought prone areas of the country. In this respect, a widely observed phenomenon related to the environment is that poverty is of the main cause's desertification of many countries. This is the mainly caused by the cutting of wood for energy and unorganized pasturing. In both cases, poor people have very little option. Again education, health sanitation conditions are the worst among the poor households.

Other characteristics observed by the study indicated that the income of the poor is not enough to meet poverty line expenditure, that the poor households have a higher child-woman ratio and more children less than ten years of age as compared to relatively richer families. Furthermore, the lower income earning capacities are coupled with a heavier burden to meet the household needs of nutrition, health and education. The study further found out that adult illiteracy is extremely high in poor families.

Vicious Circles of Poverty

There are circular relationships known as the 'Victors circles of poverty' that tend to perpetuate the low level of development in LDCs including Bangladesh. Nurkse explains the idea in these works: It implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty. For example, a poor man may not have enough to eat: being underfed, his healthy may be weak: being physically weak, his working capacity is low, which means that he is poor, which in turn means that he will not have enough to eat: and so on. A situation of this sort relating to a country as a whole, can be summed up in the trite proposition: "A country is poor because it it is poor"

The basic vicious circle stems from the fact that in LDCs total productivity is low due to deficiency of capital, market imperfections, economic backwardness and underdevelopment. However, the vicious circles operate both on the demand side and the supply side. The demand side of the vicious circle is that the low level of real income leads to a low level of demand which, in turn, leads to a low-rate of investment and hence back to deficiency of capital, low productivity and low income. Low productivity is reflected in low real income. ³⁵

³⁵. *Jhingan, M.L. 1993, The Economics of Development & Planning, 26th edition. Delhi.p-31-32*

The low level of real income means low saving. The low level of saving leads to a low investment and to deficiency of capital, in turn, leads to a low level of productivity and back to low income. Thus the vicious circle is complete from the supply side. The low level of real income, reflecting low investment and capital deficiency is a common feature of both the vicious circles. It is depicted in the following fig.

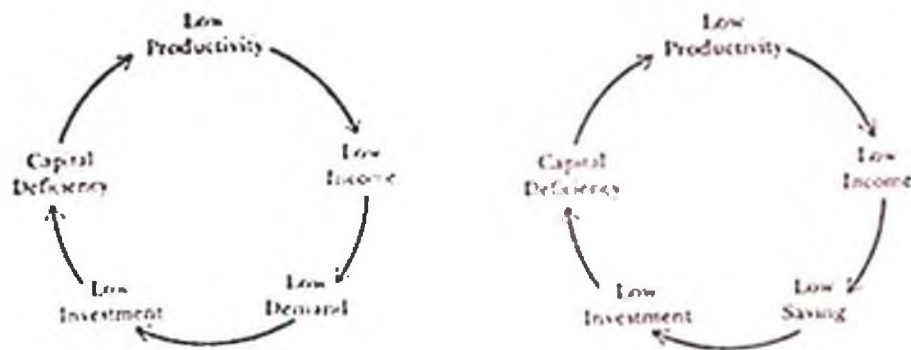
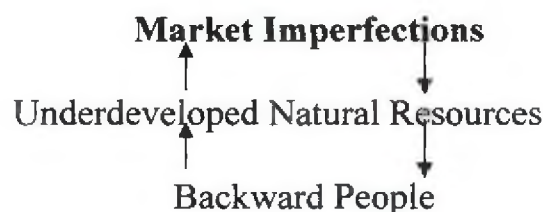


Chart (18): Vicious circle of poverty

A third vicious circle envelops underdeveloped human and natural resources. Development of natural resources is dependent upon the productive capacity of the people in the country. If the people are backward and illiterate, lack in technical skill, knowledge and entrepreneurial activity, the natural resources will tend to remain unutilized, underutilized or even unutilized. On the other hand, people are economically backward in a country due to underdeveloped natural resources. Underdeveloped natural resources are, therefore, both a consequence and cause of the backward people. This is explained in the following chart:



“Poverty and underdevelopment of the economy are thus synonymous. A country is poor because it is underdeveloped. A country is underdeveloped because it is poor and remains underdeveloped as it has not the necessary resources for promoting development. Poverty is a curse, but a greater curse is that it is self-perpetuating.” In terms of socio economic characteristics of Bangladesh we may compare our economic feature with the vicious circle

54

Measurement of the Incidence of Poverty in Bangladesh

Trends of Poverty

The incidence of poverty registered a declining trend in 2005 as compared to 1991-92 based on CBN method. The incidence of poverty at the national level declined from 58.8 percent in 1991-92 to 48.9 percent in 2000 based on the upper line in the following table.

During this period, the compound poverty reduction rate per year is recorded at 1.8%. But the rate of reduction of poverty is higher in urban area (yearly compound rate 2.2 percent). On the other hand, during 2000 to 2005, income poverty also reduced from 48.9 percent to 40.0 percent and the compound reduction rate is 3.9 percent. The reduction rate during this period is faster for the urban area (yearly 4.2 percent).

Between 2000 and 2005, the depth (measured by poverty gap) and severity (measured by squared poverty gap) of poverty declined simultaneously both in urban and rural areas. It is notable that during 1991-92 to 2000, reduction rate of poverty was faster in the rural area than that of the urban area.³⁶

Table (36): Trends of Poverty based on CBN Method.

| | 2005 (%) | 2000 (%) | Annual Change (%) (2000-2005) | 1991-92 (%) | Annual Change (%) (1991/92-2000) |
|----------------------------|----------|----------|----------------------------------|-------------|-------------------------------------|
| Head Count Index | | | | | |
| National | 40.0 | 48.9 | -3.9 | 58.8 | -1.8 |
| Urban | 28.4 | 35.2 | -4.2 | 44.9 | -2.2 |
| Rural | 43.8 | 52.3 | -3.5 | 61.2 | -1.6 |
| Poverty Gap | | | | | |
| National | 9.0 | 12.8 | -6.80 | 17.2 | -2.9 |
| Urban | 6.5 | 9.1 | -6.51 | 12.0 | -2.5 |
| Rural | 9.8 | 13.7 | -6.48 | 18.1 | -2.8 |
| Squared Poverty Gap | | | | | |
| National | 2.9 | 4.6 | -8.81 | 6.8 | -3.8 |
| Urban | 2.1 | 3.3 | -8.64 | 4.4 | -2.7 |
| Rural | 3.1 | 4.9 | -8.75 | 7.2 | -3.8 |

Sources: *Bangladesh Economic Review-2008*. P.178.

³⁶. *Bangladesh Economic Review-2008*. P.178.

The trends of poverty on the basis of Head Count Ratio and DCI method are presented below.

Table (37): Trends of Poverty based on Head Count Ratio and DCI Method.

| | People below poverty line | | | | | |
|--|---------------------------|------------|---------------------|------------|---------------------|------------|
| | National | | Rural | | Urban | |
| | People (in million) | People (%) | People (in million) | People (%) | People (in million) | People (%) |
| Poverty line 1: Absolute Poverty, Daily less than 2122 kilocalorie food intake | | | | | | |
| 2005 | 56.0 | 40.4 | 41.2 | 39.5 | 14.8 | 43.2 |
| 2000 | 55.8 | 44.3 | 42.6 | 42.3 | 13.2 | 52.5 |
| 1995-96 | 55.3 | 47.5 | 45.7 | 47.1 | 9.6 | 49.7 |
| 1991-92 | 51.6 | 47.5 | 44.8 | 47.6 | 6.8 | 46.7 |
| Poverty line 2: Hardcore Poverty, Daily less than 1805 kilocalorie food intake | | | | | | |
| 2005 | 27.0 | 19.5 | 18.7 | 17.9 | 8.3 | 24.4 |
| 2000 | 24.9 | 20.0 | 18.8 | 18.7 | 6.0 | 25.0 |
| 1995-96 | 29.1 | 25.1 | 23.9 | 24.6 | 5.2 | 27.3 |
| 1991-92 | 30.4 | 28.0 | 26.6 | 28.3 | 3.8 | 26.3 |

Source: *Bangladesh Economic Review-2008. P.179.*

According to Head Count Ratio using DCI method, in 2005, the incidences of absolute poverty were 40.4, 39.5 and 43.2 percent in national, rural and urban areas respectively. Under this method, a reduction of absolute poverty is recorded at 4.1 percent from 2000 to 2005. People living below poverty line in 2000 were 55.8 million, which increased to 56 million in 2005. Though the number of poor increased by 0.2 million during this period, it increased at a slower rate than that of the previous period.

According to head Count Ratio, using DCI method, the incidences of hardcore poverty were 19.5, 17.9 and 24.4 percent in national, rural and urban areas respectively in 2005. Under this method a reduction of hardcore poverty is recorded 0.5 percent at the national level, 0.8 percent in the rural area and 0.6 percent in the urban area. People living below hardcore poverty line in 2000 were 20.0 percent, which decreased to 19.5 percent in 2005. Though the poor people belonging to absolute poverty and hardcore poverty increased during this period, but decreased as compared to 1991-92.

The Head Count Ratio of incidence of poverty in six administrative divisions in CBN method is presented below:-

Table (38): Division-wise Incidence of Poverty (HRC) by CBN Method (in percentage)

| National/ Division | 2005 | | | 2000 | | |
|-------------------------------------|------------------------------|-------------|-------------|-------------|-------------|-------------|
| | Using the Lower Poverty Line | | | | | |
| | National | Rural | Urban | National | Rural | Urban |
| National | 25.1 | 28.6 | 14.6 | 34.3 | 37.9 | 20.0 |
| Barisal | 35.6 | 37.2 | 26.4 | 34.7 | 35.9 | 21.7 |
| Chittagong | 16.1 | 18.7 | 8.1 | 27.5 | 30.1 | 17.1 |
| Dhaka | 19.9 | 26.1 | 9.6 | 34.5 | 43.6 | 15.8 |
| Khulna | 31.6 | 32.7 | 27.8 | 32.3 | 34.0 | 23.0 |
| Rajshahi | 34.5 | 35.6 | 28.4 | 42.7 | 43.9 | 34.5 |
| Sylhet | 20.8 | 22.3 | 11.0 | 26.7 | 26.1 | 35.2 |
| Using the Lower Poverty Line | | | | | | |
| National | 40.0 | 43.8 | 28.4 | 48.9 | 52.3 | 35.2 |
| Barisal | 52.0 | 54.1 | 40.4 | 53.1 | 55.1 | 32.0 |
| Chittagong | 34.0 | 36.0 | 27.8 | 45.7 | 46.3 | 44.2 |
| Dhaka | 32.0 | 39.0 | 20.2 | 46.7 | 55.9 | 28.2 |
| Khulna | 45.7 | 46.5 | 43.2 | 45.1 | 46.4 | 38.5 |
| Rajshahi | 51.2 | 52.3 | 45.2 | 56.7 | 58.5 | 44.5 |
| Sylhet | 33.8 | 36.1 | 18.6 | 42.4 | 41.9 | 49.6 |

Source: *Bangladesh Economic Review-2008*. P.180.

Two poverty lines have been used to measure poverty. One is upper poverty line and the other is lower poverty line. Using lower poverty line method in the national level, the rate of poverty is 25.1 percent while the rate is 40.0 percent in the upper poverty line. According to this method, poverty incidence in the urban area is lower than the rural area.

Poverty on the basis of Land Ownership

Estimates of incidence of poverty (CBN) by ownership of land using both lower and upper poverty lines have been presented in the following table:

Table (39): Incidence of Poverty (CBN) by ownership of Land-2005 (in percentage)

| Size of Land Holding (Acres) | 2005 | | | 2000 | | |
|-------------------------------------|------------------------------|-------------|-------------|-------------|-------------|-------------|
| | Using the Lower Poverty Line | | | | | |
| | National | Rural | Urban | National | Rural | Urban |
| All Size | 25.1 | 28.6 | 14.6 | 34.3 | 37.9 | 20.0 |
| No land | 25.2 | 49.3 | 17.8 | 30.4 | 53.1 | 20.5 |
| < 0.05 | 39.2 | 47.8 | 23.7 | 43.3 | 48.8 | 22.3 |
| 0.05-0.49 | 28.2 | 33.3 | 11.4 | 40.0 | 41.7 | 12.6 |
| 0.50-1.49 | 20.8 | 22.8 | 9.1 | 29.6 | 30.6 | 15.4 |
| 1.50-2.49 | 11.2 | 12.8 | 2.7 | 21.9 | 22.9 | 1.4 |
| 2.50-7.49 | 7.0 | 7.7 | 3.0 | 11.5 | 12.4 | 0.0 |
| 7.50+ | 1.7 | 2.0 | 0.0 | 4.0 | 4.1 | 0.0 |
| Using the Lower Poverty Line | | | | | | |
| All Size | 40.0 | 43.8 | 28.4 | 49.9 | 52.3 | 35.2 |
| No land | 46.3 | 66.6 | 40.1 | 46.6 | 69.7 | 36.6 |
| < 0.05 | 56.4 | 65.7 | 39.7 | 57.9 | 63.0 | 38.3 |
| 0.05-0.49 | 44.9 | 50.7 | 25.7 | 57.1 | 59.3 | 27.3 |
| 0.50-1.49 | 34.3 | 37.1 | 17.4 | 46.2 | 47.5 | 27.4 |
| 1.50-2.49 | 22.9 | 25.6 | 8.8 | 34.3 | 35.4 | 10.2 |
| 2.50-7.49 | 15.4 | 17.4 | 4.2 | 21.9 | 22.8 | 9.1 |
| 7.50+ | 3.1 | 3.6 | 0.0 | 9.5 | 9.7 | 0.0 |

Source: *Bangladesh Economic Review-2008*. P.181.

In 2005, the estimates of incidence of poverty by ownership of land and using the upper poverty line, were found to be 46.3 percent for landless households, 54.4 percent for owners of less than 0.05 acre land, 44.9 percent for owners of 0.05-0.49 acre land, 22.9 percent for 1.5-2.49 acre land, 15.4 percent for 2.50-7.49 acre land and 3.1 percent for owners of 7.5 acre or more land. In 2005, the estimates of HCR by ownership of land using the lower poverty line were found to be 39.2 percent for land size less than 0.05 acre, 28.2 percent for 0.05 to 0.49 acre, 20.8 percent for 0.05-.49 acre, 11.2 percent for 1.5-2.49 acre, 7.0 percent for 2.50-7.49 acre and 1.7 percent for 7.5 acre or more land. So, it is not possible to improve the poverty situation of the country without improving the condition of the landless marginal farmers.³⁷

Household income, Expenditure and Consumption

Monthly household nominal income, expenditure and consumption expenditure from the surveys by BBS, HIES-2005 (1991-92 to 2005) have been presented below. The difference between expenditure and consumption expenditure is that expenditure includes purchases of durable goods which are not included in consumption expenditure.

Table (41): Monthly Household Nominal Income, Expenditure and Consumption Expenditure by Residence

| Survey Year | Residence | Income | Expenditure | Consumption Expenditure |
|-------------|-----------|--------|-------------|-------------------------|
| | | | | |
| 2005 | National | 7203 | 6134 | 5964 |
| | Rural | 6096 | 5319 | 5165 |
| | Urban | 10463 | 8533 | 8315 |
| 2000 | National | 5842 | 4886 | 4542 |
| | Rural | 4816 | 4257 | 3879 |
| | Urban | 9878 | 7360 | 7149 |
| 1995-96 | National | 4366 | 4096 | 4026 |
| | Rural | 3658 | 3473 | 3426 |
| | Urban | 7973 | 7274 | 7084 |
| 1991-92 | National | 3341 | 2944 | 2904 |
| | Rural | 3109 | 2721 | 2604 |
| | Urban | 4832 | 4377 | 4280 |

Source: *Bangladesh Economic Review-2008*. P.182.

³⁷. *Bangladesh Economic Review-2008*. P.179.

It appears from the above table that household nominal income; expenditure and consumption expenditure have increased gradually over the years. The monthly household nominal income in 2005 was estimated at Tk. 7203 at the national level, whereas it was estimated at Tk. 6096 in the rural area and Tk. 10463 in the urban area. Monthly household income was Tk. 5842 at the national level in 2000. It increased by 23.3 percent in 2005 over the year 2000 and by 115.59 percent over 1991-92 in nominal terms. The average monthly household expenditure was estimated at Tk. 6134 in 2005 at the national level, where as it was Tk. 5319 in the rural area and Tk. 8533 in the urban area. In 2000, it was Tk. 4886, Tk. 4257 and Tk. 7360 at the national, rural and urban levels respectively. The monthly average expenditure increased by 25.54 percent in 2005 over 2000 and increased by 108.36 percent over the year 1991-92. The monthly average household consumption expenditure was estimated at Tk. 5964 in 2005 at the national level, while it was Tk. 5165 in the rural area and 8315 in the urban area. In 2000, it was Tk. 4542, Tk. 3879 and Tk. 7,149 at the national, rural and urban levels respectively. The monthly average consumption expenditure increased by 31.3 percent over 2000 and by 105.37 percent over 1991-92.

5.5

Policy adopted by government for rural poverty alleviation

1) Rural Development for poverty alleviation

The government has emphasized to rural development for national poverty alleviation. From since long the government has taken different steps to alleviate our national poverty. The government permitted few NGOs to facilitate their micro credit programmes in rural area. Although substantial experience has been gathered in the design and implementation of rural development projects since early 1960s, conceptual approaches to rural development is still evolving. Past experience has indicated that many rural development projects have had only limited success in reducing rural poverty and in promoting broadly based and sustainable socio-economic progress in the rural areas. It is now widely recognized that direct action is required to contain and reduce the incidence of rural poverty in Bangladesh. A review of the approaches of rural development initiatives in the past leads us to the following conclusions:

- Rural development programs provide a useful conceptual framework for grassroots, broad based socio-economic rural development, and that multi-sect oral, integrated approach is generally appropriate for rural poverty alleviation initiatives.

- Rural development projects can not be implemented from the “top down” or from “outside” alone but need to be initiated and sustained by the participating population itself with assistance of government institution, private development organizations, and eventually external donors.
- Rural development projects need to be oriented to target groups. The access of these groups to productive resources, services, and markets needs to improve. However, target groups must be able to use their own initiative to obtain access to the means of production, information, and markets. To this end, the target group must be organized and mobilized, and planning mechanisms must be oriented toward that group and their participation.
- More work needs to be done to clarify the factors that undermined the success of particular projects, with a view to providing practical operational models that can be used in the processes of participatory development, project design and implementation.

2).Rural Infrastructure Development Programme

Local Government Engineering Department (LGED) under the Ministry of Local Government Rural Development and Co-operatives, has been implementing various rural infrastructure development programmes, like construction of rural roads, bridges/culverts, growth centres, and embankments. LGED is also providing micro credit for creating self-employment by undertaking community- based resource management project, infrastructure development project for market place in char area and city development project in urban area. In FY 2008-09, under these 3 development projects, Tk. 4.01 crore, Tk.68.16 crore and Tk.20.96 crore (total 93.13 crore) has been disbursed as credit. Up to June/2009, the cumulative disbursement and recovery stood at Tk.206.95 crore and Tk.145.92 (84%) respectively under the micro credit programme.

3) Role of Credit in Poverty Alleviation

Many programs have been instituted to improve the conditions of the poor, partly in recognition of the failure of inequitable growth to pull the poor up the socio-economic ladder, or simply to compensate for their disadvantaged position in society. The provision of credit to the poor has been a leading component of many of these programs because the lack of access to productive capital is thought to be one of the main factors

preventing the poor from breaking away from the “poverty trap.” This trap, it is argued, makes it extremely difficult for the poor to overcome poverty without outside intervention. In this simplest form, this trap can be viewed in terms of the poor person’s low capacity to generate income, savings, and investment in the economic environment that offers limited employment opportunities, which thus leaves the poor in perpetual poverty. It is argued that providing the poor with credit can break this barrier to economic emancipation by giving them access to resources, in particular, to income producing or enhancing assets for the small scale farmers and fishermen in rural areas, the small artisans, petty traders and micro- entrepreneurs in urban areas. With their thus allowing them to progressively increase their income, saving, and investments through self-employment and thus cross the poverty line over time.

Most governments have allocated considerable amount of resources in the form of subsidized credit for the alleviation of poverty, especially in rural areas. The rationale for subsidizing this credit is that the poor have limited capacity to repay because they have limited investment opportunities and providing them with credit services entails high transaction costs. Subsidized credit often takes the form of government sponsored rural co-operatives, agricultural credit for the small farmers, and specialized programs like the integrated rural development programs common in South Asia.

The number of poor who have crossed the poverty line as a result of these programs is difficult to ascertain. The undifferentiated impact of many of these programs is often positive and significant. Studies evaluating these programs confirm that their benefits have largely been accrued to the rural elite who have been attracted by credit subsidies and used their influence over the administration of the credit delivery systems to corner most of the credit resources at the cost of the rural poor.

Even the co-operative approach to credit, which had earlier been so successfully tried in Europe and North America in reaching the small farmers, and much later quickly and widely implemented in Asia largely through government initiatives, floundered badly with few exceptions. Even the highly acclaimed Comilla co-operative model, which attained considerable success during its early years when it was restricted to a limited geographical coverage, on the whole failed to reach the intended beneficiaries the small farmers- and suffered serious repayment and viability problems when the government replicated it nation-wide.

In the case of some other programs, the failure is not so much in reaching the target group but the low repayment rates and the failure of the program to sustain the significant positive impact of credit through the provision of a follow-up credit to deserving borrowers. A good example is that of India's Integrated Rural Development program (IRDP) probably the most massive credit program of its kind targeted exclusively at the poor.

Governments trying to provide poor farmer with access to credit often require conventional banks to earmark a certain percentage of their outstanding loans at subsidized interest rates for the poor borrowers for whom the collateral requirement is waived. Loan guarantees are normally provided for by the government to reduce the high risk borne by the banks in lending to the poor.

4) Reasons for Failure of Earlier Credit Programs

Much of the failure of past credit programs, sponsored by governments stems from shortcomings in the design, management, and administration of the credit delivery system, one of the most serious design flaws, for example, was the lack of a targeting mechanism, such as realistic landholding and income ceilings, so that only the truly poor could qualify for credit under the program. This permitted the entry of non-poor borrowers who were attracted by the generally low interest rates charged by these programs. With their greater socio-economic and political power, the non-poor were able to get access to credit delivered in this manner much more easily than their poor counterpart, thus crowding out the latter. General credit programs for agriculture and rural development often fall under this trap. In fact, some specialized credit programs for the poor (for example, the Special Agriculture Credit program in Bangladesh and the differential Interest Rate Scheme of India) have also suffered because of this weakness.

In the case of many credit co-operatives that failed, a host of contributing factors acting together brought about their demise. Often cited causes are:

- (a) Inadequate preparation of members;
- (b) Control and domination of the co-operatives by powerful local elite, who often borrowed an inordinate proportion of loan funds;
- (c) Weak management;
- (d) Top-down manner in which the co-operatives had been set up and run by the government; and

- (e) Over-dependence on outside funds rather than local savings mobilization. Programs that have attempted to tap the resources of conventional banks to provide credit to poor borrowers through some form of arrangement with the government, often in the form of directives, have generally failed. This is because they did not provide adequate incentives for the banks to make adequate profit from their loans to the poor. The primary objective of conventional banks is to make a profit on their loans. But providing credit to the poor is staff-intensive and entails high transaction costs and risks that must be covered by interest earnings from lending and service fees. Since these programs often put a ceiling on the interest rates the banks are to charge, the banks are unable to make sufficient profit from this program compared to what they can obtain in alternative capital outlets. Understandably, most banks would not be willing participants in such programs and would accordingly try to avoid it or cut down their losses or opportunity costs by minimizing their involvement.

The lack of an appropriate credit delivery mechanism that clearly specifies the procedures and requirements for personnel and support services and provides for an effective enforcement mechanism also contributes to the effectiveness of the credit-for-poor programs of conventional banks. For example, the commercial banks through which the special Agricultural Credit Program in Bangladesh channeled its loan took the easy way out by abdicating its responsibility to implement the program and letting the rural elite and politicians identify and recommend borrowers. It also insisted on a collateral requirement despite the program's directive to waive.

In addition, the bank staff assigned to implement credit-for-poor programs, compensated for the more difficult labor associated with making these loans. Often, this work is added on or mixed with their regular work with non-poor borrowers. As a result, bank officers have little motivation and morale and prefer to concentrate on the non-poor borrowers, who are less difficult to service. This helps to explain their poor performance in servicing the poor borrowers.

Any credit program that experiences sustained low repayment rates will eventually become insolvent and collapse. Repayment rate are therefore, the most important and simplest indicator of the program's viability and sustainability, provided the interest charged is high enough to cover cost and reasonable margin of profit. It reflects the borrower's capacity and productivity of investment for which the loan is utilized.

It is now well documented that the poor have capability to use credit productively using skills and knowledge they have and that they can generate rates of return comparable with, and often exceeding, those earned on bigger investments by the non-poor in the formal sector. Therefore, the most important factor affecting repayment rates in a credit-for-poor program is the willingness of the borrower to repay the debt. This in turn is affected by many factors. An important element is the incentive system built into the program that rewards the borrowers for prompt repayment of loans. One of the most important incentives to poor borrowers is the assurance of a follow-up loan upon repayment of an outstanding loan.

This incentive is missing in many programs and is one of the main reasons for the low repayment rates. The effect of such an incentive on repayment is apparent when one considers that the poor, by virtue of their extremely weak and vulnerable economic security, need credit support to be sustained long enough to allow their assets and income to become stable. Second, very often, the credit-for-poor program is the only access to credit available to the program participants. Even their access to the village moneylenders is very limited and credit often available only at exorbitant rates.

A poor borrower becomes even less inclined to pay if a follow-up credit facility is closed because these poverty-oriented credit programs often do not require collateral, which the borrower would stand to lose if he defaulted. Thus it is likely that, credit programs assuring borrowers of a subsequent loan upon repayment of previous debt would ensure a higher repayment rate. Even when a program is appropriately designed, it can still flounder over time if the rigor in implementing the procedures essential to its success is relaxed.

5).Success Criteria for Rural Financing Schemes

Twenty years ago the only credit available to Bangladesh's poor came from informal sources: kin, friends, traders, and moneylenders. The practice was extremely usurious. Today the situation has greatly changed with large number of people have access to credit from semi-formal institutions. The early credit experiments of the Grameen Bank, BRAC and Proshika have translated into major credit operations.

The 1980s saw the Grameen Bank and its model dominating financial flows to the poor. Although this remains the case in 1990s there has been increased experimentation and innovation. The efforts are essentially in line

with a banking system based on interest. The success of a credit program designed to alleviate poverty would have to be evaluated in the light of the program objectives. A successful program may incorporate a broad set of objectives in addition to credit, such as empowerment, education and skills training. The following five criteria are often used to assess the effectiveness of credit-for-poor programs:

- *Extent to which the program has reached the truly poor:* This can be measured both in terms of proportion of beneficiaries who are truly poor and the number of poor borrowers reached.
- *Loan recovery:* This is measured by the repayment rate. Sustained high loan recovery represents the simplest and clearest indicator of a program's success as it reflects productivity or profitability of the loan, as well as the borrower's satisfaction and support of the program.
- *Productivity of the loan:* This measures the viability of the investment into which the loan was applied by the borrower. It is normally measured in terms of returns on investment or capital-output ratio.
- *Impact on borrower's income:* This impact refers to the extent to which the borrower's real income has increased as result of the credit provided.
- *Sustainability:* It refers to the capacity of the program to become institutionalized into a financially self-supporting program, able to cover all costs and to generate sufficient profits from its operation. Sustainability is affected by such variables as the interest rate charged, repayment rate, and transaction costs.

Borrower's sustainability is also a case to note in the sustainability concept. Borrower's sustainability relies upon a wider range of financial services than micro credit. In addition to accessible savings, the poor have requirements for current account overdrafts to level out consumption fluctuations; lumps of capital at various stages of family life cycle; and insurance against unpredictable demands on income.

5.6

Policy adopted by government for national poverty alleviation

NATIONAL POVERTY ALLIVIATION.

Addressing poverty remains a great challenge mainly due to resource constraint. Bangladesh has so far implemented five Five-Year Plans and one Two-Year Plan. The overarching goals of these plans were to reduce poverty by accelerating economic development process. As an outcome of these development activities, Bangladesh has made commendable progress in terms of reduction of income and human poverty. Bangladesh has received universal appreciation for her success in reduction of human poverty in education, health and nutrition. Bangladesh has already achieve some targets set in the MDGs. Bangladesh has accomplished substantial progress in reduction of poverty, expansion of universal primary education, eradication of gender disparity at both primary and secondary level of education, reduction of child mortality rate, supply of safe drinking water and containing the spread of communicable diseases like HIV/AIDS, malaria and tuberculosis.

Bangladesh is putting its best effort and on track to achieve other MDGs by 2015. Hopefully, achievement of MDGs will be assured during the implementation of the second PRSP from 2009 to 2011. During the period from 1991/92 to 2000, incidence of income poverty (measured by the CBN upper poverty line) was reduced from 58.8 percent to 48.9 percent and from 2000 to 2005 incidence of income poverty was reduced from 48.9 percent to 40.0 percent. Between 2000 and 2005, the depth and the severity of poverty in both urban and rural areas have been reduced nearly at the same rate.

In the midterm evaluation report of MDG progress of Bangladesh held in Planning Commission, it was estimated that, at the current rate, Bangladesh will achieved MDGs in poverty reduction two years ahead of schedule. It may be mentioned that Bangladesh is required to reduce poverty by 1.23 percent annually; actual rate achieved up to 2005 was 1.34 percent.

To attain MDGs, the government has formulated and implementing the Poverty Reduction Strategy Paper (PRSP) prioritizing reduction of poverty in the development planning.

Poverty Reduction Strategy Paper (PRSP)

The period of implementation of the first Poverty Reduction Strategy Paper (PRSP) of Bangladesh was from July 2004 to June 2008. PRSP was formulated with the aim of attaining various development goals, including the Millennium Development Goals (MDGs) by 2015. Many of the goals of the first PRSP have been achieved or under implementation. In the light of achievement status of first PRSP, the Government of Bangladesh has formulated and approved the second PRSP as the timeframe of implementation of the PRSP expired in June 2008. In the second PRSP, attainment of MDGs and economic development, reduction of regional poverty and gender disparity as well as social safety related issues have been emphasized.

Millennium Development Goals (MDG)

The new century opened with an unprecedented declaration of solidarity and determination to rid the world of poverty. In 2000 the UN Millennium Declaration, adopted at the largest-ever gathering of heads of state, committed countries-rich and poor-to doing all they can to eradicate poverty, promote human dignity and equality and achieve peace, democracy and environmental sustainability. World leaders promised to work together to meet concrete targets for advancing development and reducing poverty by 2015 or earlier.

Emanating from the Millennium Declaration, the Millennium Development Goals bind countries to do more in the attack on inadequate incomes, widespread hunger, gender inequality, environmental degradation and lack of education, health care and clean water. They also include actions to reduce debt and increase aid, trade and technology transfers to poor countries. The March 2002 Monterrey Consensus-reaffirmed in the September 2002, Johannesburg Declaration on Sustainable Development and the Johannesburg Plan of Implementation provides a framework for this partnership between rich and poor countries.

It is hard to think of a more propitious time to mobilize support for such a global partnership. In 2003 the world has seen even more violent conflict, accompanied by heightened international tension and fear of terrorism. Some might argue that the war on-poverty must take a backseat until the war on terrorism has been won. But they would be wrong. The need to eradicate poverty does not compete with the need to make the world more

secure. On the contrary, eradicating poverty should contribute to a safer world-the vision of the Millennium Declaration. Addressing poverty requires understanding causes. This Report adds to that understanding by analyzing the root causes of failed development. During the 1990s debates about development focused on three sets of issues.

- The first was the need for economic reforms to establish macroeconomic stability.
- The second was the need for strong institutions and governance-to enforce the rule of law and control corruption.
- The third was the need for social justice and involving people in decisions that affect them and their communities and countries, an issue that this Report continues to champion.

These issues are all crucial for sustainable human development, and they continue to deserve priority attention in policy-making. But they overlook a fourth factor, explored here: the structural constraints that impede economic growth and human development. The Millennium Development Compact presented in this Report proposes a policy approach to achieving the Millennium Development Goals that starts by addressing these constraints.

The goals will succeed only if they mean some-thing to the billions of individuals for whom they are intended. The Goals must become a national reality, embraced by their main stake-holders-people and governments. They are a set of benchmarks for assessing progress and for enabling poor people to hold political leaders accountable. They help people fight for the kinds of policies and actions that will create decent jobs, improve access to schools and root out corruption. They are also commitments by national leaders, who must be held accountable for their fulfillment by their electorates.

Goals and targets of MDG at a glance by UN.

Goal 1: Eradicate extreme poverty & hunger.

- Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$ 1 a day,
- Target 2: Halve, between 1990 and 2015, the proportion of eople who suffer from bunger.

Goal 2: Achieve universal primary education.

- Target 3: Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3: Promote gender equality and empower women.

- Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005 and in all levels of education no later than 2015.

Goal 4 : Reduce child mortality.

- Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5: Improve material health.

- Target 6: Reduce by three-quarters, between 1990 and 2015, the material mortality ratio.

Goal 6: Combat HIV/AIDS malaria and other diseases.

- Target 7: Have belted by 2015 and begun to reverse the spread of HIV/AIDS.
- Target 8: Have belted by 2015 and begun to reverse the incidence of malaria and other major diseases.

Goal 7: Ensure environmental sustainability.

- Target 9: Integrate the principles of sustainable development into country policies and programmed and reverse the loss of environmental resources.
- Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water.
- Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8: Develop a global partnership for development.

- Target 12: Develop further an open rule based, predictable, non discriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction-both).
- Target 13: Address the special needs of the least developed countries (in-cludes tariff and quota free access for exports, enhanced program of debt relief for the cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction).
- Target 14: Address the special needs of land- locked countries and small island developing states (through the Program of Action for the Sustainable Development of small island Developing States and 22nd General Assembly provisions).
- Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.
- Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.
- Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
- Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologies.

Poverty Reduction and Employment Generation Activities under Ministry of Women and Children Affairs

Under the Ministry of Women and Children Affairs, a total of 750,000 distressed and ultra-poor women have been receiving food assistance and development package training. In FY 3008-09 an amount of Tk. 839.18 lakh has been allocated. Vulnerable Group Development for Ultra-poor (VGDUP) project provides life skill training on income generating activities as well as Nutrition, primary Health, Human rights, AIDS, Reproductive Health, Gender and Rights issues and well Environmental issues. In addition to training- 80,000 VGD women are receiving support in Form of subsistence allowance, asset transfer and savings generation so that they can engage in self employed income generating activities. All amount of Tk. 3000.00 lakh has been allocated accomplish those actives in FY 2008-09. Besides this, a micro-credit programme has been taken up to create opportunity for poor and distressed women to develop their socio-economic condition through self-employment.

Under the micro-credit programme for self-employment of women, an amount of Tk. 1,325 lakh has been allocated during FY 2008-09. Under the Micro-credit Programme for self employment' of the Department of Women Affairs at a cost of Tk. 3,225.00 lakh, the amount of disbursement stand at TK. 2045.00 lakh and the total number of beneficiaries is 65930 during this period. The cumulative disbursed amount stood at Tk. 5,895.70 lakh in FY 2008-09. Moreover, under the programme titled 'Grant for Poor Distressed Women and Children' an amount of Tk.263.51 lakh distributed by same department to 12734 poor women and children for their welfare during the period from FY 1995-96 to FY2008-09.

Further, the establishment of hostel for employed women, day care centre for children, sales and display centers for marketing of commodities produced by women entrepreneurs, training centre - training facilities (training related to handicrafts, agriculture and computer) in various places is creating Self-employment opportunities for women.

Poverty Reduction under the Ministry of Social Welfare

The Ministry of Social Welfare is delivering a good number of programmes for poverty reduction and human resource development. The poverty reduction programme is one of the most important among the social integration programmes undertaken by the ministry. Some of its programmes are: Rural social Service (RSS) Programme , Urban Community Development (UCD) Programme, Poverty Alleviation through Rural Maternal Center (RMC), Rehabilitation Programme for Acid-burnt Women and Physically Disabled. To alleviate poverty through these four programmes, revolving funds are invested as micro-credit among the target group. The total amount of seed money for these programmes stands at Tk. 284.041 crore. The cumulative amount of recovery stands at Tk. 536.578 crore with the recovery rate of 85 percent. Under these programmes as many as 60,988 beneficiaries have received vocational training and 83105 beneficiaries became literate, in FY 2008-09.

Moreover, the awareness-building activities on primary health care have been extended to 29,04,257 beneficiaries and 1,83,346 beneficiaries were motivated on family planning matters during this period.

Security Programmes under the Department of Social Welfare are as follows:-

- **Social Security Programme:** Considering the socio-economic condition of the destitute, poor and physically handicapped, the Government has Introduced Old Age Allowance. Allowance for Acid Burnt Women and Physically Handicapped and Insolvent Freedom Fighters Allowance programmes under social security programmes. Among these programmes, the old-age allowance programme is a major programme and Tk.600 crore has been allocated for Old- programunc in FY 2009-09 with a beneficiary coverage of 20 lakh elderly people who received allowance @ Tk.250/- per month. Moreover, Tk. 6.00 crore has been allocated as stipend for 13041 disabled students during this period.
- **Human Resource Development Programme:** To maintain food, lodging" training and rehabilitation of 10,375 orphans, the Government is running 85 orphanages throughout the country. The Government has disbursed Tk.37.8 crore as capitation grant for enlisted non-government orphanages which has been distributed among 43,383 orphans at rate of Tk. 700.00 per head in FY 2008-09. Besides these, there are other programmes which also help the poor and the destitute such as 'Programmes on Welfare and Services Delivery', 'Programmes on Addressing Social Disintegration', Community Empowerment Programme', 'Environment and At Aforestation Programme.'
- **Activities of the Department of Cooperatives**

In tandem with helping the people to become self-reliant by organizing co-operatives, the Department of Cooperatives also plays a role in poverty alleviation by involving them in different economic activities. Up to June 2009, there have been 1,64,514 registered cooperative societies in Bangladesh with 85,02. 713 individual members which is 5.5 percent of the total population. Production and marketing of milk has been done successfully by the cooperatives like Milkvita, in Bangladesh. Milkvita has set a unique example of rural cooperative, particularly in milk collection, processing and marketing, which also have direct contribution to poverty reduction in 13an--'ladesh. Bangladesh Shamabaya Bank Limited (BSBL), another national cooperative society, is providing agricultural credits among the farmers for boosting up agricultural production and land development.

During FY 2008-09, BSBL has disbursed and recovered Tk. 38.28 crore and Tk. 32.32 crore respectively. Its present working capital has been raised to taka 365.94 crore. On the other hand, under 'Small Farmers Development Foundation (SFDF)' an amount of Tk. 2084.22 lakh has been disbursed among 12643 beneficiaries for its credit operation. Till June 2009, a total of Tk. 3,516.62 lakh has been disbursed and an amount of Tk. 2,252.35 lakh has been recovered. The recovery rate of credit stands at 96 percent. The total number of beneficiaries of the Foundation is 24,226 of whom 96 percent are female.

Specialized Activities for Poverty Alleviation:

The government has taken the following steps to alleviate national poverty in recent year.

1).ormation and Communications Technology (ICT) for Poverty Alleviation

It is widely recognised that the use of information and communications technology (ICT) has the potential to speed up the process of achieving the MDG of halving poverty by 2015. The Government recognised ICT as the thrust sector and in its election manifesto the Government pledged to make the ICT sector successful to establish 'Digital Bangladesh' by 2021 where there will be huge employment opportunities sustained growth and no curse of poverty.

2).Fund for Rehabilitation of the Acid-Burnt Women and the Physically Handicapped.

For rehabilitation of acid-burnt women, the Ministry of Social Welfare has introduced this fund under which each victim receives Tk.10,000. In FY2008-09, the Government allocated Tk. 2.00 crore for this fund which has been disbursed.

3).Training and Self-Employment Programme for Insolvent Freedom Fighters and Their Dependants

To provide employment opportunities and to enhance the standard of living of freedom Fighters, ministry of Liberation War Affairs has initiated micro-credit programme at the field level executed by BRDB. Tk. 25.00 crore has been allocated to BRDB up to FY 2005-07. As many as 2,93, 10 insolvent freedom fighters their and their dependants from 64 districts have been included in training and self-

employment programmes under Youth Development Training Centres. The purpose of this training programme is to provide skill development training on different trades either individually or in groups (target group) to make them capable of being self-employed.

4). Allowance for Poor Lactating Mothers

According to poverty map of the country, an amount of Tk.2120 crore has been allocated among 60,000 poor and pregnant women in FY 2008-09.

5).progress of different programmes under Food Assistance Programme

Food for Works Programme: Under the Ministry of Food and Disaster Management, the of food grain for this programme was 3.60 metric tonnes in FY 2008-09, and up to Jun 2009, 36315 projects are being implemented at a cost equivalent to 2.96 lakh metric tonnes of grains during this period.

6).Vulnerable Group Feeding (VGF) Programme

The Ministry of Food and Disaster Management has distributed 5.25 lakh metric tonnes food grain among 72, 90,262 beneficiaries in FY 2008-09. Due to global financial recession, the Government has increased allocation against this programme.

7).Vulnerable Group Development (VGD) Programme: The Ministry of Women and Children Affairs is implementing this programme. There was an allocation of 2.61 lakh metric tonnes food grains under this programme and 2.6 lakh metric tonnes food gains was distributed in FY 2008-09,

8).Test Relief (TR) Programme: The Ministry of Food and Disaster Management allocated 2.69 lakh metric tonnes food grains in FY 2008-09. 2, 26,995 projects were being implemented at a cost equivalent to 3.61 lakh metric tonnes of food grains during this period. This programme has created job opportunities for 4.49 lakh laborers. TR allocation has also been increased recently for the impact of global financial recession.

9).GR Programme: Under the Ministry of Food and Disaster Management, 48,761 metric tonnes of food grains and Tk. 2.28 crore were distributed in FY 2008-09 through this programme. Besides this, Tk 21.08 crorc has been distributed among destitute for house building.

10).Special Poverty Alleviation Programmes

Along with different sectoral programmes, the present Government in fulfillment of commitment has started implementing different innovative projects such as *Asrayon*, *Grihayon*, *Adorsha Gram* and *Gharey Fera*.

11).Programmes under Poultry and Livestock Sector to Alleviate Poverty

Artificial insemination is an important and successful programme in livestock sector. In FY 2008- 09, about 20.00 lakh (2 million) cattle have been artificially inseminated through 2069 artificial insemination centres of the country. Besides, small farmers and peasants are given advice and training on poultry and livestock rearing.

12).Programmes under Fishery Sector to Alleviate Poverty

As a part of its poverty reduction programmes, the Government has introduced different programmes in the area of production of fish spawn and fries, training for human development, fish management, establishment of safe sanctuaries for fish, implementation of fish preservation law, Jatka protection and fish research. 2.71 metric tonnes of carp spawn and 0.41 fries were produced in FY2008-09.

13).Fund for Housing the Homeless

As of -June 2009, Tk.115.66 crore has already been released against an allocation of Tk.204.26 crore for rural housing programme and 46,567 houses have already been constructed where the number of beneficiaries stands at 2.30 lakh. In addition, Tk. 10.84 crore has been released as grant. It is worth mentioning that 404 NGOs are implementing the programme and covered 400 upazilas of 64 districts of the country. So far, Tk. 79.12 crore has been recovered against the total recoverable amount of Tk.86.85 crore with recovery rate of Tk. 86.85 percent.

14).Assistance for Agro-based Industries

Under an agreement between, the Ministry of Finance and Karmasangthan Bank, Karmasangthan Bank is implementing this programme. As of June 2009, an amount of Tk. 39-99 crore has been distributed among 1622 borrowers against an allocation of Tk 50.00 crore. Tk. 20.24 crore has been recovered against recoverable amount of Tk. 22.24 crore with the recovery rate of 91 percent. Both funds are used as revolving fund as per the agreement.

15).Abashan (Poverty Alleviation and Rehabilitation) Project

Abashan project is being implemented at a cost of Tk. 716,00 crore as a follow-on project of the Ashrayon project which began in 1997, Till 30 June 2009, 54,400 families have been rehabilitated at a cost of Tk.566.81 crore. The main objective of the programme is to provide land, accommodation, training, credit, education, health service, family planning, pure drinking water, electricity, improved transportation system and tree plantation facility and to create income generating activities for alleviating poverty of 65,000 landless, homeless and destitute families at a cost of Tk. 715.98 crore and 1.06 metric tones of food grains. 45,167 families have received orientation and trade based training and 40,167 families have been provided with micro- credit amounting Tk. 28.62 crore.

16).Youth Development through Self-employment

Considering the importance of youth participation in the development process, the Department of Youth Development trained 32.031 56 lakh youths up to June 2009. Out of the trained youths, 17,90,262 youths became self-reliant through self-employment. An amount of TK. 845.41crore including revolving fund have been sanctioned among 7.3229 lakh beneficiaries as loan up t June 2009 and an amount of Tk. 71 7.32 crore (89.62%) has been recovered. This is consistent with the Government's commitment to generate employment for one unemployed male or female from each family for at least 100 days in a year.

18).Money and Financial Sector Reforms

To improve and to accelerate the quality of the clientele service and to modernize and update the banking system, Bangladesh Bank issued directives to all commercial banks to introduce online banking facility for the customers to pay the bills, fees of the national, autonomous and semi-autonomous bodies along with the utility bills.

The Government has introduced 15-years and 20-year Bangladesh Government Treasury bond (BGTB) in FY 2007-08 in order to create a benchmark yield curve of government securities by attracting the long-term investment fund from the Insurance Companies, Provident Fund, Mutual Fund and so on.

- To strengthen the capital base and to implement Basel-II Accord, the commercial banks have been asked to maintain 10% capital of the risk weighted assets and to maintain core capital at least 5% of their risk weighted assets.
- The interest rate of the import credit of the consumer goods like rice, wheat, sugar, edible oil (refined and raw), onion, spices, etc. has been kept at 12% temporarily to ensure adequate supply and to keep the price level tolerable.

19. Programmes of the *Karmasangsthan* Bank for generating employment for the unemployed youth

Karmasangsthan Bank has undertaken special credit programmes to utilize the unemployed specially the educated unemployed youth of the country in different production-oriented and income-generating activities. In FY2008-09, 7 new branches were opened raising the number of branches to 110. *Karmasangsthan* Bank distributed Tk. 482.36 crore among 1, 43,943 borrowers up to June 2009, Tk. 391.59 crore was recovered against cumulative recoverable loans of Tk. 435.15 crore, indicating a recovery rate of 90 percent.

Some special credit programmes of *Karmasangsthan* Bank are given below:

20) Micro-Credit Support for Employment of Voluntarily Retired/Retrenched Labor/ Employees of Mills and Industries

Under an agreement between the Ministry of Labour and Employment and *Karmasangsthan* Bank, *Karmasangsthan* Bank is implementing the programme for alleviation of poverty of voluntarily retired/retrenched industrial workers by creating employment opportunities and retraining activities. Under this programme, Tk. 69.45 crore has been disbursed among 12,777 borrowers and Tk 42.13 crore recovered against recoverable amount of Tk- 56.11 Core showing recovery rate of 75 percent in FY 2008-09.

5.7 Survey analysis

There is a 'close ended questionnaire' made by fourteen (7) questions to the 70 borrowers /clients of different business owner of seven (7) Islamic banks i.e.

- 1)Islami Bank Bangladesh Ltd,
- 2)Social Islami Bank Ltd,
- 3)Exim Bank Ltd,
- 4)Al-Arafah Islami Bank Ltd,
- 5) Shajalal Islami Bank Ltd,
- 6) ICB Islami Bank Ltd and
- 7) First Security Islami bank Ltd.

Our survey area was the Halishahar, Agrabad, CDA, Muradpur Nasirabad of Chittagong district during 2009-10. The Question types were MCQ system choosing among four. The sample size was 70 because 10 clients of each Islamic banks and total fourteen (7) questions made by one (1) for each banks. The main objectives of the questionnaire for measurement of level of poverty reduction of consumer those are availing investment facility from any Islamic banks. The specialization of the clients is that they are well-known about financing system and rate of profit/interest of both Islamic banks and conventional banks. The sample size and number of questions is quite limited because of time and expenditure constraints. The questionnaire is as follows:-

1). Do you think that the modes of investment of Islamic banks are better than credit modes of conventional banks?

- A. Yes
- B. Quite best
- C. something is better
- D. Not at all

Answer type: A=30, B=22, C=12, D=6

2). Our rural poverty can be declined by the financing of Islamic bank's mode of investment in SME sectors, do you agree with this idea?

A. Most Possible

B. Partial helpful

C. May be

D. Doubtful

Answer type: A=28, B=23, C=13, D=6

3). The invested amount of Islamic banks to the consumers is properly utilized in relevant sectors?

A. 100 % utilized

B. 75% utilized

C. 50% utilized

D. Something

Answer type: A=22, B=20, C=15, D=13

4). You have availed the investment facility from Islamic banks. Do you think that after availing this facility your level of poverty is declined?

A. Declining

B. Rather decreasing

C. Better than past

D. Silence

Answer type: A=42, B=17, C=6, D=5

5). Do you agree that Islamic banks can create more new entrepreneurs to the economy by selecting borrower?

A. Reasonably Agree

B. Alright

C. Somebody

D. Not agree

Answer type: A=29, B=27, C=10, D=4

6). In our banking sector all Islamic banks play vital role for poverty alleviation by their different economic activities, do you support this idea?

A. Mostly support

B. Something is correct

C. As usual

D. nothing

Answer type: A=44, B=23, C=2, D=1

7). If Islamic banks increase their investment facilities in SME and rural economic sectors then our national poverty will be minimized. Do you support this logic?

A. Too much support

B. Quite possible

C. May be

D. Only SME

Answer type: A=33, B=19, C=11, D=7

Total outcomes= A=228,

B=151,

C=69,

D=42,

Answer pattern total=490 MCQ

Among the 70 interviewees of 490 answer pattern, at least 228 responded their view to answer no A, 151 marked their opinion to answer no B, and another 69 supported to MCQ answer no C, and remaining 42 MCQ are found for answer no D. From the above collected primary data it is observed that 47% population supported their view to answer no A, 31% of the population sustained opinion to answer B, 14% supported to answer no C, and remaining 8% voted for answer no D.

Interpretation of result: From the choice A we have got our expected result. A is voted up to 47% population which is carried our optimum result. The questionnaire is made by the questions related with consumer's poverty reduction, unemployment reduction, capital accumulation, economic progress ensured etc. By the above information it can mention that investment facilities of Islamic Banks can assist to ensure the consumer satisfaction and welfare that will provide an affirmative role to reduce our national poverty. A graphical representation is mentioned below:-

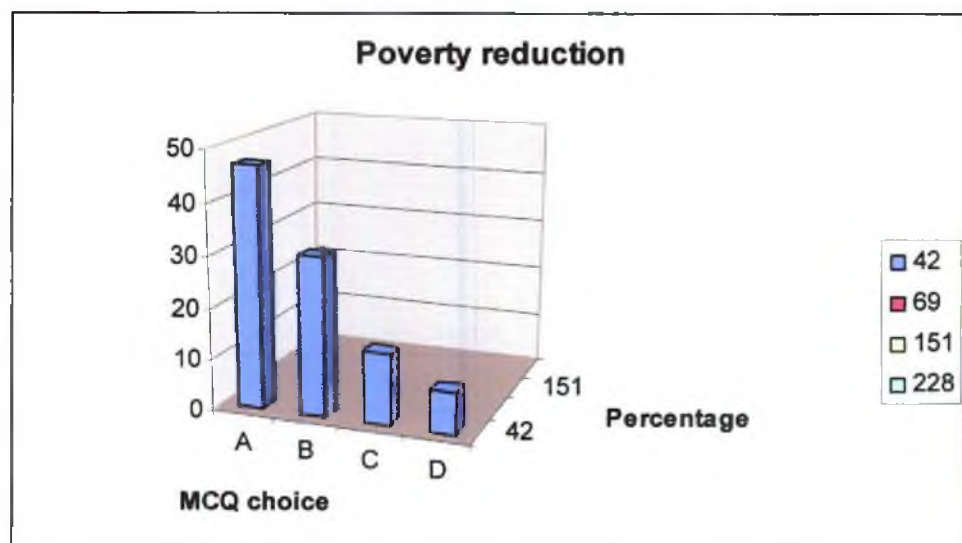


Chart (19): Poverty reduction level

In the fig the bar of A is top and D is the lowest answer. It means that poverty reduction is going on under Islamic banks.

5.8

Decreasing level of poverty under Islamic modes of investment

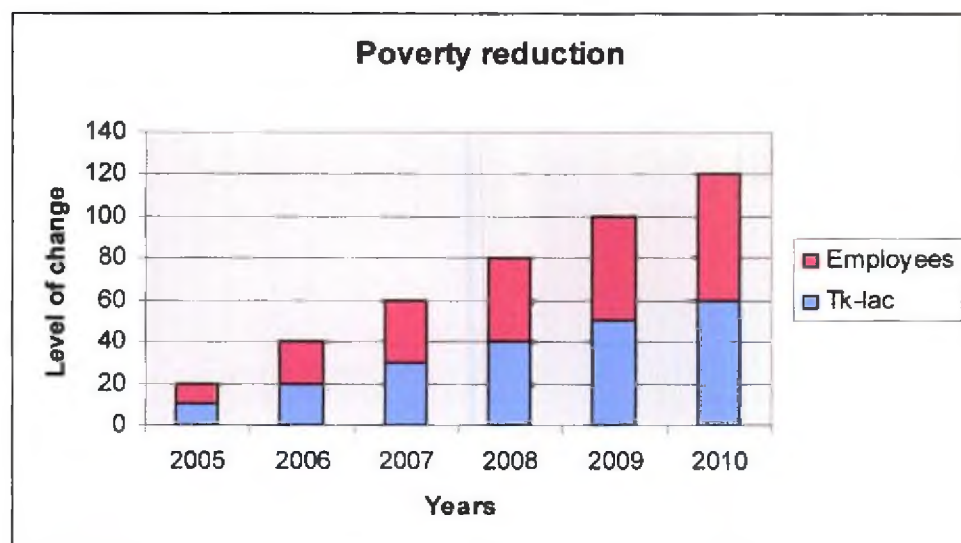
Bank is a financial institution operating in the country as a financial intermediation. Any large sector can not be implemented without financial role of banks. According to our survey entrepreneurs are feel most comfort to banking with Islamic Banks than others due to interest free banking system such as compound interest counting that can say financial exploitation. Moreover terms and conditions of Islamic banks to avail investment are easy than others which creates external welfare of consumers. According to annual report of Islamic banks it is apparently seen that investment position of those banks are going to augment day by day, and their number of clients are increasing rapidly. Islamic banks invest their huge amount to corporate & SME sector regularly. They make a positive role to alleviate our national poverty by their different financial activities. A few modes of investment of Islamic banks are discussed below with practical case study that shows the level of poverty reduction.

i) Mudarabah Investment: Mudarabah is defined as business in which one person participates with money and another with his efforts, skills, or both and includes a unit trust and mutual funds. In this business we see that bank is said Saheb-al maal, who will supply money and consumer is said mudarib who will invest his own efforts, merits, plan, skills, and innovation so that a business can run ahead. In practice our society is poor; most of the people desire to do something for economic development but due to fund crisis none can advance as own plan. By the mudarabah mode of investment Islamic bank finance a consumer who is really able to do a business under the terms & conditions of this mode. When fund is sanctioned and start the business the economic situation is going to boom. So we observed that under this mode a consumer who has the business quality can take the scope to change his fortune. Thus business will help to minimize his poverty and participate into national economy.

CASE STUDY

Mr. X, Y and Z are three friends. They have completed their higher degree from a reputed University. Two years over they had been trying to get any respective job but they failed. Once upon a day three friends consulted with the manager of nearest branch of IBBL that they are unemployed and desired to do some thing. The manager of the bank observed them and examined what they would like to do. Finally the bank financed them only Tk10.00 lac to start a shoe factory under the mudarabah investment mode in 2005. They started the business as the plane of the bank and recruited 10 employees in the factory. Within two years all dues was paid to the bank and at the end of the year three friends came again to apply for more finance of Tk25.00 lac and the bank agreed. After two years the number of employees of the factory was become 50 persons with good salaried.

It is observed that three unemployed persons were became good entrepreneurs by the financed of IBBL and now 50 workers are serving in their factory. This is an example of poverty reduction by an Islamic bank. Under this mode of investment consumers used their merits and bank supported the capital in the business.



Chart(20): Poverty reduction level

ii) Mushareka Investment: The term mushareka means a partnership between the bank and the client for a particular business in which both the bank and the client provide capital at an agreed upon ratio, manage the business jointly, share the rent as per agreed upon ratio and bear the loss, if any in proportion to their respective equity. In this mode we see that it is easily applicable for project financing or any big financing sector. The number of share holders may be two or more in which bank is a shareholder only while the capital will be made by proportionate rate of shareholders. The amount of share may be varying among shareholders then profit or loss will be distributed as per ratio. Bangladesh is a developing country; we have been suffering project financing problems due to entrepreneurs and fund crisis. Under this mode of investment few national developing project can be financed so that unemployment and starvation situation will be alleviated.

CASE STUDY

MR. Z and SIBL Lohagara branch have agreed upon for joint venture business under the terms & conditions of musharaka investment. The paid up capital is total of Tk1.00 crore i.e. bank's contribution is Tk 75.00 lac and the remaining is for the consumer. The company has gained net profit after tax in 1st year 2.00 lac and it is distributed 75% for bank and 25% to the client. In the 2nd year total profit was 4.00 lac and bank earned 3.00 lac and client earned 1.00 lac. In the third year it was 7.5 lac and 2.5 lac. The company paid sales tax of Tk total 1.5 lac to the NBR and paid employee's salary tk3.5 lac in the last three years. The level of poverty reduction is as:-

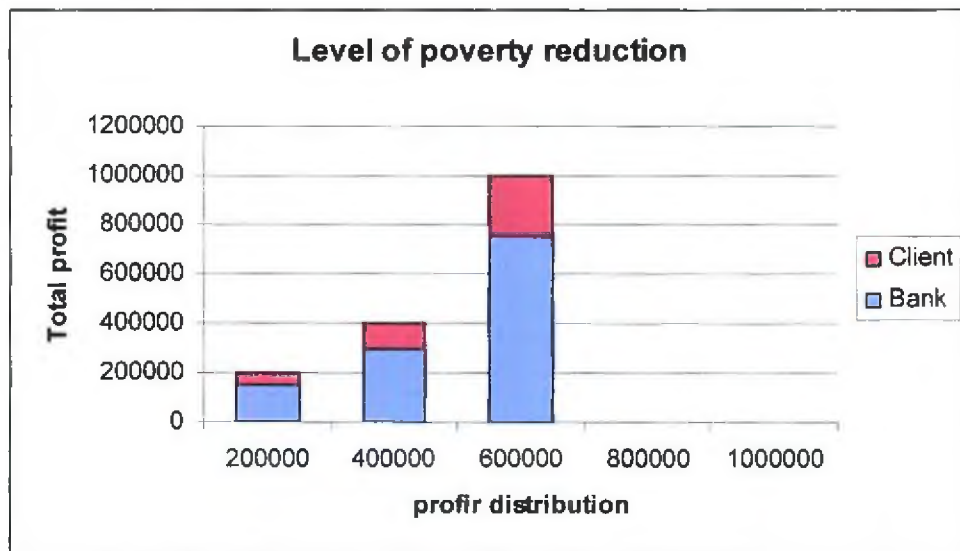


Chart (21): Profit distribution

iii) **Bai-Murabaha Investment:** Bai-Murabaha may be defined as a contract between a Buyer and a Seller under which the seller sells certain specific goods permissible under Islamic Shariah and the law of land to the buyer at a cost plus agreed profit payable in case any way fixed future date in lump sum or by installments. By this mode bank will buy the goods for the client and client/consumer will purchase it from bank with a declared profit rate. Consumer may repay the bank's payment by installment basis; it is a great opportunity for a businessman. This mode of investment is more applicable for seasonal business when the price of goods is low in season or production period then businessman can stock of goods with the help of bank. This mode is also applicable for import business; the goods are in the custody of the bank while the payment is under due. We observed that by this mode a businessman is achieved the facility for capital accumulation. By this mode import facility is available for the client then high inflation will be reduced. The demand and supply market will be balanced by optimum import under this mode of investment. Therefore poverty alleviation is compassionate under its investment mode.

CASE STUDY

Mr. Y was a client of a conventional bank. He has fall his business and a total due of the bank is Tk50.00 lac with principal & interest. He applied again to a conventional bank but refused. He is going to declare himself as bankrupt. In the mean time SIBL Agrabad branch financed him Tk1.00 crore with high risk and toke him under monitoring and supervision. The bank financed him under murabaha mode and imported rice in 2004 and with in 6 months the price of rice is increased @10% after shipment then he benefited. With in five years Mr. Y paid his all dues to conventional bank and now he is profited. Total capital of the business is as 4.5 crore within 5 years. The profit rate of the business of last 5 years is 10%, 15%, 18% 20% and 24% increased.

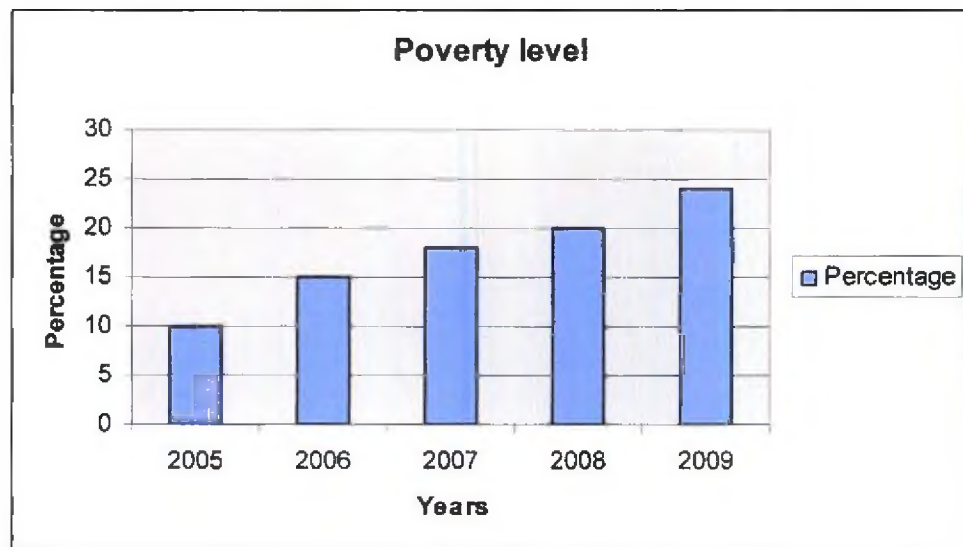


Chart (22): Percentage of poverty

iv) Bai-Muajjal Investment: The Bai-Muajjal is treated as a contract between the bank and the client/consumer under which the bank sells to the client certain specific goods, purchased as per order and specification of the client at an agreed price payable within a fixed future date in lump sum or by fixed installments. By this mode of investment consumer gets the benefits for repayment to the bank installment basis but consumer can hold the goods under own custody as an owner. The ownership facility of goods is good opportunity for consumer. He can sale the product as a wholesaler at a time with higher profit but can repayment to bank by installment basis within a year. During a year wholesaler can recycle his business more times within

the limit but bank will not charge further profit rate. We can see this mode of investment is profit earning mechanism mode for an experienced businessman thus he can help to reduce social poverty.

The following facilities are given to consumer by the modes of Islamic investments:-

a) Quality of goods must be approved by Islamic Shariah board. It means that any Islamic bank will not finance to produce Haram goods (not approved by Islamic shariah). All Haram goods like wine are harmful for human body and Islamic society. This limitations control human character and help to safe currency wastage. Producing Haram goods economic activities can not contribute to make an idyllic society. The entrepreneur who is decided to produce Haram goods if he is financed by conventional bank subsequently he will make a barrier to build peaceful society. But if the entrepreneur is financed by Islamic bank and will produce Halal goods then our level of consumption will be increased. Therefore by producing Halal goods, increasing output and increasing level of consumption modes of investment will lead market economic policy thus social poverty will be minimized.

b) The strategy of conventional bank for loan disbursement is compound interest counting but Islamic bank can not count their profit rate as compound rate. Thus total rate of interest of Islamic bank is lower than any other conventional bank. When country's rate of interest is lower then investment will increase thus total output will amplify and unemployment will be reduced. Under Islamic modes of investment Islamic banks will facilitate to increase national investment so that high inflation and unemployment will be declined. Economist says by this way our poverty alleviation activities should be going on.

c) Bangladesh is an overpopulated Muslim country. Most of the people are Muslim but not honest and educated. Social crime and dishonesty is increasing day by day. Our law and order situation can not handle and control all the unethical circumstances. On this regard we need to emphasize on religious and ethical educational and cultural economic society. Islamic banks are practicing to build Islamic ideal society by their modes of investment facility and other socio-economic cultural operations.

CHAPTER-6

Problems Identification

Summery of the findings

Identification of the problems

Conclusion

6.1 Summery of the findings

Nowadays, the Islamic Banking movement has demonstrated an encouraging growth, Banking without interest, which was a theoretical concept for long time, is being practiced in different countries of the universe especially in Muslim countries, in view of non- interest banking along with conventional banking. There are also many countries that have opted for switching from conventional banking to Islamic banking. Whatever strategy they use, the countries have a strong belief that the Islamic Banking can work effectively and completely along with the conventional banking in promoting the economic development in their respective jurisdiction. So in the present era the term Islamic banking system is not only a new phenomenon but a complete banking system practicing successfully over the world.

The subject matter of our research is only investment modes of Islamic banking. We have undertaken with best regards to show that the modes of investment can be the best instruments for poverty reduction. To analyze the thesis I have adopted two parts including eleven chapters. Total summery of findings from the thesis can be collected as follows:-

1). The particulars of conventional banking is discussed in the chapter three. Before discussion about Islamic banking we need to think concerning conventional banking so that any compare can be easily done with Islamic banking. From this chapter we have found that total history of conventional banking i.e. its launching to present modern banking system. Finally a structure of banking system of Bangladesh is mentioned.

2). The particulars of Islamic banking is conversed in chapter four. This is an important chapter of the thesis paper because why Islamic banking concept is raised and what is the view of Islam about banking as well as different socio-economic impacts of interest are discussed in this episode. Further more Islamic banking in different countries is analyzed here. To compare between Islamic banks and conventional banks something is discussed in chapter five.

3). In the part two the main objectives of the thesis are discussed. The different modes of investments with its feature & objectives are argued and it is noted that investment is referred to SME financing for our rural poverty alleviation. Why investment under Islamic banking is superior to others and it increases more satisfaction of consumer are narrated with the help of an investment decision model. The few Islamic banks performance overview are focused in the same chapter.

4). The report of a statistical survey is written in chapter eight and nine. Bangladesh is a developing country we need more capital for investment. According to Professor Rozenstain Rodan, for boost economic growth a development country need to invest more capital in a few specific sectors with a certain period of time so that more output more consumption can be ensured. I agree with this theory and suggest it to imply to our developing and more populated country Bangladesh. The main summery of the theory of big push is that which is quoted in chapter six. The consumer welfare example is mentioned seven.

5). The chapter nine is the final stage of the thesis. Our main aims to find out the clues for poverty alleviation. A large study was included about poverty. Using Islamic bank financing in SME sectors how way our national poverty can be minimized these are briefly discussed in this chapter. We certainly believe that we were able to explain poverty reduction policy under Islamic bank financing by this chapter.

6). Our main goal of the thesis is to find out the clues for poverty alleviation. First of all we explained separately conventional bank and Islamic bank's feature and objectives and finally compared both of them. We proved that modes of investment of Islamic banks are more reasonable than conventional banks which are compassionately to our national poverty alleviation. We also narrated few social welfare activities done by Islamic banks that are supportive to decline national poverty. We explained characteristics of our national economy and applied the theory of big push. Our collected data and other related documents are supportive on this regards.

6.2 Identification of the problems

Any research task is difficult to analyze through and through. We have discussed the whole thesis within six chapters. Necessary data, figure & charts are included whether these are needed. Therefore I think that few problems arise related to the thesis that could not be solved within the limited time these are as follows:-

- 1). A huge number of thesis paper were written about poverty but none was found that modes of investment of Islamic banking can be the mechanisms for poverty alleviation. We try to show the logic that Islamic banking modes of investment are more satisfactory to consumers than conventional banking loan operations due to its well balanced and rational features. We briefly narrated all modes of investment of Islamic banking with its feature and objectives but we can not explain all lone operations of conventional banking due to constraint of time and large volume of thesis. Hence we compare to both banking systems and finally proved that modes of Islamic banking are more applicable to our society for poverty alleviation.
- 2). The primary data are more used in this thesis rather than secondary data. The data on poverty alleviation is available but in connecting with Islamic modes of investment are infrequent to collect. We have used a huge number of primary data in the whole thesis paper but we could not provide necessary secondary data due to time constraint, communication gap, and lack of relevant books & journals. For poverty alleviation the IBBL works different social welfare oriented activities which were narrated but other Islamic bank's same works did not mentioned due to inadequate respective data although they worked hard for the same goal. We tried to collect more data but competent to collect fewer.
- 3). In the thesis we mentioned that if the sanctioned investment is said as good investment then consumer can do something by his business for minimization of his own and social poverty. But if the said investment is going to be worse then what will be the condition of consumer and who much losses bank need to suffer are not mentioned. We can not show any example about defaulter clients due to not have specified data. Therefore we believe the success for our clients.

4). Islamic banks contribute to reduce our national poverty reduction by their different banking operations. The rate of rural poverty is higher than town's poverty level. Most of the people of the country are live in village and they are uneducated or half educated. Rural development is prerequisite for sustain economic development. The rural economy is based on agricultural & SME sector oriented. The financing position of Islamic banks on agriculture & SME are not quite satisfactory. Most of the branch of Islamic banks is situated in the big towns but fewer in the Upazilla level. The financing positions of the banks on agriculture or land less farmer are fewer or less. Thus the roles for poverty reduction by Islamic banks are quite inadequate.

5). The measurement of consumer welfare is difficult to examine. Every clients financed by banks is valuable consumer. All Islamic banks operating in Bangladesh adopted a huge number of social welfare activities but the actual measurement of welfare achieved by clients is difficult to calculate. So we try to analyze the social welfare but the actual position couldn't explain.

6). The terms and conditions of investment facility of Islamic banks are more difficult other than few conventional banks. It should be relaxed for smooth financing for economic development perspective Bangladesh.

7). Musharaka is one kind of mode of investment of Islamic banks. According to the terms and conditions of this mode loose sharing must be divided into both client and bank. But in practice most of the Islamic banks do not invest by this mode or do fewer portions to avoid losses.

8). All modes of investment are not clear to understand to the clients due to Arabic terms. Lack of huge announcement, difficulty of language, inadequate training facilities, dependency on Shariah Board etc is the main obstacles to essay understanding.

9). The social & religious impacts of interest are not clear to the consumers. Islam encourages to profit & loss sharing business but strictly prohibit all kinds of interest. Utmost people don't know what the difference between interest & profit is.

10). Islamic banks can not earn profit from classified investments. So huge amount of classified investment are yield as idle money. This is the burden for progress of Islamic banking.

6.3 Conclusion

From a huge study about poverty in Bangladesh it is observed that the majority of the poor people live in rural areas and are landless. On the other hand, the poorest and chronically deficit households are mostly engaged as agricultural wage laborers. Furthermore, the same study observed that while 40% or more of households suffer from food deficits in the pre-harvest period, the incidence of poverty falls to about 33% during and after the harvest season. From total measurement of poverty our rural level of poverty is seen much higher.

Other characteristics observed by the study indicated that the income of the poor is not enough to meet poverty line expenditure, that the poor households have a higher child-woman ratio and more children less than ten years of age as compared to relatively richer families. Furthermore, the lower income earning capacities are coupled with a heavier burden to meet the household needs of nutrition, health and education. The study further found that adult illiteracy is extremely high in poor families.

Bangladesh Bureau of Statistics has provisionally estimated the GDP growth rate to 6.21 percent in FY 2007-08. The GDP growth rate is assumed slightly lower compared to the previous fiscal year due to the decline of growth in agriculture and manufacturing sectors. It may be noted here that, according to the final estimate, the GDP growth rate was 6.43 percent in FY 2006-07. As per Medium Term Macroeconomic Framework (MTMF), the real growth of GDP for the fiscal year 2008-09, 2009-10 and 2010-11 have been forecasted to be 6.5 percent, 7.0 percent and 7.2 percent respectively.

Despite growth in the forestry sub-sector, the growth rate of agriculture sector is assumed lower compared to the previous fiscal year due to the decline of growth in crops and horticulture sub-sector. Growth rate of industry sector, in particular, manufacturing sector is assumed to decline slightly. In spite of growth in some sectors, overall growth in services sector estimated to decline. The GDP growth rate and per capita GDP growth at constant price for FY 2002-03 to FY 2007-08 are shown below, shows the DGP, GNI, Per Capita GDP and GNI at Current Market Prices.

Rural activities have always provided the main source of livelihood in developing countries like Bangladesh. Economic viability of the rural sectors exerts a strong influence on national growth rates. During the 1950s and 1960s rural development was viewed as an important but secondary element in national development strategies, which tended to emphasize centrally planned investment in basic industries and physical infrastructure. Although development was regarded as generally desirable within a regional planning framework, it was frequently assumed that the “trickle down” effects from the development of the industrial base would provide the main source of advancement for the rural community.

From the whole study it is observed that a developing country can minimize level of poverty by increasing investment facility in producing sectors. In Bangladesh, the opportunity of large industrialization is so inadequate. Small and Medium business firms are huge and most of the entrepreneurs are skilled in these field. Our technology and environment is supportive to SME sectors. We have the huge manpower and capable to produce labor intensive commodities. If investment facilities for SME segments are augmented the innovative entrepreneurs will come out into the economy.

Unemployment, scarcity, high inflation, illiteracy will be removed day by day if economic stability is achieved. With smooth financing limited large industry, government should affirm facility increasing into the SME sectors. The possibility and best outlook of SME sectors are discussed elaborately in the SME chapter in this paper. Investment facility should be increased more effortlessly as like theory of big push which is mentioned in this dissertation.

Bangladesh is a Muslim country; people support Islamic banking and economy religiously. The source of fund of optimum level of investment of the country may be from all Islamic banks. They are dealing their business interest free but profit and loss sharing system. In our study, ornatly it was discussed investment modes of Islamic banking, its feature, objectives and social works. We hope their business techniques really supportive for poverty alleviation of our nation. I will be thankful if the study would help to diminish our national poverty fully or partially or a single portion and if it is accepted to scholar classes of home and abroad. I am also grateful to almighty Allah who is most gracious most merciful.

Bibliography

- (1).Raymond Brockington. A concise Dictionary of Accounting and Finance Pitman Publishing Ltd. 1986. P.68
- (2).Islamic Bank Bangladesh Ltd. (IBBL). Manual for Investment under Bai-Mudarabaha Mode, p.1
- (3).Al-Baraka Islamic Investment Bank: The Islamic Banking Principles (Bahrain 1995) mimeo. P.12
- (4).Prof. Md Harif Hussain, Islamic Banking, Ekti Unnarator Bank Babosthya (in Bangla) published by IBBL 1996. P-81
- (5).Habid Shirazi (ed), (London: 1990), Islamic Banking Butterworth's p-31,
- (6).Prof. Sharif Hussain op cit p.103 Institute of Islamic Banking and Insurance Module 11, Lesson-4 (London). P.2
- (7).Islamic Development Bank. Principles of Islamic Financing (A survey), Jeddah 1992 p-28.
- (8).Dr Asaf Ahmed Contemporary Practices of Islamic Financing Techniques. IDB Jeddah 1423H, (1198) p-49
- (9).Ali, M and Sarker, A.A. (1995). Islamic Banking: Principles and Operational Methodology, Thoughts on Economics, Vol. 5 No. 3 & 4. July-December 1995. Dhaka Islamic Economics Research Bureau. pp. 20-25.
- (10).Ahmed, Ausaf. (1995). The Evolution of Islamic Banking. In Encyclopaedia of Islamic banking and Insurance. Institute of Islamic Banking and Insurance, London. p.17.

- (11).The Holy Quran & Hadith.
- (12).Siddqi, M.N. (19892). Islamic Approach to Money, Banking and Monetary Policy. In M.Arif (ed.). Monetary and fiscal economics of islam (pp. 25-42). Jeddah: Centre for Research in Islamiz Economics.
- (13).Khan. M.A. (1994). An Introduction to Islamic Economics, International Institute of Islamic Thought and Institute of Policy Studies, Islamabad. pp. 11-14.
- (14).Khan, M.S. & Mirakhor, A. (1989) Islamic banking: Experiences in the Islamic Republic of Iran and Pakistan. (IMF working paper No. wp/89/12). Washington DC: International Monetary Fund. (JEL Classification) Nos. 3116;3120;314).p.1.
- (15).Mangla, I.Y, & J.Y. (1990) Islamic banking: A survey and some operational issues. Research in Financial Service, Vol. 2,pp.179-215, 185.1.
- (16).Akkas, S.M.A (1995). Modeling operation of Islamic banks under conventional banking framework: A comparative efficiency analysis in deployment of invisible fund. Thoughts on Economics, Vol. 5 No. 3 & 4, July-December 1995. Dhaka: Islamic Economics Research Bureau. pp. 1-18.
- (17).Thoughts on economics, Vol. 3 No.2, March-June, 1996. Dhaka: Islamic Economics Research Bureau.pp.1-23
- (18).Hasan, Z, (1988). Distributional equity in Islam. In M. Iqbal (ed) Distributive justice and need fillment in an Islamic economy (p. 47). Islamabad, Leicester: International Institute of Islamic Economics, and Islamic Foundation.
- (19).Khan, W. M. (1985). Towards an interest-free Islamic economic system. Leicester, Islamabad: The Islamic Foundation, The International Association of Islamic Economics.

- (20).Haque, N.U. Mirakhor, A (1986). Optimal profit-sharing contracts and investments in an interest-free Islamic economy. (IMF Working paper No. wp/86/12). International Monetary Fund.p.iii.
- (21).Arif, M. (1982). Introduction. In. M.Arif (Ed),Monetary and fiscal economics of Islam (1-23). Jeddah: International Centre for Research in Islamic Economics.p 1-23
- (22).Mukherji, B. (1984). Theory of growth of a firm in a Zero-Interest Rate Economy, Jeddah: Centre for Research in Islamic Economics. p. 65-66.
- (23).Uzair, M. (1982). Comments on the paper ‘Allocative efficiency, decision and welfare criteria in an interest-free Islamic economy: A comparative approach by Dr. Muhammad Abdul Mannan. Jeddah: Monetary and fiscal economics of Islam, Muhammad Arief(etd.)
- (24).Mannan, M.A (1982), Allocative efficiency, decision and welfare in an interest-free Islamic economy: A comparative policy approach. In M. Arif(ed.) Monetary and fiscale economics of Islam (pp. 43-73). Jeddah: International Centre for Research in Islamic Economics.
- (25).Chapra, M.U. (1984).
- (26).Hassan,M.K. 2003, The Text Book on Islamic Banking, Islamic Economic Research bureau. Dhaka.
- (27).Dr, Khan.A.R. 2008, Bank Management, A Fund Emphasis, 4th edition, Dhaka.
- (28). Rahman,M.A. 1993, Modern Development Economics, bangle academy, Dhaka.
- (29).Zikmund,W.G. 2003, Business Research Methods, 4th edition.

- (30). Hasan, S.A. 2003, Zakat and Poverty Alleviation, Islamic Economic Research Bureau, Dhaka.
- (31). Chowdhury, H. Omar, 1991. “ Human Development Index: A Critique” The Bangladesh Development Studies, Vol. XIX, September, No. 3, p: 125-126.
- (32). Daily Star, 1998. India: Economic Development and Social Opportunities, Calcutta oxford University Press.
- (33). Dillon, R. William and Mathew Goldstein, 1984. Multivariate Analysis: Methods and Applications, New York: John Wiley Press.
- (34). Goetz, A.M. and R. sen Gupta, 1996. Who Takes the Credit? Gender, power and Control Over Loan Use in Rural Credit Programs in Bangladesh, World Development, Vol.24, No. 1, p: 45-64.
- (35). Griffin Keith and John Knight (1990) ‘ Human Development: The Case of Renewed Emphasis in Human Development and the International Strategy for 1990s, edited by Keith Griffin and John Knight, London Macmillan Press Limited
- (36). Grosse and Barbara, H. Perry, 1983. Correlates of life Expectancy in less Developed Countries, Research in Human Capital and Development, Vol. 3, p:217-253.
- (37). Haan de Arjan and Michael Lipton, 1998. Poverty in Emerging Asia: Progress , Setbacks and Long-jams, Asia Development Review, Vol. 16 No.2 p: 135-176.
- (38). Hossain, Mahabub and Binayak Sen, 1995. “Determinants of Poverty”, in Rethinking Rural Poverty: Bangladesh as a Case Study, edited by Hossain Zillur Rahaman and Mahabub Hossain, Dhaka: UPL.

- (39). Adelman, Irma and Cynthia Tuft Morris, 1967 *Society, Politics and Economic Development, A Quantitative Approach*, Baltimore: The John Hopkins press.
- (40). Anonymous, 1998a, Sanitation have-nots Increase, *the Futurist*, Vol.32, No:9, p:16, Washington, December.
- (41). Anonymous, 1998b. Poverty as Health hazard, *The Futurist*, Vol.32, No. 5, p: 6-7, Washington, Jun/Jul.
- (42). Anonymous, 1998c. Nobel to Amartya Sen: Renewed Focus on Social Welfare, *Business Line*, Islamabad, Oct 19, 1998
- (43). Anonymous, 1998d. India: Some Aspects of Public Expenditure, *Businessline*, Islamabad, Dec 22, 1998.
- (44). Anonymous, 1998e. The Social and Economic Benefits of Investing in Education, *Organisation for Economic Cooperation and Development, OECD Observer* (Jun/Jul).
- (45). Banerji, Rukmini, 2000. Poverty and Primary Schooling: Field studies from Mumbai and Delhi, *Economic and Political Weekly*, Vol. XXXV, No. 10, p: 795-802.
- (46). Bangladesh Bureau of Statistics (BBS, 1995): *Analysis of Poverty on Basic Needs Dimension*, Vol. 1, Dhaka: Ministry of Planning.
- (47). BBS (1998): *Analysis of Basic Needs Dimension of Poverty*, Vol. III, Dhaka: Ministry of Planning.

- (48). Becker, S. Gary 1993. Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education, London: University of Chicago press.
- (49). Centre for Policy Dialogue (CPD), 2000. Poverty Reduction in Bangladesh: Absence of a National Framework in an Abundance of Donor's Strategies, resource paper prepared for the CPD on poverty Alleviation strategies: National Priorities and Donor's Perspectives, April, 1,2000, Dhaka: CIRDAP.
- (50). Chazan, David (1999): Dhaka Told to Speed reform or Risk Aid, Financial Times, London, September 16.

Appendix of the Islamic terms used

Science of Shariah ; Islamic jurisprudence. The most prominent of the fiqh schools have been the ones founded by Abu Hanifah (The Hanifites), Malik Ibn Anas (The Maliki), Al-Shafi (The Shafities) and Ahmed Ibn Hambal (The Hanifites), Malik Ibn Anas (The Malki), Al-Shafi (The Shafities) and Ahmed Ibn Hambal (The Hambalites), There are other school such as the Zahirities, Al-Awa'i, Al-Thawri. The Hanifities has received the most recognition and adherence.

Halal: that which is lawful as distinguished from haram or that which is unlawful.

Hadith: Sayings of the Prophet Muhammed (peace be upon him).

Lijma: Consensus of Islamic scholars on a point of Islamic law.

Lijehad: The logical deduction on a legal or theological question by the learned as distinguished from lijma, which is the collective opinion Islamic scholars.

Istihsan: Juristic preference in Hanafi law, an exercise of discretionary opinion breach of strict analogy.

Khalifa: Vicegerent: Head of an Islamic State.

Mudarabah: Hanafi designation of a << commenda>> which is an arrangement in which one party invests capital and another party trades with it on the understanding that they share the profits in an agreed upon ratio, and that any loss resulting from normal trading activity is borne by the investing party.

Muqarada: Maliki and Shafii designation of a << commenda>>.

Murabaha: Resale of goods with the addition of a fixed surcharge to the stated original cost.

Qard-Hasan: Benevolent loan without interest.

Qirad: Maliki and Shafii designation of a <<commenda>>.

Qiyas: The analogical reasoning of the learned with regard to the teaching of the Quran Hadith & Ijmah.

Salat: Obligatory prayers five times a day.

Sadaqah: << Voluntary Almsgiving>> as opposed to 'Zakat' the payment of which is obligatory on the rich.

Shariah: Islamic jurisprudence; laws of Islam.

Sharika: Partnership

Sunnah: The tradition which records either the sayings or doings of the Prophet (peace be upon him).

Tawliya: Resale of goods at the stated original cost.

Wadeea: Resale of goods with a discount from the original stated cost.

Zakat: Poor tax on the well-do-Muslim either in cash or kind in accordance with the provision of the Shariah.

THE END.