

SUSTAINABILITY ISSUES OF INTEREST-FREE MICRO-FINANCE INSTITUTIONS IN RURAL DEVELOPMENT AND POVERTY ALLEVIATION. THE BANGLADESH PERSPECTIVE

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Abstract

The main focus of this research is to critically evaluate the sustainability issues of Interest-free Micro-Finance Institutions (MFIs) in general and a recently developed micro finance model - Rural Development Scheme (RDS) of Islamic Bank Bangladesh Limited (IBBL) in particular. Recently, in micro finance literature, the term „sustainability or self-sustainability” has been discussed and analyzed widely among the practitioners, researchers and policy makers as an important development indicator of both MFIs and its clients. It is well known that only efficient institutions can low the high cost of servicing small and irregular incomes on a sustainable basis. These lower costs can in turn be passed on to the poor/hardcore poor in the form of low finance charges, which leads to contribute their smooth income generating activities. In this context, the present study is an endeavor by the researcher to examine mainly the institutional, financial and economical sustainability of the above model by using various indicators. The empirical analysis of the study reveals that RDS of IBBL has been treated as a sustainable MFI in the rural development and poverty alleviation of Bangladesh with a short span of time of its establishment. Finally, the study also suggests some policy guidelines for the smooth functioning and development of the afreosaid interest-free MFI in any region like Bangladesh.

Keywords: Interest-free MFI, Financial & Economical Sustainability and Outreach.

1. Background

Over the last decade, Bangladesh has been performed fairly well in terms of macroeconomic stability in general and economic growth in particular. Market oriented economic reforms and deregulations in early 1990s led to a more stable macroeconomic environment compared with that in 1970s and 1980s. The Gross Domestic Product (GDP) growth rate improved steadily during the 1990s. The average annual GDP growth was 5.5 % in 2000, 5.96% in 2005 and rose further 6.63% from 2006. In the year 2007, this growth fell to 6% (BBS, 2006, Bangladesh Quarterly Economic Update, 2007). However, despite the recent macro economic achievements of the country, poverty is still pervasive and endemic in Bangladesh. The disparity between the rich and poor is also growing. Still about 40% of the population lives below the poverty line (World Fact Book, 2008). In the history of Bangladesh, poverty

has been rampant and presently this country is third in terms of number of poor following India and China (Awal, n.d)¹. The disparity between the rich and poor is also growing. The PRSP (NAPA, 2005) states that Bangladesh has one of the most vulnerable economies, characterized by extremely high population density, low resource base, and high incidence of natural disasters. These have implications for long-term savings, investment, and growth.

Alleviation of poverty has been the central policy objective since the 1960s and after the emergence of independent Bangladesh, the issue has continued to occupy the focal point of every successive development plans. Bangladesh also has been exposed to numerous poverty eradication plans and programs both by the government and by the non-government organizations (NGOs) as well (Rahman and Razzaque, 2000). A significant aspect of traditional MFIs and NGOs micro credit program is the dependence on foreign grants, especially from IDA, USAID, OXFAM and to certain extent from government. It is also held that most of traditional/secular NGOs / MFIs are not able to operate at break level without subsidies from outside sources and hence are not able to provide less cost effective credit/investment program. The interest rates on loans charged by traditional NGOs including Grameen Bank are high by any standard (20-35%), and reports of poor borrowers having to dispose of whatever assets they have to pay the usurious interest are not uncommon (Rahman, 1999). It is also alleged that micro-lending initiatives of Interest –based MFIs have a self-perpetuating character and the borrower is seldom rid of his/her indebtedness (Bhuyan, 2006). In this consequence, it is crystal clear that „financial sustainability” of MFIs plays a vital role to provide less cost–effective lending/investment facilities to the needy poor in any region like Bangladesh.

2. Rationale of the Study

In the 1990s micro-finance has captured the imagination of option leaders, government and donor agencies as a key strategy for poverty reduction. Supporters have argued that micro-finance institution (MFIs) can not only have a major impact in the fight against poverty but can do so on a sustainable basis (Paul and Conroy, 2000). In Bangladesh, micro credit mainly has been treated as an important development instrument since the inception of Grameen Bank as a pioneer micro lending model. Being inspired by the success of the Grameen Model in the field of micro finance, many government and non-government MFIs and NGOs have come foreword to alleviate the sufferings of the poor and the distressed people with their micro finance program following the GB Model in to- to or with slight modifications (Chowdhury, 2007). However, one of the serious limitations of these traditional MFIs and

¹ n.d.- Date of publication is missing in the research paper

NGOs including GB is their high interest rate (Rahman, 1999, Bhuyan, 2006). Borrowers has to bear share of such interest are not able to pay such interest, which gradually leads to remain poor people in the vicious cycle of poverty rather than improving their minimum living standard. Inflexible and non-negotiable repayment schedules have implied little assistance in coping with stress events and financial shocks suffered by members and have also caused liquidation of assets by families in order to meet deadlines (Snodgrass and Sebstad 2002). Some times members of various MFIs/ NGOs have been found to borrow from moneylenders to repay their loan installment and vice versa.

A comprehensive study of 13 micro credit schemes in Asia, Africa and South America indicates unanimously that the benefits of the micro credit schemes under study were not scale neutral - the upper and middle income poor tended to benefit more than the poorest of the poor (Hulme and Mosley 1996). The rigid design of traditional micro-credit programmes and the limited range of financial services offered have made the arena of the micro credit project a difficult terrain to negotiate for poorer sections (Jain and Moore 2003). The World Development Report (2000-06) acknowledges that the reach of micro finance has been limited to moderately poor sections rather than the poorest and recommends greater flexibility in loan size and repayment schedules to reach poorer sections in any region like Bangladesh.

As A way of escape from the above issues of traditional (interest based) MFIs , a handful of Interest-free MFIs have come forward very recently to provide interest –free financial services based on profit and loss sharing (PLS) to both men and women of hardcore poverty group with necessary modifications in the Grameen model in line with Shariah principles². Among various Interest-free MFIs, the micro credit program of IBBL's RDS Model is the largest and remarkable one. Guiding principle of the said micro-finance institution is to become sustainable, side by side with promoting entrepreneurship amongst financially disadvantaged segment of the population with the sole objective of creating enabling environments for them to fully participate in the economic process and build up assets of their own (Khatoon, 2007). This type of initiative is a very recent phenomenon in Bangladesh and as a result, these Islamic MFIs are very small in terms of their membership. However, despite of a short span of time, Islamic MFOs have been performing better than the traditional or secular MFOs in the field of resource mobilization and poverty alleviation (Chowdhury, 2007). In the above context, this study is an attempt by the author to evaluate the performance as well as financial sustainability of an Interest-free MFI specially RDS model of IBBL, which affirm the logical consistency and adequacy to reality of poverty focused investment/credit program.

² Shariah Principles- Rules and regulations of financial transactions prescribed in the Holly Quran and Hadith of Prophet (Peace Be Upon Him)

The study mainly examines the sustainability of RDS in terms of institutional, financial and economical using various sustainability measurement indicators. Borrowers' performance as well as outreach also has been evaluated in the study. It is expected that policy guidelines included in this study may be beneficial for both bank officials, prospective entrepreneurs/ MFIs and government policy makers while making future policies/programmes/projects for the sustainable rural development in Bangladesh and other region of the world.

3. Study Objectives

The main objective of this research is to evaluate the sustainable development as well as performance of Rural Development Scheme (RDS) of IBBL. In this context, the following objectives have been set to have a critical evaluation of sustainability of the said micro finance model in terms of financial and economical viability and outreach:

1. To discuss about an overview of the micro credit program of RDS of IBBL
2. To examine the program objectives and beneficiary selection criterion of the sample MFI;
3. To evaluate the lending /investment procedures of the said program
4. To measure sustainability of the said program in terms of institutional, economical and financial viability and outreach of the clients/borrowers;
5. To find out the limitations of RDS in terms of its sustainability, if any, and to suggest some measures for the problem encountered.

4. Research Methodology

4.1. Data Description

In this study, Rural Development Scheme (RDS) of Islamic Bank Bangladesh Limited (IBBL) has been chosen as a sample MFI to evaluate its sustainable development in poverty alleviation and rural development of Bangladesh. The study survey is conducted on three rural areas under Hathazari Thana in Greater Chittagong District of Bangladesh. The survey areas have been selected purposively, because most disadvantaged poor live in these areas. Both qualitative and quantitative research approach have been used in this study. Basically, the survey is not made for collecting data and information from any specific number of sample respondents. However, primary data have been collected with-structured, semi-structured, formal and informal questionnaire to cope with the situation and culture. Field work has been undertaken , on the sample MFI's clients, branch managers and field officers during July 2006 to December 2006 for six months duration. The clients are rural poor and

hardcore poor of the community. The data have been collected from the clients/borrowers and branch officers by face to face interview through predesigned questionnaire in the clients residence.

Secondary sources of data have been used in the study as available in 1997 and later in 2006. Some quantitative data of the sample MFI (RDS) were not available in the above duration such as : operating, profit, costs etc. Various sources of secondary of data are: Annual Reports of the sample institution, Bangladesh Statistical Survey, Bangladesh Bureau of Statistics, World Development Report, relevant books, journals, working papers, web articles etc. Depending on these secondary materials and information, a literature review has been made to give a theoretical framework of the study.

4.2. Measurement Techniques

Various qualitative and quantitative indicators developed by the researchers (Yaron et.al 1998, Schreiner M.1999) have been used in this study for measuring sustainability and outreach of the sample MFI. Besides, statistical tools like average, percentage, ratio and other financial techniques / tools have been used for analyzing data and information for research purpose.

5. Results of Findings

5.1. An overview of the RDS-Model

Evolution of Interest-free MFIs in Bangladesh is a response to the urge of safeguarding the Islamic way of life in the face of a massive penetration of interest in rural areas through the conventional MFI / NGO approach. One of the glaring features of these initiatives are exclusively indigenous in terms of organization and source of funds which are considered to be building blocks for any effort towards sustainability. Islamic MFIs have come forward very recently as a way of escape from the interest based micro credit program of traditional MFIs and to carry on financial operations with no dependence on subsidies from outside sources. The program is based on profit and loss sharing (PLS) to provide financial services to both men and women of hardcore poverty group with necessary modifications in the Grameen model in line with Shariah principles. Actually, there is no rigid and prototype framework for rural financing in an Islamic framework. Along with the essential pre-conditions 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. The concept has strong relevance to the Islamic worldview of life. The transfer mechanism is built-in to the core spiritual pursuit in Islam. According to

this spirit, Islamic MFIs have been implemented integrated rural development and poverty alleviation programs since 1995 (www.conceptandideologyruralfinancing.htm).

Among various Islamic MFIs, the micro credit program of IBBL's RDS Model is the largest and remarkable one. (Chowdhury, 2007). The model functions in accordance with Islamic economic principles, and mobilize their resources for entitlement formation by the poor on the basis of Shariah techniques. The target beneficiaries of the programs are mainly; landless poor, wage laborers and marginal farmers aimed at meeting their basic needs and promoting their comprehensive development. (Ibid). RDS has enabled the poorest of the poor to get interest free loan in kind without collateral and saved them from exploitation by both the formal and informal moneylenders who charge interest at a high rate. The institutional mechanism of credit delivery system of RDS is more or less same like Grameen Bank Model and other traditional MFIs. But in case of loan recovery, if a client/ borrower pays full borrowed money in time then he/she is rewarded with rebate³. This system is not followed by traditional MFIs including GB. The growth of membership, amount of loan disbursed/investment assistance, members' savings, recovery etc. up to the study period is shown in the Table 1.

5.2. Beneficiary/Client Selection Procedures of RDS

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

- Farmers owning up to 0.50 acres of land including sharecroppers;
- Persons engaged in non-agricultural activities owning up to 0.50 acres land or landless;
- Permanent resident of the project area;
- Borrower or defaulters of any other bank or organization will by no means be the beneficiaries of the program.
- Distressed people may undertake income generating schemes in non-agricultural sector such as cow/goat/duck/chicken etc. for their self-employment; and
- Landless to be given priority in selecting target groups whose yearly family income must be below Tk. 15,000/.

From the above information, it is seen that clients's selection processes of RDS program are almost same like other interest-based MFIs on the basis of land ownership, i.e., families having maximum of 0.5 acres of land. But in RDS, the aforesaid limit is mandatory for poor farmers. In case of non-farmers, 0.5 acre is relaxed (www.conceptandideologyruralfinancing.htm). So, marginal poor or non-poor have chance to join micro lending program of RDS. A recent World Bank study reveals that

³ Rebate- In case of RDS Program, if a borrower/client pays borrowed money in time, then he/she is rewarded with rebate @2.5% (the amount is equivalent to one or two investment installments).

there are about one million small businesses in the country as potential borrowers, but only 7% of them have had any access to the formal financial institutions (Bhuiya, 2006, p. 7). Due to RDS's relaxed Investment / lending formalities, the above potential borrowers will have chance to come under the micro investment assistance and so to develop the economy of the country.

5.3 Lending / Investment⁴ procedures of the program

Per Capita Loan size: For poor or hardcore poor per capita loan size is Tk. 8,000-20,000, and for marginal poor or non poor the limit is Tk.20,000-1,00,000 and Profit Margin Rate in the study time was 12%, later, the rate is revised at 10% (IBBL's Annual Report-2006).

Credit/Investment Procedures- RDS's investment procedures are different from traditional MFIs/NGOs. Cost Plus Sales under Deferred Payment (CPSDP-Bai-Muazzal) mode of investment has been applicable in this process. Under this mode of financing bank does not issue the agreed upon loan amount to the customer in cash, as is the custom of most traditional banks or MFIs. Once customers sign their loan agreement with the bank, and then they are asked by the bank to select a raw material supplier and to bring invoices for the price of raw materials that they require for their project. Once the bank authorities are satisfied with the invoice prices, the quantity of materials etc., then bank officials pay the money directly to the suppliers. The bank then debited the same amount from each customers account. In this way, this kind of lending model (RDS) ensures productive as well as efficient use of investment money so that entrepreneur can be successful in achieving his/ her goal. However, some times some opportunist clients try to divert money in unproductive purposes with the help of the suppliers in spite of the above mentioned procedures (CPSDP) application. But this type of undue activities is very few comparing with other traditional MFIs/NGOs. RDS officials very strictly oversee such type of opportunist activities (Field Survey-2006).

Loan Repayment Procedures- It is believed that the bank's best chance for successful recovery is dependent upon properly structuring the installment payments. The repayment of investment money including profits is normally divided into a number of equal installments. This repayment time starts two weeks after the clients/borrowers receive the loan /investment money or soon after the product is ready for sale in the market (Field survey-2006). Besides, the following considerations are taken into account while determining the appropriate installment payment:

⁴ Investment- In Islamic Financial System, the term investment is used as lending. The two terms is interchangeably used in this study.

- For the non-agricultural entrepreneurs installments may be made on a weekly/monthly/quarterly basis. 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, if there is an accident
- For marginal farmers repayments depends on the cropping cycle. In case of vegetable and green curry production, weekly installments allowing a longer gestation period is suggested.
- Generally all investment/ loan money is repayable in weekly equal installments. In exceptional case, 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 (www.conceptandideologyruralfinancing.htm).

Weekly Meeting. Weekly meeting has been arranged by the field officers to disburse investment facilities, collect installments and providing other logistic supports as training. Borrowers are given proper guidelines to utilize their funds according to their needs. In every meeting of center (Kendra⁵), the FS teach the members about ethics and morality, values, norms, ideals, and basic principles of Islam. This helps the members to build their character and make a proper choice of their career and overall human development (Field survey data). This kind of initiative is rare in other interest based MFIs/NGO.

Default Management. In default management RDS officials do not follow any harsh rule to collect outstanding installments (Hamid and Rahman 2001, Field survey-2006). It is stated in the earlier section that in genuine and in danger cases (Like 'Sidar' or other natural calamities), default borrowers are given some special scopes till they get in financial viability including waiving some installments according to the principles of the institution (field survey). This kind of initiative is not seen in other secular MFIs. In this context, in recent 'SIDR' (very recently occurred natural calamity in Bangladesh) affected areas, the harsh and cruel activities of traditional/secular NGOs for collecting dues from their default borrowers was widely published in the daily newspaper.

5.4. Concept of Sustainability and Measurement Tools /Technique

Supporting the sustainable development of micro enterprises through financial markets requires self-sustainable financial institutions. Self-sustainability refers to the long-term ability to meet goals or target. For financial institutions and for firms, this requires private profitability: a return on equity, net of subsidy,

⁵ Kendra –is a Bengali term and is synonymous to the word 'Center'.

that exceeds the private opportunity cost of resources (Schreiner 1999). Besides, self-sustainability can be measured in terms of both financial and economical sustainability. Financial sustainability means the smooth operation of financial institution with necessary profitability having adequate liquidity to overcome any challenges of bankruptcy. On the other hand, economic sustainability can be gauged from an easily quantifiable proxy of the impact of rural financial intermediation in lieu of a full cost-benefit analysis (Yaron et. al, 1998). Statistical formula and tools play an important role in determining the trend of financial institutions in terms market penetration, relative income level, and quality of services (Alam, 1999). These tools are discussed below in the Figure 1.

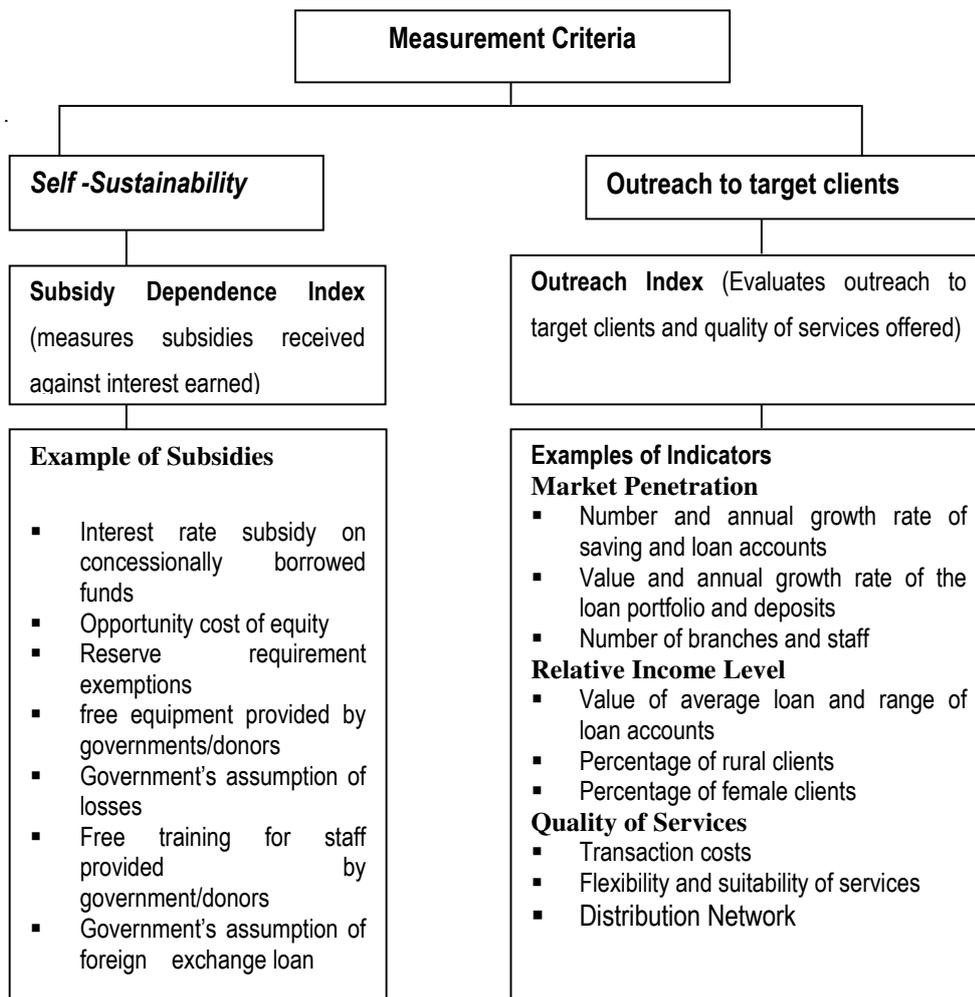


FIGURE 1 - ASSESSING THE SUSTAINABILITY AS WELL AS PERFORMANCE OF RURAL FINANCIAL INSTITUTIONS
Source : Yaron et.al 1998 as quoted by Alam (1999)

Besides, according to Mark Schreiner (1999) sustainability as well as performance of MFIs can be gauged in terms of i) Worth to Clients (time of contract, amount disbursed, term of maturity), ii) Depth of Outreach (no. of women as percentage to total borrowers, no. of rural branches, Loan size- Maximum

Minimum), iii) Cost to clients(cost of loan to users (both price and transaction cost), iv) Breadth (no of users /borrowers), v) Length (Time frame in which a micro lending organizations (MFIs) produce loan), vi) Scope (no. of financial contracts offered by a micro-finance organization). Moreover, sustainability of financial institutions specially MFIs /NGOs can be measured in terms of a) institutional viability, b) financial & economical viability, and c) borrower's viability (Chowdhury, 2007).

5.5. Identification of Sustainability Measurement Tools used in the Study

Among the various indicators for measuring sustainability of MFIs provided by the above authors, the researcher has chosen Institutional Viability Indicators like: Leadership, Decentralization, Monitoring and Evaluation, Management Style, Staff Training etc., Outreach Indicators like: Market Penetration, Loan Portfolio, Relative Income Level, Quality of Services for gauging sustainability as well as performance of the sample MFI under study. On the other hand, "Subsidy Dependence Index' is used for measuring social costs of subsidized funds of MFIs. However, as RDS Model is not dependent on any subsidized funds or foreign donations or loans like other traditional MFIs so, "Subsidy Dependence Index" (Figure - 1) is not applicable to gauge its sustainable development in this study.

5.6. Measuring Sustainability of the Sample Institution

5.6.1 The Institutional Viability

The institutional viability has been examined in terms of leadership, decentralization, management style, staff training etc.

Leadership and Decentralization

The leadership style of RDS of IBBL is institutional rather than personal. Unlike Grameen Bank, BRAC, or other MFIs in Bangladesh, there is no influence of personal leadership on the operation and performance of the RDS. The leadership is delegated to the bank branches of IBBL in the areas covered by the RDS. The manager and project officer of the relevant bank branches together with the FS (Field Supervisor) are empowered to plan, organize and implement the RDS investment program in the areas with little or no supervision from the head office of IBBL (Chowdhury, 2007).

Management Style, Staff Training etc.

This is an important component of measuring institutional viability. The management style of RDS has evolved from its effort to provide a whole range of programs to the rural poor. It is observed that the management structure has a built- in-adaptability that has been refined through field level experiences (Field Survey, 2006). The system is based on an innovative approach to training characterized by a

structured learning process, which is continuously modified by trial and error. The branch manager, project officer and the FS are well oriented to plan, organize and implement the RDS program without extensive supervision from the head office (Chowdhury, 2007). For training the officials specially engaged in rural development program IBBL has set up a full-fledged training institute named IBTRA. This institution provides continuous support to the employees working in various rural branches (Islami Bank 24 Years of Progress, 2007). Such kind of initiative leads to contribute in a sustainable rural development of Bangladesh.

5.5.2. Financial & Economical Viability of the Program

The concepts of financial and economic viability are used to examine the implications of operating efficiency on viability. In the present study, financial or economic viability refers to the program level (MC) viability of MFIs, which can be evaluated using two indicators: 1) Profitability of the program and 2) Quality of services. However, these two types of indicators are examined applying the following sub-indicators: Loan Recovery Profile, Program Profitability, Employee and Capital Productivity.

5.5.3. Loan Recovery Profile and Growth Profitability of the Program

Loan recovery enhances profitability by turning over loanable funds and minimizing default, thus improving the viability of the lending program of MFIs. Also the recovery rate is usually defined as the amount of loan recovered as a percentage of the loan due for recovery. In this regard, the recovery rate of the RDS is found on an average as 99 percent in every year (see Table- 2). In profitability context, it is found that the RDS is able to cover all its costs as a percentage of assets within its financial margin. The financial aim of the RDS is to gradually reduce its overhead cost to accommodate more members/borrowers and more lending per member (Chowdhury, 2007). Cost minimization, in addition to other parameters, depends on the composition and sources of funds. In this context, RDS does not have to depend on interest-based credit from outside sources (Chowdhury, 2007) like GB and other interest based MFIs working in Bangladesh. So, in sustainability context, this institution has more chance to contribute in poverty alleviation as well as rural development of the country.

5.5.4. Outreach Index

Outreach is measured by assessing how far beyond the “frontier of finance” a program has gone to reach those who have been unable to formal financial services whether because of gender, income, illiteracy, ethnic, geographical location or lack of collateral (Carney D. 1998). Outreach Index Evaluates outreach to clients and Quality of services offered. Among various outreach indicators stated in the preceding section, the author has been selected the following for the benefit of the present research.

Market Penetration

It measures outreach through number of annual growth rate of loan portfolio, members Savings, number of branches and staffs etc. The growth rate of these indicators will give a clear picture of outreach of the target borrowers, whether the borrowers' economic situation is increasing/ changing or not. From the data included in Table 1, it is seen that in RDS, growth of borrowers, members, loan disbursement, members savings, loan officers etc. have been increasing over the years (1997-2006). This trend reveals the satisfactory outreach of the target borrowers/beneficiaries and it is crystal clear that RDS has been successfully elevated the poor and mobilized their savings/ investment in the best possible productive way of rural development in Bangladesh.

TABLE 1 - PERFORMANCE OF MICRO CREDIT PROGRAM OF RDS OF IBBL'S (AMOUNT IN MILLIONTK)

Year	No. of Borrower (In thousand)	Growth of Borrowers (In %)	Member Savings (In Million)	Growth of Members Savings	Cumulative Disbursement (In million)	Growth of Disbursement (In %)	No. of Employee (In hundred)	Growth of Employee In %
1997	8	-	3.50	-	60.35	-	n.a.	
1998	15	85%	7.99	128%	131.86	118%	n.a.	
1999	41	172%	22.97	187%	326.74	148%	296	-
2000	74	81%	56.05	144%	714.93	147%	439	48%
2001	100	35%	99.07	77%	1323.87	85%	453	3%
2002	107	7%	166.83	68%	2029.67	53%	498	10%
2003	130	22%	228.70	37%	2923.60	44%	639	28%
2004	163	25%	323.10	41%	4216.77	44%	731	14%
2005	217	33%	459.06	42%	6033.30	43%	868	19%
2006	409	88%	724.22	58%	9300.00	54%	1368	58%

Source : Annual Reports of IBBL-(Issues up to 2006) and www.concept and ideology rural financing.htm

Loan Portfolio

The choice of a diversified portfolio enables clients/ borrowers to maximize the profit from their income generating activities. The main type of investment assistance given by the RDS is Bai Muazzal. Besides, RDS has also been assisting the clients by providing finance from group fund to different categories of socio-economic activities like social and housing need, health and medical expenses, maintenance and repairing, processing, new supplementary investment, trading, farming, rural transportation, irrigation, joint activities, in all covering about 343 types of economic activities and finally promotion of Hakkul Ebad⁶ etc (Islami Bank 24 years of Progress, 2007, p.53), RDS disburses loan in various sectors in the economy to diversify it's portfolio and members have multiple scopes to use their

⁶Hakkul Ebad- Duties and responsibilities for human being both in this worldly life and the life hereafter.

borrowed fund according to their choice and skill. If they lose one source, then they can adjust that loss with others portfolio.

Relative Income Level

Another important indicator to measure the outreach to clients is to find out the relative income level by evaluating value of average investment assistance and range of the amount of investment, percentage of rural clients/ members and percentage of female clients to total clients. The below Tables 2 and 3 show a very satisfactory growth of these indicators. Moreover, because of relatively small size of investment assistance and hence very small fraction to be repaid weekly, the repayment rate has been very high over the study periods (see Table -2). As one of the targeting principles of RDS is providing financial services to the rural poor as well as helpless women who are not eligible to get loan from traditional banks due to collateral and other complex formalities. So, in this study, the researcher also has evaluated the incremental growth of members, borrowers, member's savings etc. However, the following Table 2 shows satisfactory trend of the above stated indicators which reveals successful outreach of RDS program in the rural development of Bangladesh.

TABLE 2 - HISTORICAL GROWTH PROFILE OF RDS MODEL (SINCE 1997-2006) (AMOUNT IN MILLION US\$)

Years	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
No. of Members (in thousand)	8.19	15.13	41.11	74.31	100.47	107.22	130.46	163.46	217.44	294.90
No. of Villages	63	258	1062	1365	2214	2875	3700	4230	4560	8057
% Female Members	62	75	87	91	93	93	94	94	94	
Cumulative Total Disbursement (Million Tk.)	60.35	131.86	326.74	714.93	1323.87	2029.67	2923.59	4216.77	6033.29	9300
Operating Cost (Million Tk.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78.50	106.20	136.10	252.20
Operating Profit (Million Tk)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20.10	11.70.	27.00	55.00.
Recovery Rate (%)	99	99	100	99	98	98	98	99	99	99
No. of Employees/Field Officer	n.a.	n.a.	296	439	453	498	639	731	868	1368
Members Savings (Million Tk)	3.50	7.99	22.97	56.05	99.07	166.80	228.70	322.50	459.10	724.22
No. of Branches	32	45	52	69	69	73	83	90	101	118

Source: Various Issues of Annual Reports of IBBL up to the year 2006. n.a.- not available

Quality of Services

This is one of the most important indicators by which we can measure the performance of MFIs over time as well as the cost-effectiveness of their services. If their service is more cost-effective then more and more poor will have free access in their microcredit programmes. Yaron et al. (1998) indicates three criteria to measure quality of services, some other researchers and organizations (such as Khandker, 1996, quoted in Alam, 1999) cited more criteria to measure whether annual volume of clients is increasing and costs are decreasing per loan. Also according to Joanna Ledgerwood, (1999, p.212) by comparing productivity and efficiency ratios (cost per loan made, cost per unit currency lend, clients per

credit officer etc.) over time MFIs can determine whether they are maximizing their use of resources. As far as quality of services is concerned, the quality is dependent on the sustainable approach developed by the RFIs. This approach involves offering better services with low costs and satisfaction of the employees involved in the process (Alam, 1999). The below table (table 3) reveals the picture of the service quality of the afresaid MFI's investment program in terms of financial and economical viability indicators.

TABLE 3 - SHOWING FINANCIAL AND ECONOMIC VIABILITY OF RDS OF IBBL (SINCE 1997-2006)

Years	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
No. of Employees/Field Officer	n.a.	n.a.	296	439	453	498	639	731	868	1368
No. of Village Covered	63	258	1062	1365	2214	2875	3700	4230	4560	8057
No. of Members	8190	15135	41115	74315	100470	107225	130465	163465	217445	409430
Cumulative Disbursement (In million Tk.)	60.35	131.86	326.74	714.93	1323.87	2029.67	2923.59	4216.77	6033.29	9300
Outstanding Investment (million Tk.)	n.a.	n.a.	140.29	272.59	371.09	432.10	570.90	790.00	1106.50	2242.22
No. of clients (who availed investment)	n.a.	n.a.	31381	59439	84597	88771	103380	120087	n.a.	n.a.
No. of Client per Loan officer	n.a.	n.a.	106	135	186	178	161	164	na	215
Recovery Rate (%)	99	99	100	99	98	98	98	99	99	99
Operating Profit (In million Tk)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20.10	11.70.	27.00	55.00.
Profit per Employee(In million Tk.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.031	0.016	0.031	0.040
Average no. of Members per field officer	n.a.	n.a.	138	169	221	215	204	223	250	99
Average Investment per field officer	n.a.	n.a.	4.74	6.02	8.45	8.68	8.93	1.038	1.27	5.88.0
Average no. of Villages per field officer	n.a.	n.a.	3.59	3.01	5.04	5.77	5.79	5.80	5.25	
Total Cost per Loan made	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.61	5.70	6.16	5.64
Portfolio per loan officer ⁷ (Million TK.)	n.a.	n.a.	0.47	0.62	0.81	0.86	0.89	1.08	1.27	0.11
Average size of Investment	n.a.	n.a.	0.06	0.07	0.07	0.08	0.08	0.09	0.10	n.a.
Cost per currency unit lent ⁸ (In Tk)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.18	0.17	0.16	0.15
Operating Cost (Million TK)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78.50	106.20	136.10	252.20

Source: Calculations have done by the researcher herself on the basis of Annual Reports of RDS (1997-2006) and field survey data and information in 2006, n.a.- not available.

The statistics of the above Table 3, reveals that the RDS has been earning profit from investment assistance at a consistent rate since its inception 1995. Also, a decreasing trend is seen especially incase of , cost per loan made, ,cost per currency unit lent', Besides, average loan size of RDS has

⁷ Cost Per currency lend = operating cost/ Total amount of disbursement,

⁸ Portfolio Per loan officer = value of Loan Outstanding/ No. Loan Officer/Field officer

been increasing in the latest years (2001-2006). So, it can be said that this kind of investment model has been ensured successful outreach of their program. Moreover information stated in the below Table-4, also helps us to evaluate the sustainable development and outreach to target borrowers of the RDS investment model specially in case of lending / investment rate (RDS rate is lowest i.e. 10%) , growth rate (Highest growth of RDS- 12.57%), drop out rate (lowest rate of RDS-5%), membership fees, cost of pass book (not required in RDS) compared to other leading traditional interest-based MFIs working in the rural development of Bangladesh.

TABLE 4 - SHOWING COMPARISIN OF RDS WITH LEADING MFIS OF BANGLADESH (2006)

Serial No.	Performance Indicators	RDS	Grameen Bank	ASA	BRAC
1.	Year of Establishment	1995	1983	1978	1972
2.	Districts covered	60	64	64	64
3.	Villages covered	7788	78101	70047	69421
4.	Branches	116	2422	3057	2806
5.	Total member (million)	0.368	7.166	6.352	5.312
6.	Total staffs (Field Officer)	1391	22169	18782	42693
7.	Disbursement (million Tk.)	8894.94	45900	43000	36900
8.	Outstanding loan (million)	1944.47	31700	23200	20900
9.	Overdue Loan (million)	6.68	700	200	900
10.	Profit /Interest Rate (Flat rate)	10%	22.5%	20%	16%
11.	Average Investment Size (million)	0.0110	0.0126	0.0073	0.0120
12.	Recovery Rate	99%	98.28%	99.85%	98.65%
13.	Growth Rate**	12.57%	6.7% (2003)	6.83%	7% (1997)
14.	Drop Out Rate **	5%	15% (2002)	14% (2002)	8% (1996)
15.	Membership Fees	Not Required	Required	Required	Required
16.	Cost of Loan/Investment Pass Book	Not Required	Required	Required	Required
17.	Rebate ⁹ System (In case of timely repayment @ 2.5%)	Applicable	Not Applicable	Not Applicable	Not Applicable

Figures in the parenthesis indicates respective year of information.

Source: Rahman (2007) Field Survey 2006 .

From the analysis of the statistics stated in the above tables and findings of other recent researches, the quality of financial services and successful outreach of RDS Model can be discussed below:

⁹ Rebate- In Islamic Financial Institutions/Micro finance Institutions, If any clients repay their investment amount in due time then the respective MFI gives rebate to the client (He/She) @ 2.5% as per Islamic Law.,

- From Table 3, it is seen that almost all indicators show positive sign of financial viability of the sample MFI specially, costs per loan made and cost per unit currency lent have been decreasing over the years (2003-2006). On the other hand, portfolio per loan officer, operating profit, average investment per loan officer show increasing trend. Operating costs also shows increasing trend over the years (2003-2006) and management should consider the issue to increase their sustainable outreach. However, Table –4 shows that Investment (lending rate) and drop out rates are lowest (10%, 5%, respectively), Growth rate is highest (12.57%) in case of RDS compared to other traditional MFIs.
- There is a 'rebate system' (Table-4) in RDS that is, If any clients repay their investment amount in due time, then the respective MFI gives rebate to the client (He/She) @ 2.5% as per Islamic Law. This system encourages clients to ensure regular repayment and discourages 'moral hazard'¹⁰ (field survey-2006). This kind of initiative is not applicable in other traditional MFIs in Bangladesh. So, it can be said that RDS is cost effective and competent to reach their lending/investment facilities to the poorer section in the society/community in order to ensure sustainable rural development of Bangladesh and other developing regions.
- Average numbers of clients per loan officer has also been seen increasing over the years (1999-2006). It seems loan officers can supervise more loanees with minimum administrative costs compared to the other traditional NGOs/ MFIs. Trend of average investment is a sign of RDS's greater outreach in rural development.
- The main responsibility for effective outreach rests with credit officers. They are accountable for managing clients and cultivating their portfolios. Profit per employee has seen gradually increasing over the years (2003-2006), which indicates that RDS is trying to achieve economies of scale and so to contribute sustainable rural development of Bangladesh.

6. Summary of the Findings

This research mainly covers background, purposes of the investment/credit program, selection criterion of the beneficiaries, measuring sustainability in terms of institutional viability, financial and economical viability of the sample MFI and outreach of its target borrowers in terms of market penetration and loan portfolio etc. In this context, the study findings concludes the following remarks:

¹⁰ Moral Hazard- Willful default tendency of some crazy clients after getting financial viability

- All findings related to sustainable development of RDS prove that the program is highly sustainable in reaching very poor section of the society without any doubt. It maximizes welfare of the clients not only in this worldly life but the life here after.
- Quality of financial services is one of the important factors to attract poorest clients in micro credit program. If services are not according to their favor they are not willing to join the program. However high dropout rates are experienced by Bangladeshi MFIs, which is probably indicative of the inflexible financial services they provide to their clients. In case of RDS quality of services (Table 3 & 4) has been seen efficient to reach the needy poor of the society. Besides, it can attract better employees since a better benefit package is offered to them. Moreover, employees are trained at the Islamic Bank training Academy at no extra cost to them (RDS Annual Report-2006)
- Beneficiary selection processes are almost same like other MFIs on the basis of land ownership, i.e., families having maximum of 0.5 acres of land. But in RDS, this limit is mandatory for farmers. In case of non-farmers, 0.5 acre is relaxed ([www. concept and ideology rural financing.htm](http://www.conceptandideologyruralfinancing.htm)) so marginal poor or non- poor have chance to join micro lending program of RDS. A recent World Bank study reveals that there are about one million small businesses in the country as potential borrowers, but only 7% of them have had any access to the formal financial institutions (Bhuiya, 2006). Due to RDS's relaxed lending formalities, the above potential borrowers will have chance to come under the micro investment assistance and so to develop the economy of the country
- The micro-credit being a credit in kind rather than cash, the lending institutions become sure that this type of investment assistance provided to the needy and experienced poor is being properly utilized since this cannot be transferred to their members of the families and relatives. For instance, In case of traditional MFIs, research findings prove that borrowers use borrowed money in unproductive purposes and during the payment of weekly installment; they again borrow money from moneylenders or from any other NGOs. As a result, credit to the borrowers sometimes seems to be curse rather than blessing. (Rahman and Razzak 2001, Richard Montgomery et al: 1995).
- All employees in the RDS are trained at the Islamic Bank Training Academy at no extra costs to them. This training improves the skill of the officers increasing their productivity. Besides, RDS employs sufficient workers to keep an ideal employee-beneficiary ratio. This

helps them to monitor clients and supervise the funds/investment assistance more efficiently (Chowdhury, 2007).

- In institutional viability context, leadership, decentralization, management styles etc. plays vital role. The leadership of RDS of IBBL is institutional rather than personal. The manager and project officer of the relevant bank branches together with the FS (Field Supervisor) are empowered to plan, organize and implement the RDS investment program in the areas with little or no supervision from the head office of IBBL (Chowdhury, 2007 p. 10). Besides, RDS has been earning profit from investment at a consistent rate since inception. Financial viability of this program reveals satisfactory picture (Table -3) specially in case of profitability, investment, loan portfolio per employee and cost per loan made etc.
- Loan recovery enhances profitability by turning over loanable funds and minimizing default, thus improving the viability of the lending program of MFIs. In this context, the recovery performance of RDS is satisfactory (99%) since its inception 1995 to till now (See table-2). It has been successful in breaking all the previous records of loan recovery by both GOs and NGOs. There is a rebate system in RDS approach, that is if any client pay all borrowed money in due time, then that client is rewarded with rebate @ 2.5% (Field survey 2006). This kind of system is not practiced in other traditional MFIs in Bangladesh.
- In default management RDS officials do not follow any harsh rule to collect outstanding installments (Hamid et.al, 2001,). It is stated in the earlier section that in genuine and in danger cases (Like 'SIDR' or other natural calamities), default borrowers are given some special scopes including waiving some installments by the institution (field survey in 2006) till they get in financial viability. This kind of initiative is not seen in other secular MFIs providing financial support in the rural development of Bangladesh.
- In this approach, only financial assistance is not given to the poor rather moral teachings (religious education) are also given to develop clients' ethics and values of humanity. In every weekly meeting of center, the FS teach the members about ethics and morality, values, norms, ideals, and basic principles of Islam. This helps the members to build their character and make a proper choice of their career and overall human development. This kind of initiative is rare in other secular MFIs/NGO

7 . Conclusion and Policy Implications

The study results prove that the overall performance of the sample MFI under study is quite satisfactory. As stated earlier, rural development initiatives under the interest -free framework in Bangladesh, is of recent origin (1995). With a short span of time, the growth performance measured in this research shows remarkable success of RDS (see Table 1) program. Findings related to qualitative and quantitative indicators of sustainability and outreach prove that the RDS program is highly sustainable and effective (Table 4). However, the findings of the study reveal that though RDS has very strong avenues in case of micro investment assistance, it is yet to develop in many aspects of its program and beneficiaries in this regard, some just policy implications have been suggested below so that this type of program can spread its mission and vision not only in Bangladesh but also in any region of the world:

- According to the survey of the present study and other research findings (Rahman 2007, Chowdhury, 2007, Hamid et.al, 2001, Rahman 2006), the amount of investment assistance is not adequate according to the needs and demand of the clients. So, considering the betterment of the clients, investment money may be increased to run their income generating activities smoothly.
- Since inception, RDS provides only one mode of investment (Bai-Muazzal) to its target clients/ borrowers. Though its loan portfolio is wide in the context of providing loan many purposes yet, initiatives should be taken to issue other modes of investment as per needs of the target clients in national and international context.
- To increase outreach of the program, the number of field officers and supervisors should be increased to reduce pressure on field supervisor to collect and distribute investment assistance and other related activities. Necessary measures should be taken to reward honest and active branch and field level officer/supervisor -who render their honest services in the actual rural development of Bangladesh. This will lead to develop expertise and productivity of the FS.
- To increase its outreach the RDS should be integrated with the IBBL's mainstream banking as a regular program. A separate department of the bank should be established with regular staff to deal with the RDS on a permanent basis.
- For the global human development the aforesaid model may be replicated by Islamic banks in other countries of similar nature for resource mobilization and poverty alleviation context like GB model. But, frequent training, seminar / conferences should therefore be organized

both for staffs(Field officer) and clients for developing and improving ethical values, knowledge of Islamic micro finance and skill.

- To serve most female clients according to their expectation, female officers should be increased. Because, due to „Pardah” (veil of Muslim women) issue most potential female clients do not show interest to enter into credit program of various secular MFIs / NGOs. In this context, female loan officers can get appointment especially in the loan centers of RDS project.

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