

# Islamic Banking in Bangladesh: Progress and Potentials

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## Abstract

This is a brief discussion on Islamic banking of Bangladesh. In this article, we will represent some bank's statement and data. Here there is a great presentation on rapid growth in Islamic banking. Besides the evolution and future of Islamic banking are being presented. The information about success and related many things are being presented in this article.

**Keywords:** Growth; Evolution; Success; Capital.

## **1. Introduction**

Islamic banking, a new genre of the Shari'ah-based banking system, has been able to prove its proficiency and augur its potentials in recent years with the average annual growth of 18 percent, despite the global recession and diverse challenges confronted by various banks in Bangladesh pursuing the conventional banking system. A dominant indicator of the continued growth of Islamic banking practices is that current assets of more than 500 Islamic financial institutions amounted to be about two trillion U.S. dollars. It is expected that the amount will exceed 5 trillion U.S. dollars in the next five years. Now, Islamic banking has 38 million customers across the globe. Of them, 13 million or 35 percent are in Bangladesh alone. Moreover, the biggest Shari'ah-based Islamic bank in Bangladesh contains 50 percent of the global microcredit.

The Islamic banks have been making significant contributions to the process of poverty reduction, inclusive growth and economic development of the country. Public demand and market share of this approach are growing by degrees. With 18 percent market share, Islamic banking in Malaysia has achieved the fame of Shari'ah banking center (Hub) of the world. With a limited number of Islamic banking products, the United Kingdom and Singapore are striving to attract Islamic banking in emerging markets through simplification of the financial policies.

With more than one-fifth market share of the country, one-third share of the global Islamic banking customers and fifty percent share of the global Islamic microcredit, Bangladesh has the potentials to be an important center of Islamic banking on the global map with the help of competent leadership, incentives, and appropriate branding.

Bangladesh is one of the emerging economies in South Asia. The Islamic banking set out its glorious journey in this country three decades ago. Now, this banking system covers one-fifth of the country's total banking. On the basis of asset value (size of assets), Bangladesh holds 12<sup>th</sup> position in the global Islamic bank ranking. Considering the financial inclusion or 'the nature of distribution' rather than 'the size of assets', the position of Islamic banking in Bangladesh is quite encouraging.

## **2. The rapidly growing financial system**

Until the late fifties of the twentieth century, Islamic Banking has been an agenda of research. This system remained confined to the individual interest of researchers, practitioners, and scholars. The real experiment began in the sixties, and in seventies, it began taking off and gaining momentum in the larger range and context. The Islamic banking system was more consolidated during the eighties and the nineties of the last century. In the twenty-first century, it is recognized as a sustainable and welfare-oriented banking system of the modern world.

In recent decades, Islamic financing methods have been able to display its usefulness and its capabilities in the competitive global financial sphere. The system showed its special abilities to survive in the recent global economic recession and strains. This competency of Islamic financial approach has attracted the attention of financial analysts and thinkers all over the world.

For the overall context of Islamic banking activities in the twenty-first century, the credit rating agency Standard & Poor's remarked: "Islamic banking has already emerged as an alternative to the conventional banking system. Essentially, the Islamic financial industry has emerged as an alternative approach to conventional financing, upset by the recent global financial crisis."

Islamic banking is set about implementing a balanced and consistent economic policy based on fair or equitable distribution of resources and for ensuring justice in sync with the Islamic ideals and principles. In the transaction process, this particular financial intermediary system prohibits interest, practices familiar and natural procedures seek to achieve the objectives of the Islamic economic system based on equity and justice. Banks in this system, founded on principles of non-discrimination, establishing justice and creating the socio-economic infrastructure and generating employment opportunities.

Islamic system follows the trading of products, lease or rent and sharing-based business process in lieu of synthetic transaction of money. In addition to this unique interest-free system, it makes it incumbent upon itself to follow welfare and sharing-based features to achieve its mission, mandate, and principles of Islamic banking. Thus Islamic Bank is committed to establishing a socio-economic justice system where the public interest and social welfare give precedence over parochial individual interests. Islamic banks do not work to meet the illegitimate demands of an insignificant number of greedy people. These entities do not give priority only to financial gain and ignore other socio-economic problems.

To meet the basic needs of the down-trodden people, to fulfill their emergency and aesthetic needs, etc., to respond to their entrepreneurship proposals, the Bank designs its investment portfolio. This is the special feature of the strategic plan of this system. Thus, to ensure Islamic moral discipline in financial activities Islamic banks have made it possible to synergize economic development with social development.

It is an important moral obligation of Islamic banks to serve the deprived and disadvantaged people, who, because of poverty, remain outside the purview of the conventional banking system; the banks make financial transactions based on human necessities and embark upon productivity-oriented projects or activities to reduce poverty.

Islamic banking focuses on the production of wealth and welfare. For whom and what kind of resources will be generated and what will be the distribution policy of those products, are considered with primacy. Islamic

banks work for preventing the potential causes of inflation and unemployment and is bent upon creating employment opportunities for the jobless. It follows and fosters the principle of partnership with customers rather than pursuing a debtor-creditor relationship. As a result, a positive and qualitative impact of genuine public welfare becomes visible in the overall activities of this bank.

### **3. Evolution of the Islamic banking in Bangladesh**

#### a) People initiative

In the early twentieth century, after the formation of East Bengal and Assam province, centering Dhaka as its capital, the socio-economic development of East Bengal was in a new spur. At that time an initiative was taken to set up and manage interest-free banks in different areas of Bangladesh including Jessore and Cox's Bazar. But those initiatives could not get a solid foundation on the backdrop of the socio-economic and political circumstances. Although individual efforts and organizational initiatives continued, however, the introduction of Shari'ah-based banking remained a dream for a long time.

#### b) State-level initiatives or interventions

After independence, a number of initiatives were taken up from different stages to establish an Islamic bank from the state level. The Bangladesh government signed the IDB Charter in 1974. Member countries, through the signing of the charter, were committed to reconstructing their banking system in consonance with the Islamic principles.

The definition of Islamic banks was approved in the Dakar conference of OIC member countries in Senegal in 1978. Member Countries of the OIC also approved a set of recommendations for the gradual transformation of their banking system into Islamic. Bangladesh actively participated in the conference and qualified to become a partner in implementing the recommendations.

#### c) Bangladesh Bank's supportive role

From the very inception, the Bangladesh Bank has been playing a highly active and positive role in implementing the principles and procedures of Islamic banks in the country.

On 4 April 1981, Ministry of Finance issued a letter to Bangladesh Bank, directing all state-owned banks of the country, on the experimental basis, to open separate Islamic banking counter in all of their branches in towns and villages and to keep separate ledgers for them.

In November 1980, A. S. M. Fakhurul Ahsan, the research director of Bangladesh Bank, was deputed to the Middle Eastern countries to see for himself the activities of Islamic banks and Islamic financial institutions

operating there. In January 1981, he submitted a comprehensive report with a set of recommendations to initiate the process of setting up Islamic banks in Bangladesh.

Later, on 18-19 March 1981, on the initiative of BIBM, a two-day seminar on Islamic banking was organized in Dhaka. The then first deputy Governor of Bangladesh Bank M. Khalid Khan inaugurated the seminar as chief guest, where recommendations were taken up to set up Islamic banks in both the public and private sectors.

On June 9-11, 1981, a senior official of the Bangladesh Bank took part in an international seminar held in Geneva, Switzerland on Islamic Banking and Insurance.

On 16 October 1982, at the 4th Bankers' meeting of the Bangladesh Bank, chaired by the then-governor Nurul Islam, the decision was taken to introduce Islamic banking in all branches of six state-owned commercials and two specialized banks at metropolitan and district headquarters level as soon as possible.

In the light of the decision of Bangladesh Bank and for creation of suitable manpower for Islamic Banking, a one-month long full-time residential course was held on 6 October 1981 at Sonali Bank Staff College. A total of 37 officers from Bangladesh Bank, all state-owned banks, BIBM and then-proposed 'Dhaka International Islamic Bank Limited (now, the Islami Bank Bangladesh Limited) took part in the course.

The then Principal of Sonali Bank Staff College M. Azizul Haq played a vital role in the successful implementation of the course. The opening ceremony was presided over by M. Khaled, the then Chairman and Managing Director of Pubali Bank.

While the training course was underway, M. Khaled was appointed second deputy governor of Bangladesh Bank. He was the special guest at the closing ceremony of the training program as the Deputy Governor of Bangladesh Bank.

#### d) Other Initiatives

From 1979 to 1982, a number of public and private institutions in the country took part in the preparatory work for the establishment of Islamic banks. At the time, a 'Working Group for the Islamic banking in Bangladesh' was constituted under the leadership of M. Khaled. He also led the reorganizing process of the group and subsequently, it came to be known as 'Bangladesh Islamic Bankers Association (BIBA).

At that time, several national and international seminars and training courses on Islamic banking were organized by Bangladesh Institute of Bank Management (BIBM), Islamic Economics Research Bureau, Bai'tus Sar'f Islamic Research Institute, Chittagong where, senior bankers, economists and professionals of

the country took part. In the meantime, more than 300 bank officials were trained in Islamic banking.

e) The emergence of a real entity

A number of local individuals, as well as the Islamic Development Bank (IDB) and various financial institutions, began to extend their cooperation to establish Islamic banks in the country. With the commendable initiative of Islamic Development Bank (IDB) Kuwait Finance House, Dubai Islamic Bank, Bahrain Islamic Bank, Islamic Investment and Exchange Corporation of Luxemburg, Al-Razi Company for Currency Exchange and Commerce of Saudi Arabia and three Ministry of Kuwait provided 70% capital for the establishment of an Islamic bank for the first time in Bangladesh.

The remaining capital came from local entrepreneurs, where Bangladesh Government's share was five percent. On 13 March 1983, Islami Bank Bangladesh Limited was registered as the first Shari'ah-based Bank in South-East Asia and began operation on 30 March of the year.

Along the path of success of the country's first Islamic bank, several Islamic banks were established in later years. In 1987 Al Baraka Bank, in 1995 Al-Arafah Islami Bank and Social Investment Bank and in 2001 Shahjalal Islami Bank were established.

On 1 July 2004, Exim Bank and 1 January 2009 First Security Bank have transformed their activities into Islamic banking style. Shari'ah-based 'Union Bank' was established in 2013.

#### **4. The operational success of Islamic banking in Bangladesh**

On August 1, 1983, on the occasion of the launching of the first Islamic bank in Bangladesh, special supplements were brought out in different national dailies. Dr. MN Huda, a senior professor of economics, Dhaka University noted in his writing, "Islamic banking has won the theoretical level. Now, this method will have to be won in operational areas . . . ."

After three decades of Islamic banking operations in Bangladesh since its inception, one can see how successful this system is in fulfilling the expectations of the common people.

a) Objective Achievement

Islamic banks assign precedence to universal welfare, inclusive growth and equitable distribution of resources in their entire activities. One should, therefore, gauge the success of this system applying objective criteria instead of traditional financial indicators. To assess the contribution of Islamic banking and its position, asset or profit considerations that are used conventionally will provide us only a partial picture.

In this regard, it can be mentioned here a significant comment by noted Islamic banking personality Dr. Saleh Kamel. In the 35th annual conference of the Islamic Development Bank in Baku, the capital of

Azerbaijan in 2012, Dr. Saleh Kamel, the then Chairman of 'General Council for Islamic Banks and Financial institutions' (CIBAFI), an international organization comprising Islamic banks and financial institutions, drawing the attention of concerned all and said:

"... Over the past decades, academic researchers and professional Islamic banking practitioners and Shari'ah specialists have emphasized more on the procedural side of Islamic Banking. We have gained some success in following Interest-free transactions and legal procedures. But the underlying strength of the Islamic Banking and the 'Maka' sida' or the purposes of this system like justice in wealth distribution, public welfare and emancipation from economic slavery, were not received due importance and priority in the works of Bankers and Shari'ah experts' as much as it was needed."

Islamic banking is based on the principles of serving as the masses in the light of Islamic economy or its 'Maqa' sid' or purpose. The savings policy in Islamic Banks is to bring deposits—big or small--- within the Banking framework and to utilize those in national growth and development.

The first Islamic bank of the country has been opening deposit accounts only for Tk. 100 since its inception and farmer accounts for Tk. 10 since 1994, even long before when the central bank has passed a directive in this regard.

In the mid of the last century, development was considered as 'strength of the national economy' to the economists. Average per capita income of the rich and the poor was the basis of this concept of development. Now, in view of modern economists, 'how wealth is produced is not the main question. Instead, to ensure fair distribution of the wealth is the prerequisite for development.'

Explaining reasons for poverty and famine, Nobel laureate economist Amartya Sen stated: "It is not the limitation of resources; rather lack of rights of people on resources is the causes of famine."

Decentralization and the social distribution of resources is one of the core principles of Islamic economy. Thus, determining the shape and nature of the investment and diversification of economic activities and geographical location is a moral obligation and an essential strategy for Islamic banks.

Shari'ah-based banks have obligations to devote their accumulated resources to people-oriented welfare works, complying with Islamic legal principles of 'halal-haram'. Islamic banks can not invest in any inauspicious sector even it is financially advantageous. To comply with the policy of financing to those sectors beneficial for the society and the state, the IBBL has not invested a single penny in the tobacco sector during the last three decades.

In terms of financial cost, micro-credit programs may seem a cumbersome and non-profitable venture to many people. Nevertheless, considering the social return, Islamic banks are playing an important role in this sector. Islami Bank Bangladesh Limited has deployed 4 percent of its total investment to the micro-credit sector and approximately 20 % of its workforce is engaged in managing this area. It mirrors a clear institutional mindset of Islamic banking.

Islamic banks finance activities that gear towards poverty alleviation. In addition to the financing, they generate resources to distribute them among the people through various mandatory and optional transfer payments including Zakat, Osarah, Sada'qah, Atonement, and Waq'f. 'Kalyanamukhi (welfare-oriented) Banking'. 'Building a Compassionate Society', 'Better Service' --- these slogans of the Islamic Banks manifest its broader outlook.

b) Achievement based on financial indicators

Now, a total of 23 public and private commercial banks are operating full-fledged or partially Islamic banking operations in Bangladesh. Among them, 8 full-fledged Islamic banks are operating with 843 branches, 8 conventional commercial banks with 19 Islamic banking branches and 7 commercial banks with 25 Islamic banking windows in the country. A total of 26,135 employees are working in 887 Islamic banking branches and windows.

The average growth of deposit in the banking sector in the last five years (2009-2013) was 19% which was 20% for Islamic banks.

During this period the average investment growth of the country's banking sector was 18%, which was 20% for Islamic banks. For the same period, the total assets in the banking sector increased by 19%. In contrast, Islamic banks have achieved 21% growth.

In the last five years, mentioned above, the average growth of equities in Islamic banks was 24%, which was 27% for the total banking sector of the country. A number of public banks have increased their capital in 2013, which has contributed to raising the equity index.



#### a. Deposits

Total deposit of the Islamic banks stood at Tk. 1,13,360 crore in December 2013, which was 18.00% of total deposits of the country and 29% deposits of the private commercial banks. Total deposits of the Islamic banks stood at Tk. 1, 33,561 crores in June 2014.

#### b. Number of depositors

In March 2014, the customer deposits of Islamic banks in the country were 1 crore and 17 lakh, which was 17.92% of the total customer deposits. Until this period, the country's total customer deposits for all private commercial banks were 2 crores and 78 lakh, of the 42.12% was in the Islamic banks.

#### c. Investment

The total investment of the Islamic banks was Tk. 97,530 crore in December 2013, which was 21% of total investments in the country's banking sector and 30% investment of the private commercial banks. Islamic banks' investment stood at Tk. 113,796 crores in June 2014.

#### d. Classified Investment

On December 2013, 8.90% investment of the country's banking sector was in classified, which was 4.2% for Islamic banks. At the same time, the number of classified investments in Islamic banks, compared to equity was 39.9%, which was 20% lower than the country's banking sector.

#### e. Assets

On December 2013, the size of Islamic banks assets stood at Tk. 135,900 crore, which was 17 % of the country's banking assets and 27.40% of the total assets of private commercial banks. The total amount of assets of Islamic banks was Tk. 147,604 crore on June 2014.

#### f. Equity

By following the principles of capital adequacy rules set by the central bank, Islamic banks' share in total equity was at a satisfactory level in the past years. Total equity of Islamic banks was Tk. 10,280 crore on December 2013. It is 15 percent equity of the country's banking sector and 23 percent equity share of private commercial banks. Total equity of the country's Islamic banks stood at Tk. 11,382 crores in June 2014.

#### vii. Remittance

Hard-earned remittance by Bangladeshi expatriates is one of the main pillars of the country's overall economy. Islamic banks play a significant role in transferring them to beneficiaries. Bangladesh received a total of Tk. 57,044 crore in the first 6 months (January-June) of 2014. Of the amount, Tk. 15,952 crore has

come through the Islamic banks, which was 28% of the total remittance inflow in the country and 43% of PCB's.

#### g. Import

The number of total imports in Bangladesh, during January-June of 2014, was Tk. 167,014 crore. Islamic banks imported over Tk. 34,952 crore; which was 21% of the total imports. The Islamic banks were at the forefront in importing various raw materials and essential goods including fertilizers, cotton, rice, wheat, etc.

#### h. Export

Total exports of the country, during January-June 2014 period, stood at Tk. 110,096 crores. The amount of Tk. 26,787 crore has been exported through the Islamic banks, which was 4% of total national exports. Islamic banks have been playing a leading role in drawing foreign exchange through the export of various products including ready-made garments.

#### i. Deposit-investment ratio

The Central bank has set the deposit-investment ratio at 90%, in contrast, the deposit-investment ratio of Islamic banks was 85.10% in December 2013. This ratio was 71.18% in the country's overall banking sector.

#### k. Capital Adequacy Ratio (CAR), ROA, and ROE

Compared to 10 percent Capital Adequacy Ratio (CAR) set by the Central bank, the country's banking sector CAR was 11.50% in December 2013. At that time, the capital adequacy ratio of the Islamic banks was 12.16%.

Total asset-based average net profit (Return on Asset-ROA) for the Islamic banks was Tk. 0.98 between 2012 and 2013. Total equity-based average net profit (Return on Equity-ROE) was Tk. 13.05 and the amount were Tk. 14.11 for the overall banking sector in the same period.

### **5. Shari'ah Compliance**

Under the condition that banking activities should be operated in consonance with the provisions of Shari'ah, Islami banks have secured approval from Bangladesh Bank. These banks are under the surveillance of Bangladesh Bank for ensuring the terms of this agreement. In 2009, Bangladesh Bank issued some guiding principles for the Islamic Banks in regards to Shari'ah compliance. The Islamic Banks are following these guidelines.

Besides, to ensure the upholding of Shari'ah, each bank has an independent Shari'ah supervising committee, which stays free of the control of the banks' Board of Directors. Famous Aleems, Fika'h experts,

economists, and lawyers constitute the committee. They conduct their supervisory works independently. Other than administrative activities of the Shari'ah secretariat, it supervises all policy-related and critical macro-level issues of these banks.

'Central Shari'ah Board for Islamic Banks of Bangladesh' (CSBIB), a body formed by combining the Shari'ah committees of all the Islamic banks of the country, provides instructions or guidance regarding Shari'ah from time to time.

The internal audit teams of the Islamic Banks work vigorously to ensure internal control and compliance. The central bank supervises, monitor and audit through off-site and on-site basis. Leading audit firms of the country also conduct an audit and report the activities of each bank.

Moreover, Shari'ah Muraqibs of the Islamic banks serves to audit Shari'ah compliance of the banks under their own Shari'ah supervisory committee. The Shari'ah supervisory committee prepares an assessment and evaluation report on the basis of audit report from Muraqibs. Report of the statutory auditor of the bank, as well as the certificate, is given by the Shari'ah supervisory committee and is included in the annual report of the Islamic banks.

Islamic banks follow the guidelines of different International organizations regarding their management, quality assessment, administration and for setting accounting policies and management rules and procedures. These organizations include `the International Financial Services Board '(IFSB); `Accounting and Auditing Organization for Islamic Financial Institute '(AAOIFI); and `the Islamic International credit rating agency' (IICRA).

## **6. Human Resources Development Activities**

Currently, more than 26,000 employees are working in the Islamic banking sector in the country. They were recruited from different academic disciplines through rigorous competitive examinations. The banks encourage their workforces to achieve professional degrees at a higher level. Meanwhile, 14 officers of IBBL have earned Ph.D. on various subjects like economy, Islamic banking, Islami Shari'ah, human resources development, etc., from different universities of home and abroad. Among the 306 officers, having the 'Certified Documentary Credit Specialist' (CDCS) certificate, 171 are working in different Islamic banks. Of them, 136 are working exclusively in the Islami Bank Bangladesh Limited (IBBL). Moreover, the officials of the Islamic banks regularly take part in the banking diploma examinations under the 'Institute of Bankers Bangladesh' (IBB). For this, the banks concerned encourage their employees to obtain diplomas to develop professionalism in their respective fields.

Along with the practice of the banking rules and regulations, Islamic banks also train regularly their officials on the subject of Shari'ah. Almost all Islamic banks have their HRD/training centers. Islamic Bank Training and Research Academy (IBTRA) along with training their own staff, provide Islamic banking foundation training for the new recruits. It also organizes seminars and workshops for the employees of both private and public banks including Agrani Bank, First Security Islami Bank, and Shahjalal Islami Bank. Moreover, IBBL has arranged training programs for high officials of the Jaiz Bank International of Nigeria and the bank of Ceylon of Sri Lanka on Islamic banking in Dhaka.

To make the Islamic bank workforce competent, 'Islamic Bank Training and Research Academy' (IBTRA) introduced 'Islami Banking Diploma' (DIB) in 1997. So far, the first and the second part of the diploma have been completed by 3739 and 1696 officers respectively, of different banks.

Islamic banks, in their overall activities, assign precedence to the priority-sector of the country's economy. Thus, they are playing a pivotal role in enhancing the pace of the country's economic wheel. Islamic banks are contributing to the national economic development inclusive of industrialization, SME, agriculture and agro-based industries, strengthening rural economy, entrepreneur development, women's empowerment, investment diversification, and poverty alleviation and serving expatriate customers through intensive care.

In the investment sector, Islamic banks prioritize overall social developments including the welfare of the people and development of the underprivileged, remote areas of the country. Islamic banks have invested in Garment, Textile, Steel, Pharmaceutical, Power generation and chemical industries, which is the one-fourth of the total investment of the country.

Islamic banks give much importance to Import-substitute and export-oriented industries. These banks take up 23.11% of their total investment in industrialization. Islamic banks are playing a vital role in infrastructural development, including private sector power generation.

Investing 45% of its resources in the industrial sector, IBBL has been contributing to the country's industrialization process and has created employment for about 25 lakh people.

The nature of investment of Islamic banks is more extensive than the size of their investment. These banks are investing in all priority sectors. They have invested 27.96% of their total investment in the small and medium sector.

The Islami banks have made tangible contributions in sectors and sub-sectors of agricultural and rural investment programs. In the 2013-14 fiscal year, Islamic banks have invested about Tk. 1700 crore on crops, fisheries, livestock, agricultural machinery, irrigation equipment, and other poverty alleviation and income generation activities.

Islamic banks have been financing extensively in different types of small and medium industries, especially producing food, seed preservation, cold storage, hospitals and clinics, renewable energy, light engineering industry, plastics industry, jute and jute blended products, frozen food, leather and leather products, rice mill, a variety of small businesses, transport and communications etc.

Islamic banks have embarked upon different kinds of welfare-oriented investment programs. With the objective of improving the lifestyle of low-income and lower middle class, they have made investments in 'Housing Investment scheme,' Rural Housing Investment scheme, 'Home Appliances scheme,' Women Entrepreneurship Development scheme, Small Business Investment scheme, 'Doctor Investment scheme, etc. Through these schemes, these Banks have been investing to meet the mundane needs of the people.

## **7. Poverty Alleviation and Micro Financing**

In order to alleviate rural poverty, IBBL started a micro-financing project designated as 'Rural Development Scheme (RDS) in 1995. Until June 2014, about 9 lac families in 17000 villages of the country have received financial help in rural agriculture, fish farming, trade, communication, housing, tree plantation, etc. under this program.

Under the micro-financing program, Islamic banks have so far distributed Tk. 8756 crore in the past two decades, whose current balance is about Tk. 1540 crore. Due to no caution-money policy, low-profit rates, and easy installment payments, the recovery rate of this project is 99.47%.

The members of RDS, by now, have made an accumulated savings of Tk. 512 crore on a weekly basis. Islamic banks are running programs like education, training, health and relief and rehabilitation by forming welfare funds under the RDS. Until now, more than one lac beneficiaries have received services under this welfare fund.

Islamic microfinance system of Bangladesh has been acclaimed by various international organizations including IDB, CGAP, and UNDP.

In 2012, IBBL launched a new project under the name and style of 'Urban Poor Development Scheme' (UPDS) for the rootless and floating people of the urban areas. Micro investment programs have already been running under this project in 260 centers in Dhaka and Chittagong. Besides these, some Islamic banks are working for microfinance in collaboration with credible NGOs.

## **8. Entrepreneurship Development and Women Empowerment**

For the development of entrepreneurs, Islamic banks have embarked upon different types of productive sectors and have catalyzed involvement of the educated but jobless youths in the entrepreneurial business. As a result of this initiative, many small entrepreneurs have emerged as successful industrial entrepreneurs.

Through training and orientation, Islamic banks are working to create a vast productive workforce including repatriates and transform them into successful entrepreneurs.

A host of entrepreneurs, who were once micro, small or medium customers of Islamic banks, have now established themselves as major industries and businesses and therefore have been able to employ a sizeable number of unemployed people of the country.

Involvement of women in development activities has been incorporated in the regular agenda of the Islamic banks. For women's participation in service, industries, and trade, Islamic banks have initiated the Women Entrepreneur Scheme under which some Islamic banks have disbursed without any collateral, up to Tk 5 lac to female entrepreneurs.

There are 9 lac members of IBBL's Rural Development Scheme. Of them, 6 lac 80 thousand or 80% subscribers are women. A significant number of these entrepreneurs have embarked upon their enterprises with only Tk. 5000 investment and have been able to promote upgrade themselves to SME. This has contributed significantly to the process of women empowerment.

## **9. Financial Inclusion**

Financial inclusiveness is the underlying concept or institutional forte` of Islamic banks. Islamic banking is not merely an idea of being interest-free, it is rather a system pursuing the fundamental philosophy of helping the deprived and neglected people of the society enabling them to stand upright. Thus, empowerment of the deprived and poor through financial inclusion is an important strategy of Islamic banks. Keeping this in view, they have introduced a variety of banking accounts. With the help of these, efforts are being made to bring the large segment of the masses, who stay outside the banking system, into banking.

Through openings of accounts on a minimal deposit, Islamic banks are accelerating the financial inclusion programs for garments workers, sanitation workers, students, working children, and street children. Islamic banks work with different welfare and financial inclusion products for collecting deposits. Different types of welfare-oriented accounts like `Waq'f' and `Muhor' are playing a supplementary role in financial inclusion and creating involvement or linkages with poor people who are outside the normal banking system.

## **10. Green Banking**

Islamic banking is basically a Green Banking. These banks are playing a pioneering role in the conversion of the banking system into green in Bangladesh. These welfare propagating banks do not invest in tobacco, drugs, vulgarism or any other harmful sector. Islamic banks have no chance of participating in grey investments. It's a moral obligation for Islamic banks to adopt an environment protection process in their every investment.

Under the Green banking activities, Islamic banks have ensured fuel-efficient electrical equipment, usage of solar panel, hundred percent online-dependent internal communications.

## **11. Social Responsibility**

Islamic banking is an excellent platform for ensuring socio-economic development by fostering a sense of mutual obligation and a sense of compassion for the disadvantaged section of the community. Committed to overall welfare, these banks, in addition to normal transactions, make contributions to the sectors like education, health, disaster management, sports, cultural development, and city's beautification.

Besides, Islamic bank Medical College & Hospital and Exim Bank Agricultural University can be considered an example of important contributions of Islamic banks to the education and health sector.

Islamic banks have spent almost Tk. 118 crore in corporate social responsibility sector in 2013. This amount represents above 26% of the total CSR expenditure of the banking sector.

## **12. Islamic Banking on the Global Stage**

According to the Ernst & Young's World Islamic Banking Competitiveness Report 2013-14, the size of world Islamic finance asset is currently almost USD2 trillion. In the last 4 years, the average growth of the Islamic bank's assets was 18%. In the same period, the assets of Islamic banks in Bangladesh amounted to over USD20 billion. In the last four years, Islamic banks of the country have achieved 18% growth on an average.

As per the Ernst & Young's report, the total customers of Islamic banks worldwide was more than 38 million. During the same period, the number of customers in Bangladesh was about 13 million. That is, in respect of the number of customers, the Islamic banks of Bangladesh alone have occupied one-fourth of the total customers of the world.

In terms of customers' inclusion, Islamic banks of Bangladesh are far ahead in comparison to other countries. According to the report of 'Consultative Group to Assist the Poor', an associate organization of

the World Bank, in terms of a number of beneficiaries, IBBL alone handles half of the world's Islamic Microfinance.

World-famous magazine, 'The Banker' prepared a list of 1000 banks of the world in terms of capital (Tier-I Capital). In its ranking for 2012, IBBL has been able to capture 1000<sup>th</sup> place as the only bank from Bangladesh. The Bank's position improved to 984 in 2013 and 970 in 2014. Through this, Bangladesh banking, as well as Islamic banking activities in the hemisphere, acquired an admirable place in the list of top 1000 banks.

At the request of IDB, Islami Bank Bangladesh Limited has assisted in establishing 'Jaiz Bank International' in Nigeria. A senior management team of Jaiz bank was first trained in Dhaka. Later, a team comprising eight members from IBBL was sent to that bank on a three-year contract to perform duties on vital posts including the Chief Executive.

IBBL has also arranged training programs for senior officials of Sri Lanka and Uganda. These activities can be considered helpful in making Bangladesh Islamic banking known worldwide. Various Islamic banks of Bangladesh have acquired the membership of different Islamic banking and financial institutions or forums including Accounting and Auditing Organization for Islamic Financial Institute (AAOIFI), Islamic Financial Services Board (IFSB), Islamic International Credit Rating Agency (IICRA), International Islamic Fund Market (IIFM), etc. and has played a seminal role in developing professionalism and sharing experiences with these organizations.

### **13. Islamic banking in Bangladesh: Indications of Potentialities**

#### **a) Islamic Banking Act**

Islamic banking law was formulated and came to be in practice before Islamic banking had been introduced in different countries like Malaysia and Turkey. Islamic banking was introduced in Thailand in 2003 and Islamic banking law was enacted there in 2002. In this way, Islamic Bank has been secure the support for establishment and operation.

More than one-fifth of Bangladeshi banking is now being run through the Islamic banking system. Compared to the many countries of the world Islamic banking has assumed a vital position based on the application of globally recognized indicators. In recent years, the operational efficiency and expansion ability of Islamic Banking have increased owing to the overall supportive supervision of Bangladesh Bank. Distinct banking law is required to support the expansion of the unique activities of the Islamic bank. In 2011, at a meeting on the activities of the Islamic banks in the country, the Parliamentary Standing Committee on Ministry of Finance considered the importance of formulating Act in this regard. The committee has drawn the attention



of Ministry of Finance and the Central Bank to take initiative on this matter. Once Islamic Banking law is passed in Bangladesh, Islamic banking activities will be more comprehensive or widespread in the country.

#### b) Incorporating Islamic Banking in Educational institution curriculum

To strengthen the emerging trend of Islamic bank, more competent human resource is required. Currently, more than 26,000 employees are engaged in this sector. One-fifth of the banking activities in Bangladesh is being carried out applying the Islamic system and this new trend in banking is expanding fast. So, Islamic finance and banking system as content should be incorporated in the text curriculum of the country to increase opportunities for supplying the workforce in this sub-sector.

Course on Islamic banking has already been introduced in one or two public and private universities, but that seems inadequate. Courses on this subject can be introduced in all universities to generate or build professionalized and committed workforce in this sector.

#### c) Higher Training

Training institutes of the Islamic banks in the country are proficient mainly in conducting foundation and orientation courses and in some cases mid-level training. Higher training facility on Islamic banking is yet to be introduced in the country. No world-class full-fledged institute on Islamic banking has been set up until now in Bangladesh.

In this regard, Malaysia and Bahrain have been able to build expertise and they display the height of excellence in training and research. Generous patronization of these countries' central bank and state authority has helped them reach this position.

Bangladesh Institute of Bank Management (BIBM) and Bangladesh Bank Training Academy (BBTA) have already initiated a few training courses and research workshops on Islamic banking. Such the range and diversity of these activities need to be expanded further.

Institutional capacities of the Islamic banking industry in Bangladesh will increase if training centers of national and international standards are set up to deliver higher training on Islamic banking. Higher degrees on Islamic banking and separate diploma courses can be introduced in these training centers following curricula of international standards. If these are implemented the persisting training and research gap on this sector will be bridged and it will be possible to create a vast reservoir of a competent workforce.

### **14. Updating and Revising Islamic Bank Guidelines**

For bringing discipline in management and for crafting a coherent set of principles on Islamic bank, Bangladesh Bank has formulated Islamic banking guidelines and it has been revised once. This policy

guidance is, of course, a milestone in the process of institution-building and setting up governance in Islamic banking.

In the context of Shari'ah based bank activities, operational differences, and introduction of new products and rapid changes in the practice of Shari'ah, steps need to be taken for updating and revising the old guidelines.

### **15. The Central Bank Shari'ah Board**

The central bank of Malaysia has established a central Shari'ah board for the Islamic banks of the country. As a result, the Islamic banks manage themselves according to a uniform policy. If a similar central Shari'ah board is constituted in Bangladesh under the guidance of the central bank, it will be helpful in carrying out Islamic banking operations under the same policy. As a result, a proper adjustment and a new dimension will be added in compliance with banking regulation, the innovation of new product and the research on this subject. It will also increase the intensity of communication with the outside world and attract people to the Islamic banking system or culture.

### **16. Research and Development (R&D) Activities**

Islamic banks have introduced diversified products for meeting the diverse needs of the people. This system also has ample scope for and potentials to innovate new products constantly. It can be mentioned here about the study of developing products related to the stock exchange and money market including 'Sukuk' (Islamic Bond). Glaring examples of this are Malaysia and Bahrain. The banks in Bangladesh, in this emerging new system, need to strengthen their research and development activities. If these are done, Islamic banks will be able to introduce more new products in time and will be able to deliver services more efficiently.

### **17. The practice of Uniform Procedure**

In order to make Islamic banking activities more dynamic and rapid, regular exchange of views is needed between the central bank and Islamic banks keeping consistency with the approach of the system's goals.

This will be effective if the banks achieve and practice the uniform standards drawn up by Malaysia-based Islamic Financial Services Board (IFSB) and Bahrain-based Accounting and Auditing Organization for Islamic Financial Institute (AAOIFI) and implement the common Shari'ah principles and procedures. Thus, it will enhance the institutional capability of Islamic banks and will foster the confidence and trust of customers and regulatory agencies.

## **18. International Branding**

Islamic banking has been in practice in more than 65 countries around the world. Meanwhile, the market share of Islamic banking in Malaysia has reached 18 percent of total banking assets of that country. In this regard, Islamic banking in Bangladesh is not less advanced. Rather, the type and the volume of Islamic banking operations in Bangladesh have made significant progress and is trying to catch up with many countries of the world including Malaysia. It is believed, the Islamic banking system of the country has more opportunity to gain importance in the international arena.

Islamic Banks Consultative Forum (IBCF), an association of Islamic banks of the country, has organized international seminars, symposia, etc. on various occasions. World's renowned Islamic economists and Shari'ah experts, including IDB president, have participated in these programs. There is more scope for educative exercises to promote the Islamic banking activities of the country to bring it to the global magnitude.

## **19. Conclusion**

In view of the spectacular contribution of the Islamic banks to the country's socio-economic development and their continued growth as a sustainable, modern and humane bank, at an international seminar held on 23 September 2013, jointly organized by Islamic Financial Services Board (IFSB) and Bangladesh Bank, Governor Dr. Atiur Rahman said:

“...With its ethical, inclusivity promoting and stability-enhancing attributes, Islamic finance undoubtedly bears the promise of playing major beneficial role in our socio-economic development.”

Indeed, Islamic banking, as a public financing system, has been able to carve out a new paradigm of development for the global people regardless of race, language, religion, and creed. In the end, we remember a forecast of late Lutfar Rahman Sarker, a legendary banker of the country: For the making of a humanitarian banking, overall financing system of the country will be transformed into Islamic before the end of the twenty-first century.’

In ensuring a compassionate banking system we must strive with zeal to realize the vision of the visionaries of the past and the present.

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