

## BUSINESS OUTLOOK



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# The Operational Success Of Islamic Banking In Bangladesh

*On August 1, 1983, on the occasion of 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 commented, "Islamic banking has won in the theoretical level. Now, this method have to win 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.*

### 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 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 'Maqasid' 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 'Maqasid' 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 have 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 tobacco sector during 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 financing they generate resources to distribute them among the people through various mandatory and optional transfer payments including Zakat, Ushar, Sadaqah, Atonement and Waqf. 'Kalyanamukhi (welfareoriented) Banking', 'Building a Compassionate Society', 'Better Service' --- these slogans of the Islamic Banks manifest its broader outlook. ■