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IMPACT OF RURAL DEVELOPMENT SCHEME OF ISLAMI BANK BANGLADESH LIMITED ON BENEFICIARIES IN MYMENSINGH SADAR AREA

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ABSTRACT

The present study was conducted to assess the impact of investment provided under "Rural Development Scheme" (RDS) of the "Islami Bank Bangladesh Limited" (IBBL) on the basis of using data collected from 25 respondents of each of group of investors, agriculture and business of the five selected villages in sadar upazila of Mymensingh district. Total household annual incomes were Tk. 59696 and Tk. 87332 respectively for the agriculture group and business group. The beneficiaries have increased their income (61 percent in agriculture sector and 89 percent in business sector) by using RDS credit. After joining the RDS, there was a remarkable improvement in the living standard of the participant households. Thirty one percent of total credit received from RDS was utilized for agricultural purposes, 53 percent for business purposes and 15 percent for family expenditure on an average. Recovery rate of the current credit was 100 percent. None of the respondents of the group was allowed to have new credit until preceding credit was paid back. The findings suggest that the monitoring mechanism should be improved so that clients do not utilize their invested money to any unproductive activities. It is also suggested that adequate size of the investment has to be provided to pursue income generating activities properly.

Key words : Rural Development Scheme, Islami Bank Bangladesh Limited, Beneficiaries

INTRODUCTION

Bangladesh is a developing country. About 40 percent of the populations of the country live below the poverty line (BBS, 2006). Annual per capita income of Bangladesh is about US$520 (MoF, 2007). Agriculture is still the main source of income for majority of people. Quite a few people also engage themselves in some government or non-government jobs. In spite of the development of new potential sectors as mentioned above Bangladesh has been continuously facing the problem of poverty. Poverty reduction in a country like

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Bangladesh is very difficult as well and a challenging task. During pre and post independent Bangladesh, governments have all the time accorded top priority to poverty alleviation especially during latter part of 70s through micro credit programmes initiated by Nobel Laureate Professor Dr. Muhammad Yunus.

Islami Bank Bangladesh Limited (IBBL) envisages an economic system based on equity and justice. Taking into consideration that the majority of the population below poverty line lives in rural Bangladesh, the Bank has devised a "Rural Development Scheme" (RDS) with a view to creating employment opportunity for them and thus reducing their poverty through income generation activities. RDS works for the realization of that objective to create income generating and productive self-employment opportunities through extension of investment for the development of rural area and thereby contribute in alleviation of rural poverty. Investment will be allowed for the purpose of production of crops, off-farm income activities like service, trading, processing and manufacturing, shop keeping, peddling and rural transport like rickshaw, Rickshaw-van, cart etc., irrigation equipment, hand tube well, housing materials, in all covering about 343 types of economic activities.

Investment financing under RDS program of IBBL is generally collateral-free. Of course, fish culture in ponds and the purchase of agricultural and irrigation implements require large amount as such collateral in the form of an equitable mortgage is essential. Moreover, each member of the group is required to provide a personal guarantee for his group. Investment financing starts after a three-month observation of the group members in terms of regularity in their attendance in weekly group meetings, centre meetings, and the deposit of their personal saving. Two members from each group selected by the group members are considered for investment financing. The rest of the group members become eligible for financing after observing member loan receives have duly paid their 2 or 3 installments. The loan is approved by the Investment Committee, headed by the respective Branch Manager. The Investment Committee meets once in a month regularly to perform its duties.

Micro-credit programme in Bangladesh provides small loans to rural people and it is a unique innovation of credit delivery technique to enhance income generating activities. The RDS of IBBL is one among these private sector initiatives. The success of micro credit has captured the interest of many researchers in broad areas such as women's empowerment (Hashemi and Schuler, 1996; Gatz, 1995), sustainability and outreach, (Khandker, 1998; Zeller and Sharma, 1997), group based lending, (Stiglits, 1990; Varian, 1990) and poverty alleviation. The Present study therefore, has been undertaken to examine the impact of the RDS micro finance investment on the life style of the beneficiaries living at Sadar Upazila of Mymensingh District in Bangladesh. Thus it would be an important research issue to explore the RDS of IBBL to see how do it effects on alleviation of poverty in rural area.

RESEARCH DESIGN AND METHODOLOGY

Keeping in view the objectives as well as time and fund constraints the areas Sutiakhali, Vabokhali, Boyra, Digarkanda and Choto Bazar under sadar upazila of Mymensingh district was selected for the study. Subsequently a list of current beneficiaries who have had been receiving investment for more than three years under RDS of the IBBL branch office located at Mymensingh town were collected. From the list beneficiaries selected randomly for the study were based on a minimum of 3 years practicing investment process in two groups (i) agriculture and (ii) business and the number was 25 in each group. Data collection was started in February, 2008 which was accomplished within 50 days. The researcher herself collected data with structured pre-tested questionnaire through personal interview with the individual respondents. After the completion of data collection, the data were then edited, coded and finally tabulated according to the objectives set for the study. Mostly tabular analysis was done using techniques of sum average, percentages, etc. To attain some of the results, necessary statistical techniques were also employed.

RESULTS AND DISCUSSION

Socioeconomic characteristics of the respondents

Socio-economic characteristics play a vital role in determining the respondent's position in the society both socially and economically. People differ from one another in many respects. The characteristics investigated are size and composition of the family, literacy status, occupation, land ownership pattern, average value of assets, annual income, annual expenditure and annual savings. The analysis of socio-economic characteristics has been made on the basis of loan categories.

Age

Age of the respondents was classified into three categories such as below 15 years, 15-57 years and above 57 years. The 15-57 years is considered as working group. It is clear from Table 1 that household members aged between 15-57 years constituted 33 percent of male and 32 percent of female which indicated that working age group dominated the respondent's family members. This is a good sign to alleviate poverty.

Table 1. Age distribution of the family members of the respondents

Types of sample	Male				Female			
	Below 15years	15-57 years	Above 57 years	Sub. total	Below 15years	15-57 years	Above 57 years	Sub. total
Agriculture	1.04	1.72	0.12	2.88	0.64	1.52	-	2.16
	(20.63)	(34.13)	(2.38)	(57.14)	(12.69)	(30.16)		(42.86)
Business	0.92	1.56	0.04	2.52	0.68	1.64	0.04	2.36
	(18.85)	(31.97)	(0.82)	(51.64)	(13.93)	(33.61)	(0.82)	(48.36)
All	0.98	1.64	0.08	2.7	0.66	1.58	0.02	2.26
	(19.79)	(33.06)	(1.61)	(54.43)	(13.31)	(31.85)	(0.40)	(45.56)

Source : Field Survey, 2008; Figures in parentheses indicate percentage

Education

Education is considered to be the measuring scale for national development in modern age. Mass illiteracy at present in Bangladesh seems to be an significant barrier to economic development of the country. The situation is more intensive among the females than those of the males. Here education was considered as the ability of an individual aged 6 years plus to read and write or formal education attended up to certain level. The Table 2 reveals that, there was no illiterate and above secondary level of educated respondent was in both groups. This is might be due to the fact that as invest of RDS, IBBL is not provided to any illiterate person, so every body learned at least to write his name. It is a good attempt of the RDS investment.

Table 2. Literacy status of the respondent beneficiaries

Level of Education	Agriculture		Business		All types	
	Number	Percent	Number	Percent	Number	Percent
Can sign only	11	44	11	44	22	44
Primary	9	36	7	28	16	32
Secondary	5	20	7	28	12	24
All	25	100	25	100	50	100

Source : Field Survey, 2008

Family size

Table 3 shows that the average size of the family members of the respondents was 4.96 which were close to national average of 4.92 (BBS, 2006). Average earning members were found almost equal for agriculture (32.54) and business (33.61), while the dependent members were 66.67 and 65.57 percent respectively. Therefore, dependent members expectedly occupied a major portion of an average family. It is a barrier for improving financial condition of the respondent.

Table 3. Family size and the distribution of earning and dependent persons of the respondents

Types of sample	Average family size	Average earning members	Average dependents members	Dependency ratio
Agriculture	5.04	1.64	3.36	3.07
	(100)	(32.54)	(66.67)	
Business	4.88	1.64	3.2	2.98
	(100)	(33.61)	(65.57)	
All	4.96	1.68	3.28	2.95
	(100)	(33.87)	(66.13)	

Source : Field Survey, 2008; Figures in parentheses indicate percentage

Land holding

Land holding of the respondent households has been classified into seven categories. The respective cultivated land was 18.33 and 21.96 decimals. So, average land holding for

business respondents was slightly greater than those of the agriculture respondents. It indicates the shifting of occupation from agriculture to business (Table 4).

Investment amount

Average amount of investment provided by the agricultural respondents was Tk. 13,920 while it was Tk. 14,360 for the business respondents group during study period (Table 5). Group wise analysis shows that majority of the respondents were found to be within the least investment size being almost equal proportion (36 percent and 37 percent) of total households respectively.

Table 4. Average size of land holding of the respondent households (in decimal)

Types of sample	Home stead & fallow land	Pond	Cultivated land	Rented in land	Mortgaged in land	Rented out land	Mortgaged Out land	Average Owned land	Average Cultivated land
a	b	c	d	e	f	g	h	i= b+c+d+g+h	j= d+e+f
Agriculture	8.7	2.34	17.29	-	1.04	-	-	28.33	18.33
Business	10.92	0.26	20.14	1.82	-	-	-	31.32	21.96
All	10.2	1.3	18.72	0.91	0.52	-	-	30.22	20.09

Source : Field Survey, 2008

Table 5. Distribution of the respondents according to the size of average amount of investment received in the year 2006

Loan category	Agriculture			Business			All types		
	Respondents		Average Amount received	Respondents		Average Amount received	Respondents		Average Amount received
	Number	Percent		Number	Percent		Number	Percent	
Below Tk. 15000	18	36	11111	19	38	10368	37	74	10730
Tk. 15000 to 20000	5	10	18800	3	6	17333	8	16	18250
Above Tk. 20000	2	4	27000	3	6	36667	5	10	32800
Total	25	50	13920	25	50	14360	50	100	14020

Source : Field Survey, 2008

Repayment

Capability of the respondents to repay investment money on time is one of the most important aspects of credit analysis. Investment of RDS has been collected on installment basis. One investor has to repay investment in 44 installments on weekly basis. Table 6 depicts a picture on the repayment status of borrowed funds from RDS during study

year. Average amount repaid by agriculture and business groups were found to be Tk. 15312 and 15532 respectively (including profit) constituting 100 percent credit repayment. So, the repayment percentage of RDS credit was fully satisfactory.

Table 6. Repayment made by the respondents of the investment provided in the year 2006 from RDS

Types of sample	Average amount repaid (Tk.)			Percentage of amount repayment
	Principal	Profit	Total	
Agriculture	13920	1392	15312	100
Business	14120	1412	15532	100
All	14020	1402	15422	100

Source : Field Survey, 2008

Table 7 shows the results of paired 't' test for income and assets position of the beneficiaries under the study. It contains the calculated value of 't' at 1 percent level of significant with different degrees of freedom. It is found that 't' value in both case are highly significant (at1 percent level). Therefore, it may be inferred that RDS loan program was become able to bring about significant positive impact in terms of income and assets position of the respondents under the investment program in the study area.

Table 7. Variation in income and assets position of respondent beneficiaries

Types of samples	No. of observation	Per family income(Tk.)		Calculated value of paired 't' test	Degrees of freedom
		Before	After		
Agriculture	25	37144	59696	6.72*	24
Business	25	46200	87332	8.91*	24
All	50	42472	73514	11.10*	49
Per family assets position					
Agriculture	25	35112	101785	4.31*	24
Business	25	25957	87762	3.52*	24
All	50	30932	94773	5.54*	49

Source : Field Survey, 2008; * significant at 1% percent level

Profitability

Average cost, return and profitability of the agricultural and business activities under RDS credit program are given in the following Table 8.

Net return or profitability was determined by deducting total cost from total return. Both the total and net returns were found to be positively related to investment size. It clearly indicates that RDS investment of IBBL benefited the investors in study area indicated by respective BCR value.

Empirical model for all respondents

The empirical model for the all respondents was specified as:

$Y_{all} = a\ X_1^{b1}\ X_2^{b2}\ X_3^{b3}\ X_4^{b4}\ X_5^{b5}\ X_6^{b6} e^u$ ……. (i)

The equation may alternatively be expressed in log-linear form as:

$\ln Y_{all} = \ln a + b_1 \ln X_{1i} + b_2 \ln X_{2i} + b_3 \ln X_{3i} + b_4 \ln X_{4i} + b_5 \ln X_{5i} + b_6 \ln X_{6i} + e^u$ ……..… (ii)

Where

Y_{all} = Saving (Tk.)

a= Constant term

X_1 = Education (Year of schooling)

X_2 = Investment provided (Tk.)

X_3 = Family Member (No.)

X_4 = Income (Tk.)

X_5 = Farm size (Decimal)

X_6 = Expenditure (Tk.)

u_i = Error term

b_1 ……. b_6 = Co-efficients of respective variable

Table 8. Per acre profitability of the agricultural and business activities under RDS of IBBL

Cost and Return	Agricultural sector		
	Agriculture	Business	Other
Average cost (Tk)	13696	8762	22458
Average return (Tk)	17328	20168	37496
Net return (Tk)	3632	11406	15038
BCR (undiscounted)	1.26	2.30	1.67
Business sector			
Average cost (Tk)	10981	28373	39354
Average return (Tk)	13120	66668	79788
Net return (Tk)	2139	38295	40434
BCR (undiscounted)	1.19	2.35	2.03

Source : Field Survey, 2008

The estimated values with t-test are presented in Table 9. Six explanatory variables such as education, farm size, family size, investment, expenditure and income were considered on saving for empirical model. Investment, expenditure and income variables in the model had significant impact on saving of investors under RDS activities.

Impact on livelihood

Socioeconomic change of above mentioned variables towards proper use as well as repayment thereof scaling to measures was expressed in terms of no changes, small change, medium change and highly change. The changes of sample participation after

joining the RDS are shown in Table 10. The income change of the participants was satisfactory (small changes 42 percent, medium changes 56 percent and highly changes 2 percent).

Table 9. Estimated values of all types of sample (Y = Savings)

Explanatory variables	Estimated values of Regressionco-efficient	t-values (df = 43)	Significant level	Standard Error
Constant	-2.143	-1.286	0.205	1.666
Education (X_1)	0.038	0.366	0.716	0.104
Investment provided (X_2)	0.407**	3.356	0.002	0.121
Family size (X_3)	-0.195	-0.096	0.342	0.203
Income (X_4)	6.152***	11.632	0.000	0.529
Farm size (X_5)	0.053	1.042	0.303	0.051
Expenditure (X_6)	-5.520***	-9.974	0.000	0.553
R^2	0.825	-	-	-
Adjusted R^2	0.801	-	-	-
F-value	33.842***	-	0.000	-

** Significant at 1 percent level; *** Significant at 0.1%

Table 10. Socioeconomic percentage changes of respondents' livelihood

Types of changes	All types			
	No changes	Small change	Medium change	Highly change
Income	-	21 (42)	28 (56)	1 (2)
GO & NGO Organizational involvement	49 (98)	1 (2)	-	-
Involvement in social & political organization	49 (98)	1 (2)	-	-
Food & nutrition	-	18 (36)	32 (64)	-
Housing condition	-	29 (58)	21 (42)	-
Health facilities	-	7 (14)	43 (86)	-
Pure drinking water	1 (2)	1 (2)	46 (92)	2 (4)
Clothes	12 (24)	29 (58)	9 (18)	-
Education	-	16 (32)	32 (64)	2 (4)
Furniture	13 (26)	33 (66)	4 (8)	-
Awareness	-	1 (2)	47 (94)	2 (4)
Adoption of family planning	-	4 (8)	44 (88)	2 (4)
Using sanitary latrine	-	10 (20)	39 (78)	1 (2)
Saving	-	47 (94)	3 (6)	-
Involvement of women in (IGAs)	6 (12)	21 (42)	23 (46)	-

Source : Field Survey, 2008; Figures in parentheses indicate percentage

Problems

Some questions were asked to the respondents about the problems and constraints faced in micro credit operation of RDS which are presented in Table 11. It is evident from the table that the major problem of the respondents was the lack of training facilities and the percentage of the problem was 100 in both samples. The other important problems were shortage of grazing land, burden of old debt, irregularity in holding weekly meeting, condition of loan, lack of sufficient investment money and time required to get loan.

Table 11. Problems faced by the respondents to receive credit from RDS

Problems	Agriculture				Business				All types			
	High	Moderate	Little	No	High	Moderate	Little	No	High	Moderate	Little	No
Lack of sufficient investment money	-	-	4	96	-	-	4	96	-	-	4	96
High profit rate	-	4	-	96	-	-	4	96	-	2	2	96
Time consuming to get loan	-	-	4	96	-	-	4	96	-	-	4	96
Burden of old debt	-	-	-	100	-	-	-	100	-	-	-	100
Loan receipt was conditioned with saving	-	8	-	92	-	-	100	-	-	4	-	96
Irregularity in holding weekly meeting	-	-	-	100	-	-	8	92	-	-	4	96
Lack of training facilities arranged by RDS	100	-	-	-	100	-	-	-	100	-	-	-
Lack of suitable marketing facility	-	4	20	76	-	-	48	52	-	2	34	64
Low price of produced commodities	-	4	52	44	-	-	52	48	-	2	52	46
Lack of storage facility	-	8	12	80	-	-	20	80	-	4	16	80
Shortage of grazing land	-	-	-	100	-	-	-	100	-	-	-	100
Lack of improved seed/breed	-	-	96	4	-	4	88	8	-	2	92	6
Theft	-	-	-	100	-	-	-	100	-	-	-	100

Source : Field Survey, 2008

Solutions

After recording the problems the respondents were asked to provide some suggestions to overcome those problems faced by them. Considering all samples together 100 percent, the main solutions suggested by the respondent were: provide training facilities, suitable marketing facilities, providing improved seeds, strong supervision and increase women participations (Table 12).

Table 12. Solution suggested by the respondent to solving the problem (Percent)

Solution	Agriculture		Business		All types	
	Number	Percent	Number	Percent	Number	Percent
Strong supervision	20	80	15	60	35	70
Training facilities	25	100	25	100	50	100
Adequate amount of investment	18	72	21	42	39	78
Provided improved seed/seedling	22	88	18	72	40	80
For suitable marketing facility transferring their products	25	100	5	20	30	60
Create more income generating activities	16	64	6	24	22	44
Proper selection of clients	15	60	15	60	30	60
Increase women's participation	10	80	15	60	25	50

Source : Field Survey, 2008

CONCLUTION

The RDS of IBBL is an important component of increasing income of rural people and thereby alleviate poverty from the rural Bangladesh. Most of the institutions provide credit in the traditional way which is based on security and interest. But the present study is based on collateral free Shariah considering the 90 percent Muslims of the country.

The present study is, therefore, an attempt to investigate the impact of the RDS investment extended by the IBBL and to generate information, which may help the researchers and planners. The present study is concerned with the rural people, who took loan from the IBBL Mymensingh sadar branch. It aims at examining the adequacy, using pattern of loan, repayment performance and impact of loan on different types of sample.
In this study there was a positive and significant linear relationship among total annual investment, total annual expenditure, total annual income and total annual saving. One of the main problems of utilizing investment under RDS was lack of training facilities arranged by RDS. Analyses indicating the socio economic changes of the respondents showed that majority of the respondents' livelihood have been improved to a significant level.

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