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## Entrepreneurship Development through Islamic Banks in Bangladesh: A case study on Ibbl and Aibl

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**Abstract**

An effort was made to comprehend the effectiveness of Islami Bank Bangladesh Limited (IBBL) and Al-Arafah Islamic Bank Limited (AIBL) in the entrepreneurship development in Bangladesh. To ascertain the contribution and the effectiveness of IBBL and AIBL in the development of entrepreneurs data were procured from both the primary and the secondary sources. For primary sources of data survey method and for secondary sources of data documentary analysis were followed. Entrepreneurs background history was considered important factor for appraisal and evaluation of their performance. Age, marital status, father's involvement in the enterprise, nature of families, background causes of establishment of enterprise, service background, academic background, fathers occupation, hobby, participation and responses about salaries and emoluments was taken into consideration and those were interpreted. The research revealed that bank had high contribution (68%) while entrepreneurs had 32% contribution in the investment of the entrepreneurship. Most of the officials opined that Murahaha is the highest category of entrepreneurship. The research identified 20 causes of success and 8 causes of failures of the banks.

**Keywords:** Entrepreneur, Entrepreneurship development, Islamic Banking, Riba.

**Introduction**

Bangladesh is the third largest Muslim country in the world with around 155 million populations of which 90 percent are Muslim (BBS, 2014). A significant portion of the population demand interest-free banking for a quite long time. In August 1974, Bangladesh signed the Charter of Islamic Development Bank and committed itself to reorganize its economic and financial system as per Islamic Shariah. The foremost factor making Islamic banking attractive to customers is adherence to the rules of Shariah (Mamun, 2008).

Capital accumulation is a pre-condition for investment, which again is necessary for attaining socio-economic growth and development of an economy. To organize a new business or enterprise, big or small, substantial amount of capital is needed. The banks and financial institutions (FIs) supply this capital. Today the banks play a vital role as financial intermediaries by putting together the savings of the surplus income groups and lending it to those who need capital. An entrepreneur plays an innovative role to ensure economic growth of an economy, while entrepreneurship is an innovative function having risk bearing elements. Entrepreneurs are considered as the fourth factor of production. With about 132 million Muslim people, Bangladesh provides a large market for potential investors (Encyclopedia, 2014).

Islamic Banking System (IBS) is a new concept which has a lot of population who are hard-working and innovative. The ability of Islamic banks under IBS in promoting the growth of entrepreneurs has been expected to be tremendous. The banning system within the Islamic discipline lays emphasis on the elimination of predetermined rate of interest or riba. In Islam, interest is replaced by the return obtained from the investment activities and operations that actually generate extra wealth.

There are at least seven full flagged Islamic banks operating in Bangladesh. But the premise of this research is confined within the oldest two Islamic banks i.e. IBBL and AIBL. The activities of these banks are wide ranging and extensive. Besides, inclusion of all the programs of these two banks may hinder intensive and extensive study and analysis on all the activities due to multi-timing variables like time, resources, support facilities etc. Considering the above circumstances, the researcher was confined within the jurisdiction of promoting the limited growing entrepreneurial activities of IBBL and AIBL.

With this the present study aims at finding the contribution of IBBL and AIBL since their inception, to entrepreneurship growth in Bangladesh. In short, this study attempts to investigate and examine as how and up to what extent IBS plays positive and sustainable role

in promoting the growth of entrepreneurship in Bangladesh. These people strong faith on Allah and they want to lead their lives as per direction given in the Holy Quran and the way shown by the Prophet Hazrat Mohammad (sm). No Islamic banking system was developed in our country up to 1983 (Central bank Malaysia, 1999). The traditional banking is fully interest based but interest is absolutely prohibited in Islam. So, research on the Islamic bank will help the whole Muslim world. But no study had yet been done on this vital aspect of Islamic banking. It is expecting that this in depth study may lead to fill some gaps and help to promote entrepreneurship development in Bangladesh to a great extent. The study may also be useful to policy makers, researchers, teachers, students, bankers and investors.

### Objectives of the research

The general objective is to examine the role of IBS in promoting entrepreneurship in Bangladesh. The specific objectives are as follows:

- To determine and describe the selected characteristics of entrepreneurs
- To investigate the performance of the entrepreneurs financed by IBBL and AIBL
- To know the nature of entrepreneurship of IBBL and AIBL
- To find out the bank's contributions to total investment of the entrepreneurs, their recovery and profitability performance.
- To determine the entrepreneurs' arguments for the success and failures of IBBL and AIBL and also the causes for choosing Islamic banks.
- To know the Problems of entrepreneurship development and suggested solutions

### Methodology

For this study survey method was used for collecting field level data and documentary analysis method was used for the procurement of official information exclusively. Through documentary analysis the secondary data are assembled, classified and tabulated for drawing new inferences. Again, by using survey method a portion of entrepreneurs receiving finance from IBBL and AIBL as well as the bank officials were purposively selected for experiment and investigation and for drawing conclusion and generalization about the entrepreneurs financed by the two banks (IBBL and AIBL) and about the banks' officials. The length of operating time and experiences of these banks were the criteria for purposive selection of these two banks. Out of plenty branches; the researcher purposively selected 10 branches of IBBL and AIBL each from the two divisional region of the country for finding real picture and for simplicity of research especially in Rajshahi and Chittagong division level are taken where the researcher has been living. Then 100 entrepreneurs of those branches of both banks (50 entrepreneurs of each) are brought under this study. They were interviewed through a structured questionnaire. Besides, 50 officials of these branches also were interviewed through a structure questionnaire. In the cases of the entrepreneurs, time length of their contracts with the banks and their repayment records were considered. The data on the entrepreneurs cover a period of five years (2008-12). Microsoft excel software was used for processing and analysis the data. Tabular forms, number and percentage rates were used for analyzing the data.

### Results and Discussion

#### Selected characteristics of entrepreneurs

Some selected characteristics of the entrepreneurs were studied in the present research. Those are classified into appropriate categories which are given in Table 1 which is self-explanatory.

**Table 1:** Characteristics of the entrepreneurs

Characteristics	Category	Number of entrepreneurs	Percentage
Age (in years)	10-20	6	6
	21-30	20	20
	31-40	50	50
	41-50	14	14
	51-60	8	8
	60- Above	2	2
Marital status	Married	80	80
	Unmarried	20	20
Father's involvement in the enterprise	Yes	64	64
	No	36	36
Nature of families	Single	30	30
	Collective	70	70
Background causes of establishment of enterprise	Profitability	30	30
	Inspired by father/ friends/ relatives etc.	25	25
	Father's on going enterprise	13	13
	Inspired by ideology to develop interest free enterprise	25	25
	To remodel existing enterprise as per Shariah	7	7
Service background	Engineers	10	10
	Officers	15	15
	Trainee	27	27
	Technician	19	19
	Worker	13	13
	Apprentice	9	9
	Other service background	7	7
Academic background	SSC/Dakhil	27	27
	HSC/Alim	20	20
	Degree/Honours	25	25

	Masters	15	15
	No academic degree	13	13
Fathers occupation	Public Service	15	15
	Private Service	25	25
	Engineering/ Technical	10	10
	Agricultural	35	35
	Trading	10	10
Hobby	Visit of historical place	12	12
	Traveling	17	17
	Angling	9	9
	Family association	30	30
	Sports	8	8
	Reading	10	10
Participation	Other recreational facilities (singing, gossiping, watching TV)	14	14
	Family participation	22	22
	Participation with others	27	27
	Sole proprietorship	45	45
	Private limited company	6	6
Background of selected bank officials			
Age (in year)	10-20	2	4
	21-30	13	26
	31-40	15	30
	41-50	12	24
	51-60	7	14
	61-Above	1	2
Academic qualification	SSC/Dakhil	3	3
	HSC/Alim	4	4
	Degree/Honours	16	16
	Masters	23	23
	M.phil./Ph.D	4	4
Response about salaries and emoluments	Yes	33	33
	No	17	17

### Performance of the entrepreneurs financed by IBBL and AIBL

The rapid socio- economic growth and the positive growth of Islamic banking system largely hangs on particularly loan arrangements and effective implementation monitoring of the

investment projects because, participatory investment also implies serious implementation monitoring both by the banks and enterprises. Contribution of IBBL and AIBL in the investment of the entrepreneurship was discussed in Table 2 which is self-explanatory.

**Table 2:** Contribution of IBBL and AIBL in the investment of the entrepreneurship (figure in lack Tk.)

Banks	No of Entrepreneurs	Total Investment	Banks Contribution	Contribution of Entrep.	Percentage		
					Banks	En.	Total
IBBL	50	60274	41218	19056	48	20	68
AIBL	50	36502	24568	11934	20	12	32
Total	100	96776	65786	30990	68	32	100

### Category of entrepreneurship

The saltiest feature of this mode is that banks supply capital and entrepreneurs invest their experiences, skill and provide all other logistic supports. But this view has been ruled out by a portion of officials and entrepreneurs who were interviewed. They maintain that these modes may be successfully operated like other loan giving agencies. Some entrepreneurs even state that this is simply an evasive attitude to avoid the responsibility showing a basic weakness of interest free banking now in vogue in Bangladesh. Table 3 shows the nature of entrepreneurship of IBBL and AIBL.

**Table 3:** Nature of entrepreneurship of IBBL and AIBL

Modes	IBBL	AIBL	Total
Musharaka	12	8	20
Murahaha	20	15	35
Mudaraba	8	12	20
Bai- Muazzal	5	5	10
Hire- purchase	3	7	10
Ijara	2	3	5
Total	50	50	100

### Entrepreneurs' arguments for the success and failures of IBBL and AIBL

Valuable opinions about the success and failures of these two banks IBBL and AIBL were collected from the entrepreneurs which are as follows.

#### Causes of success

1. Objectives of earnings profit instead of interest.
2. Better and quick customer services.
3. Honest in dealings.
4. Devotion of officials in their jobs.
5. Quick processing of loan applications, quick sanctioning and disbursement of money.
6. Simple rate of profit estimate.
7. Integrity and commitment of the officials.
8. Close and continuous supervision, implementation and monitoring system of the banks.

**Causes of failure**

1. Lack of proper ideological background of the officials as well as the customers.
2. Failures to introduce fully musharaksh, mudaraba, bai-salam modes of loan.
3. Lack of decentralization of loan sanction authority at branch levels that delaying timely loan approval and release of funds which again hindering quick and timely investment.
4. Lack of appropriate project evaluation due to inefficiency and lack of expertise.
5. No motivation and orientation course for the entrepreneurs was organized.
6. Absence of complementary Islamic financial institutions like Islamic Investment Company specialized Islamic FIs like Islamic insurance company etc.
7. At present IBBL and AIBL run their activities in a mixed financial environment, which is not very congenial for the strict application of Islamic codes of commercial and industrial laws.
8. Loans are sometimes granted under the political pressures without proper appraisal of the project proposals.
9. Interest free banks are still concentrated only in the urban areas, the village people still await for accruing benefits of interest free banking.

**Entrepreneurs’ arguments for choosing Islamic banks**

They have argued that the conventional banking system (CBS) in the real sense of the term based on the style of western capitalistic system which never commensurate with Islamic value orientation system of financial transaction. But the entrepreneurs under interview do not agree with those western views. They say that besides religious belief and sensitivity, some other factors mentioned below.

1. Quick processing of loan application, sanctioning and disbursement of money.
2. Reduce formalities and calculate simple rate of interest of bank profit.
3. Increase supervision and monitoring activities over the loan project.
4. Take lenient attitude to the genuine loan defaulters and provide them with qursa- hasan money.
5. Quick services delivery and better co-operation between bank management and entrepreneurs.
6. Less file works and absence of bureaucratic attitudes of the bank management with the client and customers.

**Problems of entrepreneurship development and suggested remedies**

The researcher identified several problems of entrepreneurship development and also identified some suggested solutions which are given below.

**Problems**

1. Unfamiliarity and confusion about the new concepts of investment modes of IBS.
2. Uncertainty about the assured rate of return for deposits.
3. Confused about the feasibility and appropriateness of efficient level of allocation of resources through the interest free banking.
4. Lack of local loan sanction authority
5. Lack of power of taking legal action against default cases.
6. Lack of effective propagation about interest free banking.
7. Lack of knowledge of clients about Shariah principles.
8. Lack of genuine entrepreneurs.

9. Lack of Shariah knowledge about investment modes.
10. Lengthy loan sanction process.
11. Negative attitudes of borrowers to follow Shariah codes.
12. Higher rates of profit from clients (service charges)
13. Lack of trained manpower.
14. Lack of Islamic oriented entrepreneurs
15. Shortage of manpower.
16. Poverty of the loaners.
17. Lack of motivation about Shariah based investment instrument.
18. Non recovery due to political reasons and business failures.
19. Problems of understanding and accommodation.
20. Lack of specialized banking rules (SBR) for Islamic Banking.

**Solutions suggested by officials**

1. Legal power of local authority for taking action against default cases.
2. Frequent training orientation course for entrepreneurs on utilization of borrowed money.
3. To reduce lengthy procedure of loan sanction.
4. Legal and official protection of officials should be ensured.
5. The existing loan advancement procedure should be simplified.
6. Official measures should be taken centrally to discourage political pressures and give protection to local managers.
7. To reinforce resources to poverty stricken/ genuine entrepreneurs under special terms and conditions.
8. Local managers should be given more administrative, loan sanctioning and loan measurement authority.
9. Motivation courses for the clients should be introduced.
10. Besides seminar, symposium and discussion meeting may be organized at zonal level for client- orientation for Shariah investment.
11. Effective propagation through package programs in radio, television and newspapers may be undertaken for publicly and orientation of investors and general public.
12. Adequate manpower and required management personnel should be given to the branches.

**Problems faced by entrepreneurs**

The following table 3 depicts the problems exactly entrepreneurs being faced during dealing their business.

**Table 4:** Problems faced by entrepreneurs

Problem faced	IBBL	AIBL	Total
Yes	12	18	30
No	38	32	70
Total	50	50	100

Table 4 shows that out of 100 selected entrepreneurs, 70% respondents have given answers saying that they face no such problem. Whereas 30% say that they face conceptual problems only not functional. However, investigation shows that in both the cases majority of entrepreneurs are aware about their modes of transaction (72.50%) in IBBL and 71.25% in AIBL respectively.

**Summary and Conclusion**

Islam is a religion which provides a complete code of life. Allah provides the holy Quran for the human being as the syllabus and Allah assigned Mohammed (sm.) as the teacher for the human being. The Qur'an states: O you who have

believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful, Allah has permitted trade and has forbidden interest

The objective of this research was to provide an exposition of viability and feasibility of entrepreneurship development through interest free banking system. Through this study efforts were made to identify the level of contribution of IBBL and AIBL in the growth of entrepreneurship in the field of industry, trade and commerce etc. to promote the entrepreneurship in the vast scale and opened a new horizon in the investment prospects in Bangladesh. Although Bangladesh is a poor country but it has huge population. If these population can be turned into human resource by providing appropriate education and training; after that by providing necessary seed capital, the Islamic banks can play a significant role for entrepreneur's growth and development.

### **Recommendations**

Due to the lack of separate banking policy of Bangladesh Bank for IBS, IBBL and AIBL are compelled to link them with the interest bearing conventional banks. So the separate rule and regulation policy should be arranged for the betterment of IBS. More welfare oriented projects should be undertaken by IBBL and AIBL to achieve and ensure the welfare target of IBS. Besides, to reach the benefits of IBBL and AIBL to the general people, banking activities must be expanded up to all the upazilla and the union parishad levels to reach the benefits of IBS to the greater section of people living in the far-flung rural areas of Bangladesh.

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