

WHY BANGLADESH IS FALLING BEHIND IN IMPLEMENTING ISLAMIC MICROFINANCE SYSTEM? A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT

Due to the inability to access formal financial services, millions of people in Bangladesh living in extreme poverty are unable to engage in development activities. Hence, they are unable to fund their children's education, accumulate assets, or capitalize on other economic opportunities. As a consequence, it's critical to look at how Islamic microfinance might assist these poor people in improving their entire socioeconomic situation and living in a community where they are treated with respect and dignity. This study has used a systematic literature review, where the relevant data for this study was acquired through secondary sources. 15 peer-reviewed articles were collected, synthesised, and analysed to obtain the necessary information. This study's findings highlight the primary reasons why Bangladesh continues to fall behind in terms of successfully implementing Islamic microfinance system. The government, civil society organizations, and financial institutions all need to take initiatives to popularize the Islamic microfinance system in this country, as highlighted in this article.

Keywords: *Microfinance, Islamic Microfinance, Islamic Microfinance Institutions, Bangladesh, Challenges*

INTRODUCTION

Microfinance, which involves providing financial services to the poor and deprived people of a country who are unable or unwilling to accept formal financial systems, can play a significant role in poverty alleviation. It may eventually enable the poor to join the productive force and improve their financial and social conditions. Specifically, Islamic microfinance, as a new financial system, has the potential to help impoverished people break free from the cycle of poverty.

Islamic microfinance can aid the impoverished people of Bangladesh better their socioeconomic conditions in an effective and Shariah-compliant manner. If correctly implemented, Islamic microfinance can also benefit the people in Bangladesh who are hard-hit by poverty and live from hand-to-mouth. In the end, this can allow the policymakers and planners in Bangladesh to take the required steps for developing an inclusive financial system for this country. Hence, it is vital to explore the challenges the country confronts towards adopting the Islamic microfinance system and the best available strategies to overcome these challenges.

The economy of Bangladesh is frequently burdened by millions of unemployed people (Hossain, 2021). Islamic microfinance can provide a golden chance for these people to make a meaningful contribution to themselves, society, and the country as a whole. This article analyses the obstacles to effective Islamic microfinance projects in Bangladesh, as well as the efforts that the government, civil society organizations, and financial institutions must take to overcome these obstacles. Islamic microfinance programmes are projected to transform the fate of Bangladesh's poor and troubled people if they are implemented correctly, allowing them to live a fruitful and meaningful life.

Methodology

This explanatory study uses a qualitative research approach, where the necessary data were gathered from secondary sources. 15 peer-reviewed articles published in different indexed journals and conference proceedings in the last seven years were used for collecting the required information. The databases used for searching the articles included Google Scholar and Mendeley. The search terms included 'Islamic Microfinance', 'Islamic Microfinance in Bangladesh', and 'Challenges in Islamic Microfinance in Bangladesh'.

The inclusion and exclusion criteria regarding the selection of research papers are listed in the following table:

Included	Excluded
Published between 2015-2021	Not within the specific time span
Full Text	Full text not available
Written in English	Written in other languages
Topics covering Islamic microfinance	Topics avoiding Islamic microfinance

Table 1: Inclusion and Exclusion Criteria

The following table presents a list of the papers used as the source of information for this article:

Name of the Authors (Years of Publication)	Title of the Paper	Journal Published
Adnan, M. A., & Ajija, S. R. (2015).	The effectiveness of baitul maal wat tamwil in reducing poverty: The case of Indonesian Islamic microfinance institution	<i>Humanomics</i>
Ahmad, D., Mohanty, I., Irani, L., Mavalankar, D., & Niyonsenga, T. (2020).	Participation in microfinance based Self Help Groups in India: Who becomes a member and for how long?	<i>PloS one</i>
Alkhan, A. M., & Hassan, M. K. (2021)	Does Islamic microfinance serve maqāsid al-shari'a?.	<i>Borsa Istanbul Review</i>

Dhaoui, E. (2015)	<i>The role of Islamic microfinance in poverty alleviation: Lessons from Bangladesh experience.</i>	<i>MPRA</i>
Fianto, B. A., Gan, C., Hu, B., & Roudaki, J. (2018)	Equity financing and debt-based financing: Evidence from Islamic microfinance institutions in Indonesia.	<i>Pacific-Basin Finance Journal</i>
Gallenstein, R. A., Flatnes, J. E., & Sam, A. G. (2020)	The Role of Social Capital in Risk-Taking Decisions under Joint Liability Lending	<i>The Journal of Development Studies</i>
Hossain, M. I. (2021).	COVID-19 Impacts on Employment and Livelihood of Marginal People in Bangladesh: Lessons Learned and Way Forward	<i>South Asian Survey</i>
Hossain, B., & Abdullah, M. F. (2019)	The Growth and Contemporary Challenges of Islamic Microfinance in Bangladesh	<i>Asian People Journal (APJ)</i>
Ibrahim, S. N., Kamaruddin, N. I., & Daud, S. (2016).	Assessing the determinants of profitability performance on Islamic microfinance in Malaysia.	<i>Journal of Economics, Business and Management</i>
Mahmood, H., Hassan, R., & Salman, S. A. (2020).	Contribution of Islamic Microfinance Studies in Achieving Sustainable Development Goals.	<i>Journal of Islamic Banking and Finance</i>
Mukhlisin, M., Tamanni, L., Azid, T., & Mustafida, R. (2020).	Contribution of Islamic Microfinance Studies in Achieving Sustainable Development Goals.	<i>Enhancing Financial Inclusion through Islamic Finance</i>
Nabi, M. G., Islam, M. A., Bakar, R., & Nabi, R. (2017)	Islamic microfinance as a tool of financial inclusion in Bangladesh	<i>Journal of Islamic Economics, Banking and Finance</i>
Othman, M. B. (2015).	Role of women in achieving shared prosperity: An impact study of Islamic microfinance in Malaysia.	<i>Procedia-Social and Behavioral Sciences</i>
Parvej, M. M., Chowdhury, M. A. I., Azam, M. K. G., Hossain, M. M., & Mamun, A. M. A. (2020).	Role of Islamic Microfinance in Alleviating Poverty in Bangladesh: A Study on RDS of IBBL.	<i>International Journal of Financial Research</i>

Wediawati, B., Effendi, N., Herwany, A., & Masyita, D. (2018).	Sustainability of Islamic Microfinance in Indonesia: a holistic approach.	<i>Academy of Strategic Management Journal</i>
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Table 2: List of Source Papers

RESULTS AND DISCUSSION

Islamic Microfinance and Conventional Microfinance: A Comparison

To close the gap between the rich and the poor, Allah SWT has emphasized the importance of sharing wealth. "And from their properties was [given] the right of the [needy] petitioner and the deprived," as He said in the Holy Quran (70:24-25). Muslims are encouraged to share their wealth with the poor through various means such as Zakaah and Waqf (Nabi et al., 2017). In fact, Islam encourages economic empowerment by converting idle assets into income-generating assets, increasing capacity, and providing for the needs of the poor.

Small loans are typically issued on a short-term basis in traditional microfinance programmes. These programmes also ensure speedy distribution of repeat loans when previous loans are paid on time, easy scheduling and location of services, and simplified investment and borrowers' appraisal. Microfinance providers, in most situations, attempt to ensure that the loan money reaches people who are suffering from acute poverty and hardship. Microfinance, according to Gallenstein et al. (2020), is based on the shared responsibility model, which uses group financing to address issues such as unfavourable borrowers' selection and encourages the correct kind of borrowers. Microcredit, microinsurance, micro-equity, micro-savings, and micro-transfers are all examples of microfinance products. In 2011, India implemented another microfinance approach known as the Self-Help Group (SHG) Model. The purpose of this concept is to emancipate the poorest women in rural places by establishing a "self-help" structure among families to better their living situations (Ahmad et al., 2020).

In various nations, the microfinance system, especially the microcredit system that has become popular, has some distinctive attributes. It is different from the conventional financial systems due to its unique approach to collateral that is based on joint liability. Individuals start to join small organizations and apply for small loans. The microfinance providers will outline the necessary conditions for acquiring loans and how these loans need to be repaid. All the members of the group share the responsibilities or risks for these repayments of loans. If one of the members becomes the defaulter, all others in the group endeavour to help him/her repay the loan in time. This can help lessen the dangers associated with delinquency and default.

Nevertheless, as indicated by Nabi et al. (2017), Islamic microfinance has several special qualities compared to its conventional equivalent. For example, Islamic values lay in the main concept of Islamic microfinance which offers a better alternative for reducing poverty by promoting social justice and increasing human capability. Both in terms of economic and social factors, Islamic microfinance offers superior answers. On the other hand, the conventional microfinance system often fails to move the poor out of the debt trap, and they are unable to improve their economic conditions in an effective manner. Through empirical study, Alkhan and Hassan (2021) also found that Islamic microfinance serves many crucial aspects of Maqasid al-Shariah: i) economic development, ii) poverty alleviation, iii) wealth circulation and distribution, iv) ensuring social welfare of people, and v) enhancing intellectual levels of society.

Again, Sharia-compliant contracts, debt avoidance, charity, economic empowerment, cooperation and solidarity, family togetherness, and freedom from Riba (interest) and Gharar

(uncertainty) are all important aspects of Islamic microfinance. Poor households can increase their income, acquire assets, and protect themselves against external shocks by using Islamic microfinance. Again, due to their special needs, such as land and wealth, collateral, and so on, many poor and unlucky people are unable to acquire financial help or credit from conventional financial institutions or banks. The Islamic microfinance system has the potential to help overcome these barriers (Fianto et al., 2018).

In reality, Islamic microfinance programmes are linked to socially responsible investments, in which the money of investors is used exclusively for Halal projects that benefit the entire community. Zakat, Waqf, and other forms of investment are frequently used in these projects. In the end, these efforts will help to alleviate poverty and close the gap between rich and poor people (Dhaoui, 2015).

Table 3 discusses about the differences between conventional and Islamic microfinance systems:

Indicators	Islamic Microfinance	Conventional Microfinance
Source of fund	External, client's savings, Zakat, Awqaf	External, client's savings
Financing	Islamic modes of financing	Interest-based
Financing the Poorest	Ultra-poor are targeted	Ultra-poor are (often) left out
Fund Transfer	In kind	In cash
Target Group	Any member of family	Women preferred
Targeting objective	Family empowerment	Women empowerment
Deduction at inception of contract	No	Yes
Work incentive	Material and spiritual	Material
Social development program	Religious	Secular

Table 3: Difference between conventional and Islamic microfinance (Dhaoui, 2015, p. 7)

A number of significant obstacles are confronted by Islamic microfinance companies. At the micro-level, they must address difficulties such as Shariah compliance, a variety of organizational structures, insufficient links with capital markets and banks, a lack of product diversification, and so on (Dhaoui, 2015). They are hampered by a lack of supportive policy and regulatory environments at the macro-level. Any Islamic microfinance program's success is largely determined by how these concerns are handled. In addition, Islamic commercial banks and cooperatives must play critical roles in overcoming these obstacles (Dhaoui, 2015).

Islamic Microfinance in Different Countries

In different Muslim-majority countries, Islamic microfinance institutes (MFIs) have grown rapidly in recent decades. For instance, in Malaysia, microfinance products are being offered to

its citizens in different areas, particularly to women, so that they can become micro-entrepreneurs on their own. Through microfinance, efforts have been taken in this country so that all members of the society can have the opportunity to join the formal financial system (Othman, 2015). Many financial institutions, both Islamic and conventional, are currently offering microfinance services in Malaysia, like Amanah Ikhtiar Malaysia (AIM), CIMB Islamic Bank, EONCap Islamic Bank, Bank Simpanan Nasional, and Agro Bank, Bank Rakyat (Ibrahim, Kamaruddin, & Daud, 2016).

Different Islamic microfinance institutions (MFIs) in Indonesia provide a wide range of products to Muslim households in rural areas. These MFIs distribute money to the poor using charity-based funds earned through Sadaqah and Zakah in order to help them overcome poverty and improve their level of living (Fianto et al., 2018). According to Adnan and Ajija (2015), Islamic microfinance has proven to be effective in raising people's income levels in Indonesia. It has also become easier for a Muslim-majority country like Indonesia to adopt Islamic microfinance principles, such as refraining from using interest. The Indonesian National Shariah Board is in charge of overseeing these matters (Fianto et al., 2018).

Different Islamic microfinance models also exist in countries like Nigeria, Pakistan, Sudan, Egypt, and Turkey (Mukhlisin et al., 2020). At the same time, these countries have faced some significant challenges while implementing Islamic microfinance projects. For example, insufficient regulations and limited assets have impeded the progress of this system. In addition, ensuring the sustainability of Islamic microfinance products is another key difficulty encountered by these countries (Wediawati et al., 2018).

Present Status of Implementing Islamic Microfinance System in Bangladesh

Bangladesh is known internationally for Grameen Bank and its microfinance projects. This organisation earned the Nobel Peace Prize in 2006 for its extraordinary contribution to poverty alleviation through conventional microcredit programmes. A huge number of MFIs are currently operating in this country that are extending credits free of collateral to millions of poverty-stricken citizens of this country. Though, the sector of Islamic microfinance is fairly young in Bangladesh, as the largest microfinance providers have not started applying Islamic Shariah yet (Nabi et al., 2017).

Some financial institutions in Bangladesh, such as Islami Bank Bangladesh Limited (IBBL), have developed programs such as the Rural Development Scheme (RDS), however, their contribution to Islamic microfinance is minimal (Hossain & Abdullah, 2019). Other Islamic banks and conventional banks' Islamic windows have not been as aggressive in their promotion of Islamic microfinance products, as they haven't started programmes like IBBL targeting rural people yet (Nabi et al., 2017). For all of these reasons, Islamic microfinance in Bangladesh is still in its infancy. In Bangladesh, where more than 37 million disadvantaged individuals benefit from various forms of microfinance products, the Islamic microfinance industry currently accounts for barely 5% of the total microfinance market (Nabi et al., 2017).

Challenges in Popularising Islamic Microfinance Products in Bangladesh

Some of the current challenges to efficiently implementing the Islamic microfinance system in Bangladesh have emerged from the systematic literature review. These are listed here:

1. A policy and regulatory climate that is not conducive
2. Assets in short supply
3. Ensuring Shariah observance

4. Concerns about the long-term viability of Islamic microfinance products
5. Lack of product diversification
6. The general public's lack of understanding of Islamic microfinance
7. Absence of adequate marketing of Islamic microfinance products due to poor links with capital markets and Islamic MFIs
8. Scarcity of professionals in Islamic microfinance due to a lack of government backing
9. Islamic microfinance organizations not working in rural areas
10. Lack of reporting by the Islamic MFIs.
11. No higher education institutions offering courses in Islamic microfinance.

Other factors also contribute to the Islamic microfinance system's unpopularity in Bangladesh, as found in different literature. People living in various remote areas, for example, are frequently excluded from mainstream financial services due to extreme poverty. Furthermore, due to lack of knowledge, some people in different societies show apathy and indifference towards Islamic microfinance products. At the same time, people are often unaware of the availability of various Islamic microfinance products in their area due to a lack of effective marketing activities, which impedes the spread of Islamic microfinance in different parts of the country (Dhaoui, 2015).

According to Hossain and Abdullah (2019), the rise of Islamic microfinance in Bangladesh is not as expected due to a variety of problems such as lack of sufficient resources and regulatory assistance, as well as high transaction costs. According to the study, many funders lack appropriate awareness of Islamic microfinance, and as a result, they frequently demonstrate a lack of enthusiasm in investing in such programs. Again, Islamic microfinance companies such as IBBL have a limited number of workers and employees available to work in rural areas to administer Islamic microfinance programs. This makes it difficult for these Islamic MFIs to expand their operations.

Majority of the above-mentioned challenges were also highlighted by Nabi et al. (2017). In addition, the authors identified several more challenges that are hampering the progress of Islamic microfinance programmes in Bangladesh. These include inconsistent demand for Islamic microfinance products over the conventional ones, lack of funding and support, the dominance of conventional MFIs or NGOs, and the allegations against Islamic MFIs that they sometimes patronise extremists or militant activities.

Besides, the dominance of conventional NGOs/MFIs and lack of Islamic financing sources act as significant barriers for Islamic microfinance development in Bangladesh. There is also a lack of proper guidance from higher authorities, creating an unfavourable situation for the MFIs working in this country. The higher transaction costs and higher risks are also the reasons why Islamic MFIs are unable to flourish here (Hossain & Abdullah, 2019). The outcomes of the review of these research papers have made it clear why Bangladesh is falling behind in successfully implementing the Islamic microfinance system.

Effective Measures to Implement Islamic Microfinance System in Bangladesh

The reviewed articles explain the essential steps that need to be taken in order to successfully popularise Islamic microfinance products and services in Bangladesh. For instance, Islamic commercial banks and cooperatives in Bangladesh need to play crucial roles to solve the aforementioned issues. In particular, Islamic commercial banks need to step forward with

creating units with Islamic microfinance programs. At the same time, employing external supervisions, internal control, and the development of associations, Islamic rural banks and cooperatives need to start offering Islamic microfinance services that prove to be attractive to the clients. These Islamic MFIs should also be suitably financed by savings deposits and equity of members. The government should also step forward to provide all forms of financial and legal aid to the Islamic MFIs to efficiently provide services to the needy people in Bangladesh (Parvej et al., 2020).

Moreover, the reviewed articles have also suggested that proper skill-development training should be offered to the users of microfinance products so that they can boost their earning capacity and are able to repay the loans without any problem. The investment money can be reached to them as several forms of loans, like seasonal loans, home loans, general loans, and school loans. The Palli Karma-Sahayak Foundation (PKSF), the authorised agency for managing partnership between the government and the non-governmental organisations (NGOs) of Bangladesh, has to adopt particular laws and regulations to extend the activities of Islamic MFIs of the country (Nabi et al., 2017).

Islamic MFIs are also finding it difficult to reach a significant number of people in Bangladesh due to higher risks and transaction costs. As a result, as Hossain and Abdullah (2019) pointed out, these businesses must be inventive in order to lower transaction costs and risks. Furthermore, these MFIs should begin hiring more employees and providing them with sufficient training so that they may use all of their abilities to promote Islamic microfinance products in all parts of the country.

Besides, specific efforts must be made to raise public awareness of Islamic microfinance products and the advantages of adopting them. MFIs must undertake several types of workshops in order to achieve this goal. Furthermore, both print and electronic media must focus on Islamic microfinance challenges in order for these products to gain popularity. If these measures succeed, there is a great chance that the entire society will transform and Bangladesh's poverty level will be greatly lowered.

CONCLUSIONS

Millions of Bangladeshis living in extreme poverty are unable to participate in development initiatives due to their lack of access to formal financial services. As a result, they are unable to fund their children's education, build assets, or take advantage of various economic opportunities. Furthermore, when faced with financial shocks, they become extremely vulnerable. Islamic microfinance, as examined in this study, can assist these poor people in improving their overall socioeconomic conditions and living in a society with dignity and respect. If the issues raised in this study can be effectively addressed, the unproductive people of Bangladesh will no longer be a burden on society, but will instead be able to effectively contribute for themselves, the society, and the country as a whole.

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