

Role of Islamic Microcredit in Poverty Alleviation: A Study in Bangladesh

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ABSTRACT

Islamic microcredit is playing a pivotal role in poverty alleviation and economic growth in Bangladesh. Its popularity stems from religious alignment with Islamic values and the prohibition of interest. This study explores the role of Islamic microcredit programs provided by commercial banks in Bangladesh, focusing on Sharia-compliant financial products designed to uplift marginalized populations. Using data on income growth, asset accumulation, and entrepreneurial development, this paper compares the programs' impact on rural and urban communities, emphasizing women's empowerment and financial inclusion. Furthermore, this study examines operational challenges and the real-world impact of these programs on beneficiaries, drawing comparisons with international Islamic microfinance models. This article aims to provide insights for researchers, stakeholders, and policymakers on enhancing the effectiveness of Islamic microcredit.

Keywords: Islamic microcredit, poverty alleviation, Sharia compliance, socio-economic impact.

INTRODUCTION

Concept of Microcredit in Islamic Finance

Microcredit involves offering small, accessible loans to financially excluded individuals. In Bangladesh, where 21.8% of the population lives below the poverty line—primarily in rural areas—access to financial services remains limited. Islamic microfinance offers an ethical alternative through interest-free loans (Qard Hasan) and profit-sharing models (Mudarabah), aligning with Islamic principles of risk-sharing. Key institutions, such as Islami Bank Bangladesh PLC (IBBL) and Social Islami Bank Limited (SIBL), have developed microcredit programs that integrate financial support with social initiatives for sustainable poverty alleviation.

Islamic Finance: A Global Perspective

Globally, Islamic finance is growing, especially in Muslim-majority countries. Indonesia's BMT integrates charity (Zakat) with microcredit to support small enterprises, while Pakistan's Akhuwat Foundation provides interest-free loans funded by philanthropic contributions. These models offer valuable lessons for Bangladesh in effectively tailoring microfinance to local needs.

Challenges of Islamic Microcredit Programs

Despite its success, Islamic microcredit in Bangladesh faces significant challenges. High repayment rates are vital for sustainability, yet many beneficiaries struggle with repayment due to limited business development

and market access. Other challenges include ensuring Sharia compliance and operational constraints in loan distribution. Addressing these issues calls for enhanced partnerships, digital platforms for loan tracking, and additional borrower support for effective loan utilization.

Social Impact of Islamic Microcredit

Beyond financial inclusion, Islamic microcredit has broad social impacts, including improvements in education, healthcare, and overall quality of life. Many beneficiaries allocate increased income to children's education and healthcare, significantly raising living standards. Women in both rural and urban areas report improved social status and economic empowerment through these programs.

Comparative Perspective with International Models

Comparing Bangladesh's microcredit model with other countries' approaches reveals potential improvements. Indonesia's BMT incorporates vocational training, while Malaysia's Amanah Ikhtiar Malaysia (AIM) emphasizes women's empowerment through small business loans. These integrated models highlight the benefits of combining microcredit with other support services, which could further strengthen Bangladesh's programs.

OVERVIEW OF ISLAMIC BANKS IN BANGLADESH

Islami Bank Bangladesh PLC: A Pioneer of Islamic Microfinance

Founded in 1983, IBBL leads in poverty alleviation through Sharia-compliant microcredit. With its extensive branch network, IBBL provides interest-free loans to rural communities, particularly supporting small-scale agriculture and businesses. The bank collaborates with NGOs to enhance outreach and impact.

Success Stories of IBBL

Beneficiaries of IBBL's programs report substantial improvements in financial stability, increased income, and job creation, which have raised overall living standards.

Social Islami Bank Limited: Integrating Social Development

Founded in 1995, SIBL combines microcredit with social development programs, focusing on marginalized groups and women. By integrating financial support with education, healthcare, and skill development, SIBL promotes holistic economic empowerment.

Achievements by SIBL

SIBL's microcredit has led to successful business ventures, particularly for women, and improved community welfare through its integrated development initiatives.

LITERATURE REVIEW

Research indicates a strong economic impact of Islamic microcredit. For instance, Khan et al. (2022) found that IBBL's programs enhance income and financial stability, while Rahman and Chowdhury (2023) highlight SIBL's role in empowering women. Internationally, Farooq and Murad (2019) suggest that equity-based models, such as Mudarabah and Musharakah, are effective in poverty reduction by avoiding high-interest debt traps.

Integrated models, like those of Indonesia's BMT and Pakistan's Akhuwat Foundation, use Zakat and Waqf to create sustainable poverty alleviation frameworks. Chapra (2000) advocates for Islamic finance as an

equitable system, while Kuran (2006) critiques conventional microfinance for creating cycles of debt. Islamic microfinance offers a sustainable, ethical alternative.

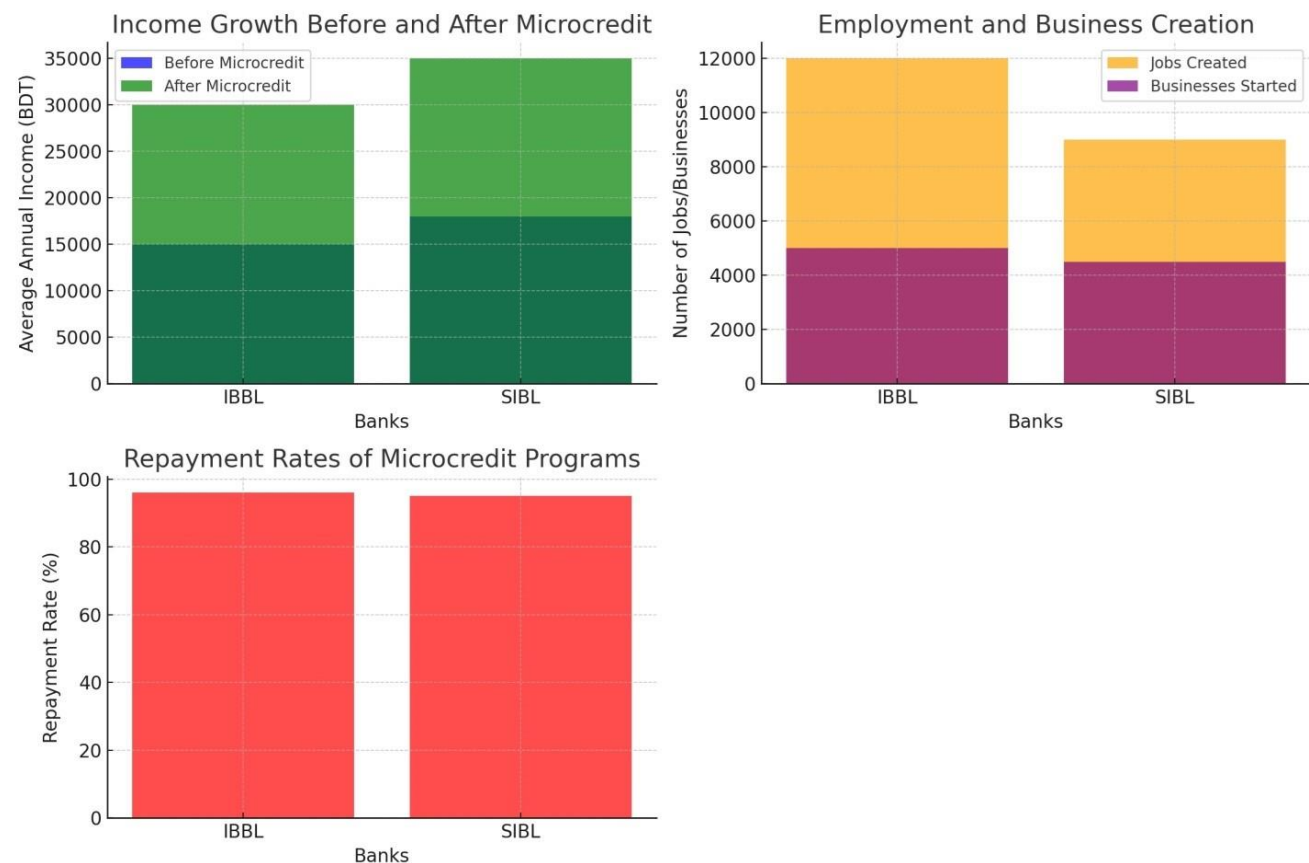
Objectives

- Identify the role of Islamic microcredit in poverty alleviation.
- Examine the challenges of Islamic microcredit programs.
- Provide recommendations to enhance program performance.

METHODOLOGY

This study used both quantitative and qualitative methods. Surveys of 50 bank officials from IBBL and SIBL, along with focus group discussions with 30 beneficiaries, provided insights into income growth, employment, and repayment. Data were analyzed using SPSS for quantitative insights, while focus groups contributed qualitative perspectives on repayment challenges and social benefits.

RESULTS AND DISCUSSION



Income and Employment Growth

Both IBBL and SIBL programs significantly improved income levels. For IBBL, average annual income rose from BDT 15,000 to BDT 30,000, a 100% increase, while SIBL beneficiaries saw a 94.4% rise. Increased income enables beneficiaries to invest in essential needs, contributing to long-term poverty reduction.

Employment and Business Creation

IBBL and SIBL have collectively created over 9,500 jobs and numerous small businesses in retail, agriculture, and production. These businesses reduce unemployment, offer stable livelihoods, and support local economic development.

Repayment Rates and Program Sustainability

IBBL's repayment rate stands at 96% and SIBL's at 95%, showcasing effective loan management and program sustainability. High repayment rates enable banks to reissue loans to new beneficiaries, strengthening the financial health of these programs.

Overall Economic Impact and Long-Term Sustainability

Islamic microcredit significantly enhances economic self-sufficiency by increasing incomes, supporting entrepreneurship, and fostering local employment. High repayment rates ensure sustainability and allow for program expansion, offering a pathway to break the poverty cycle in an ethical and effective manner.

RECOMMENDATIONS

Expanding Digital Solutions

Digital banking access can extend microcredit reach and streamline repayment tracking, particularly in underserved areas.

Strengthening Support Systems

Continuous training, market access, and financial guidance can help beneficiaries use loans effectively. Collaborations with NGOs can provide these additional support services.

Leveraging International Models

Incorporating strategies from Indonesia and Malaysia, such as combining microcredit with vocational training and healthcare initiatives, could enhance Bangladesh's Islamic microcredit programs.

CONCLUSION

IBBL and SIBL have played significant roles in poverty alleviation through Sharia-compliant microcredit. By focusing on ethical finance and comprehensive social development, these banks empower marginalized communities and foster economic growth. Continued innovation and international benchmarking can further enhance the role of Islamic microcredit in building a more equitable and prosperous Bangladesh.

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