

Is Islamic Microfinance Model a Viable Alternative to Conventional Counterparts: An Institutional Comparison

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Abstract

Microfinance, a commendable means of poverty alleviation, is considered the sustainable tool for bringing off the impoverished portion of the society from extreme poverty by development agencies, international institutions, and governments around the globe. Bangladesh is blessed with the pioneering institutions for the microcredit movement like BRAC, Grameen Bank, and ASA, founded in 1972, 1976 and 1978, respectively. Moreover, in 1995 Islami Bank Bangladesh Limited launched the first Islamic microfinance program, 'RDS' followed by the entry of Al-Arafah Islami Bank Limited and Social Islami Bank Limited in 2001 and 2015, respectively. This paper, through institutional comparison among conventional micro-credit models and Islamic microfinance models in Bangladesh, aims to investigate whether Islamic microfinance models can be established as viable alternatives to mitigate the loopholes of their conventional counterparts. Therefore, descriptive statistics for representing data of conventional

MFIs from 2010 to 2020 for Grameen Bank and ASA; 2010 to 2019 for BRAC along with Islamic banks from 2014 to 2020 for IBBL; 2016 to 2020 for AIBL; 2015 to 2020 for SIBL, and content analysis on particular institutional models are performed. Resemblances are identified in focus group, sectorial preference, and basic lending activities. However, the *Shari'ah* based products, up-gradation opportunity, co-operating approach for loan repayment, gender neutrality, and prevention of fund diversification adopted by Islamic models can appease the respective loopholes. The existing literature does not cover discussion on conventional and Islamic microfinance on more than one Islamic microfinance models in the same study as well as fails to provide any consensus concerning the supremacy of either of the models, which creates the room for further research in this regard. Moreover, this study has significant implications for policy-makers and microfinance providers in developing countries to assure smooth microfinance services to assist in achieving the first goal of Sustainable Development Goals (SDG).

Keywords: *Islamic shariah, Microfinance, Missing middle, Spouse guarantee, Up-gradation opportunity.*

JEL Classification: *G20; G21; N25*