Journal of Islamic Finance Vol. 11 No. 2 (2022) 149-160
IIUM Institute of Islamic Banking and Finance
ISSN 2289-2117 (O) / 2289-2109 (P)

An Analysis of the Joint Liability Model in Bangladesh: Lessons for the Islamic Microfinance Institutions

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Abstract

As a powerful tool for eradicating poverty, microfinance enables the underprivileged to rise up the social and economic ladders, contribute to society, and lessen their vulnerability. As a novel financial tool, Islamic microfinance can also help the impoverished escape the cycle of poverty. Bangladesh has millions of people who are living in abject poverty because of their inability to use formal financial services. Hence, to improve the conditions of the poor, a good number of microfinance institutions have come forward with a variety of microfinance products. Most significantly, different microfinance institutions like the Grameen Bank and the Islamic Bank Bangladesh Limited (IBBL) have started their microfinance programmes that have achieved immense success in Bangladesh. This study aims to analyse the lessons the Islamic microfinance institutions (IMFIs) can take from the success of the Grameen Bank and its joint liability model. Using the systematic literature review (SLR) approach, this study does a comparative analysis between the operations and success of the joint liability model of Grameen Bank and the Rural Development Scheme (RDS) of IBBL. It also offers some useful recommendations for the IMFIs generally so that they can enhance their impact on the poor and vulnerable people through Islamic microfinance schemes. The outcomes of this study can be vital for practitioners and entrepreneurs who want to start the operations of new IMFIs, specifically in Bangladesh.

Keywords: *Islamic microfinance, Rural Development Scheme (RDS), Joint liability model, Grameen Bank, IBBL*

1. Introduction

Microfinance, characterised as the provision of financial services to the poor and disadvantaged of a society who are unable or unwilling to accept mainstream financial institutions, can play a key role in reducing poverty (Muhammad, 2022a). It can eventually enable the impoverished to join the labour force and improve their economic and social circumstances. In conventional microfinance programmes, small amounts of loans are often granted for a brief period. Microfinance models like the joint liability models are also distinguished by the prompt payment of repeat loans when the prior loans are repaid on time, the availability of services at convenient times and locations, and the streamlined evaluation of investments and borrowers. In most instances, microfinance providers attempt to ensure that the loan money reaches those who are experiencing extreme poverty and hardship (Muhammad, 2022a). All of the loan recipients are included in specific groups, and all of them within a particular group share the liability or risk for these loan repayments. For this reason, this model is called the 'joint liability' model (Gallenstein et al., 2020).

Islam prohibits, however, the predetermined price of capital, recognised as interest/Riba, which is strongly associated with traditional microfinance. Due to their faith and social restraints, many pious Muslims attempt to avoid microfinance based on interest (Islam et al., 2020). As documented by Cameron et al. (2021), over 20% of underprivileged people in some Muslim-majority countries chose not to engage in conventional microfinance programs due to the existence of riba in these microfinance programs. Islamic microfinance

Article history
Received: 13 November 2022
Accepted: 28 December 2022

provides an alternative for impoverished individuals to escape the cycle of poverty in an efficient and Shariah-compliant manner, thus assisting them in improving their overall socio-economic conditions. Islamic microfinance programmes can also offer these individuals a golden opportunity to significantly improve themselves and contribute to the society and the nation (Muhammad, 2022b).

Millions of unemployed individuals routinely stress Bangladesh's economy (Hossain, 2021). As found by Banu et al. (2021) various microcredit programmes in Bangladesh have significantly helped both rural and urban poor households to improve their standard of living by increasing income, saving, and expenditures, as well as reducing poverty. Islamic microfinance programmes like the Rural Development Scheme (RDS) can also offer these individuals a fantastic opportunity to significantly improve their lives, those of their communities, and the nation. If properly implemented, Islamic microfinance programs have the potential to change the course of Bangladesh's poor and helpless people's lives and enable them to lead fulfilling lives.

2. Literature Review

According to Mansori et al. (2020), the act of offering borrowers, primarily low-income consumers, various financial services that the general financial institutions typically disregard owing to a lack of assets or collateral is known as microfinance. It also helps low-income individuals achieve financial independence by providing them with access to financial services that enable them to move money, save money, and/or buy insurance (Mansori et al., 2020). To put it another way, microfinance promotes the development of small businesses, employment, and economic growth—all of which contribute to the emancipation of low-income individuals from poverty (Mansori et al., 2020).

The origins of microfinance can be found in Bangladesh, where Nobel laureate and Grameen Bank founder Prof. Muhammad Yunus launched microcredit programs using the joint liability model in the 1970s (Alaro and Alalubosa, 2019). Through microfinance, Grameen Bank showed significant success in reducing poverty-related suffering and allowing impoverished women to become financially independent (Alaro and Alalubosa, 2019). Since then, numerous additional microfinance institutions have emerged and launched their businesses around the nation. As a result, Bangladesh's microfinance sector has grown significantly over the past four decades (Hossain and Abdullah, 2019).

As argued by Tamanni and Besar (2019), the failure of traditional banks and other financial institutions to reach out to microentrepreneurs or poor families who are in severe need of financing is what gave rise to the microfinance movement. Asymmetry in information and issues with agencies are further causes of this market failure. All of them contributed to the development of Grameen Bank, Bank Rakyat Indonesia Unit Desa, Accion, BancoSol, and many more forerunners in microfinance that supplemented the respective governments of Bangladesh, Indonesia, India, and Bolivia's programmes to reduce poverty (Tamanni and Besar, 2019). In order to fulfil the greater goal of expanding financial inclusion, the MFIs' focus has also changed from solely providing microcredits to small business owners to providing a variety of financial products, like insurance and savings, that meet the growing needs of the underprivileged (Tamanni and Besar, 2019).

The microfinance system has unique features, especially the microcredit system that has gained popularity in Bangladesh. The ideas based on the joint liability method are used by numerous well-known microfinance organisations operating in Bangladesh, including Grameen Bank, Asa, Proshika, and BRAC (Banu et al., 2021). More than 1500 NGOs (non-governmental organisations) currently engage in microfinance-related operations, in addition to government-sponsored groups like Bangladesh Bank and commercial or specialist banks like Rajshahi Krishi Unnayan Bank (RAKUB) and Bangladesh Krishi Bank (BKB) (Banu et al., 2021). Members of borrower groups are given loans by these MFIs, which secure loans using peer monitoring rather than tangible collateral (Banu et al., 2021). To guarantee that the loans are used to their fullest potential, these MFIs in Bangladesh provide loans as well as education, skill-based programs, and training facilities to microentrepreneurs and low-income borrowers (Banu et al., 2021).

Microcredit, microinsurance, microsavings, microequity, and many other microfinance products are commonly used by MFIs. These microfinance products are thought to be a more effective instrument for outreach and cost recovery when lending to the underprivileged (Kumari, 2020). According to Ahmad et al. (2020), microfinance institutions (MFIs) strive to attain a "double bottom line" by simultaneously ensuring solid financial performance and favourable social consequences. By the end of 2017, 981 MFIs have filed performance reports to the Microfinance Information Exchange (MIX Market), confirming 139 million customers and an estimated US$114 billion in loan volume worldwide, according to Ahmad et al. (2020).

Again, Islamic microfinance (IsMF) is an interest-free, no-collateral lending method that offers small loans to the needy (Islam et al., 2020; Mansori et al., 2020). Islam et al. (2020) noted that Islamic microfinance programs have two goals. First, by helping the underprivileged financially and technologically and encouraging generosity and empathy by abiding by the Shariah principles, Islamic microfinance aims to advance social well-being. The second objective is achieving institutional sustainability and financial gain through the provision of personal loans to economically marginalised business owners. According to Ahmad et al. (2020), Islamic microfinance is based on four major principles:

(1) Interest is absolutely prohibited.

(2) Although the most popular Islamic microfinance programs do not adhere to conventional profit-and-loss sharing notions, lenders are reimbursed through profit sharing.

(3) Islamically banned activities, such as *maysir* (gambling), alcohol, and borrowing and lending to conventional MFIs that charge interest, are not permitted to be funded by MFIs.

(4) Contractual provisions must be entirely clear and free of all ambiguity due to the prohibition of *gharar* or uncertainty.

According to Cameron et al. (2021), most Muslims frequently wish to avoid traditional microfinance services, especially microcredit, because of religious obligation. Both giving and receiving interest-bearing loans, in their opinion, are usually considered to violate the principles of Shariah law due to the prohibition of riba, and Shariah law particularly favours risk-sharing between lenders and borrowers under the profit-sharing principle. Contrarily, traditional microcredit contracts are designed to give the microfinance institution a guaranteed return on each contract while subjecting borrowers to the risk of unpredictable returns (Cameron et al., 2021).

Islamic MFIs offer a significant alternative to traditional MFIs that raise ethical questions about the societal effects of high interest rates and commercialisation, as claimed by Ahmad et al. (2020a). They conducted a global survey and discovered that the market for Islamic microfinance has expanded recently, and there are great chances that it will be in all parts of the world. According to Fan et al. (2019), Shariah-compliant Islamic MFIs have a lower credit risk than traditional MFIs because these Islamic MFIs have strong incentives to engage in and oversee the projects of the entrepreneurs due to their risk-sharing nature. But these Islamic MFIs are also less profitable and financially not stable (Fan et al., 2019). They do, however, reach out to more people in need and are less likely to "mission drift." However, As found by Nabi et al. (2017), only 5% of Bangladesh's microfinance market is currently accounted for by Islamic microfinance, even though more than 37 million poor individuals there are currently benefiting from various conventional microfinance programs. Hence, it is important to analyse the ways these IsMFIs can adopt to popularise Islamic microfinance products in different areas in Bangladesh by following the examples of Grameen Bank and different other popular MFIs and eventually can flourish the Islamic microfinance industry in this country.

3. Research Methodology

This study adopts a systematic literature review (SLR) approach and applies content analysis and library research methods to collect, process, and interpret the relevant qualitative data. Different research databases, including Emerald Insight, Mendeley, Scopus, and Google Scholar, are used to select the articles necessary for this study. All the source articles are peer-reviewed and published in various indexed journals and conference proceedings in the last five years. The keywords used for searching the articles include 'microfinance in Bangladesh', 'Grameen Bank and Joint Liability Model, 'Success of Joint Liability Model', 'Islamic Microfinance in Bangladesh', 'IBBL and RDS', and 'Challenges in Islamic Microfinance'. The initial search yielded 117 potentially relevant papers, and by screening the titles and abstracts of these articles, 68 articles were excluded from this study. After evaluating the remaining 49 papers, 25 articles were excluded due to a lack of relevancy and comprehensiveness. Eventually, 24 articles were included in this study that satisfied all criteria.

The inclusion and exclusion criteria regarding the selection of research papers are listed in Table 1:

Table 1: Inclusion and Exclusion Criteria

Included	Excluded
Articles published between 2017-2022	Published before 2017
Full Text	Full text not available
Written in English	Written in other languages
Topics covering Microfinance, Joint Liability Model, and Islamic microfinance from Bangladesh perspectives	Topics avoiding Microfinance, Joint Liability Model, and Islamic microfinance from Bangladesh perspectives

Articles published before 2007 were excluded to ensure that the source of information is up-to-date or current. A list of the 24 papers used as the source of information for this article is presented in the following Table 2:

Table 2: List of Source Papers

Paper No.	Name of the Authors (Years of Publication)	Title of the Paper	Journal Published	Type of Study
1.	Ahmad, S., Lensink, R., & Mueller, A. (2020)	The double bottom line of microfinance: A global comparison between conventional and Islamic microfinance	*World Development*	Quantitative Analysis
2.	Ahmed, S., Islam, R., & Al-Asheq, A. (2021)	Prospective customers' behavioural intention towards Islamic microfinance Services in Bangladesh	*Institutions and Economies*	Quantitative Analysis
3.	Alaro, A. A. M., & Alalubosa, A. H. (2018)	Potential of Sharīʾah compliant microfinance in alleviating poverty in Nigeria: A lesson from Bangladesh	*International Journal of Islamic and Middle Eastern Finance and* Management	Qualitative Study
4.	Ashraf, M. A. (2018)	Use of bounded rationality theory to understand participation of women in Islamic microfinance	*Enterprise Development & Microfinance*	Quantitative Analysis
5.	Banu et al. (2021)	Effect of microfinance adoption on rural household income in selected Upazila of Kushtia District of Bangladesh	*Bangladesh Journal of Multidisciplinary Scientific Research*	Quantitative Analysis
6.	Cameron, A., Oak, M., & Shan, Y. (2021)	Peer monitoring and Islamic microfinance	*Journal of Economic Behaviour & Organization*	Mixed-Method Study
7.	Fan et al. (2019)	Security design, incentives, and Islamic microfinance: Cross country evidence	*Journal of International Financial Markets, Institutions and Money*	Mixed-Method Study
8.	Gallenstein, R. A., Flatnes, J. E., & Sam, A. G. (2020)	The role of social capital in risk-taking decisions under joint liability lending	*The Journal of Development Studies*	Empirical Study
9.	Hossain, M. I. (2021)	COVID-19 impacts on employment and livelihood of marginal people in Bangladesh: lessons learned and way forward	*South Asian Survey*	Qualitative Study
10.	Hossain, B., & Abdullah, M. F. (2019).	The Growth and contemporary challenges of Islamic microfinance in Bangladesh	*Asian People Journal*	Qualitative Study

Paper No.	Name of the Authors (Years of Publication)	Title of the Paper	Journal Published	Type of Study
11.	Islam, R., Ahmad, R., Ghailan, K., & Hoque, K. E. (2020)	An Islamic microfinance approach to scaling up the economic life of vulnerable people with HIV/AIDS in the Muslim society	*Journal of Religion and Health*	Mixed-Method Study
12.	Kassim, S. H., & Rahman, M. (2018)	Handling default risks in microfinance: the case of Bangladesh	*Qualitative Research in Financial Markets*	Qualitative Analysis
13.	Kumari, P. (2020)	Theoretical analysis of microfinance on poverty alleviation	*Journal of Economic Info*	Qualitative Study
14.	Mahmood, H., Hassan, R., & Salman, S. A. (2020).	Islamic microfinance in India: a quantitative approach	*Journal of Islamic Banking and Finance*	Quantitative Approach
15.	Mansori, S., Safari, M., & Ismail, Z. M. M. (2020)	An analysis of the religious, social factors and income's influence on the decision making in Islamic microfinance schemes	*Journal of Islamic Accounting and Business Research*	Numerical Analysis
16.	Muhammad, N. M. (2022a)	Islamic microfinance in Bangladesh: opportunities and challenges	*Asia Proceedings of Social Sciences*	Qualitative Study
17.	Muhammad, N. M. (2022b)	Why Bangladesh is falling behind in implementing Islamic microfinance system? A systematic literature review	*International Journal of Al-Quran and Knowledge*	Qualitative Study
18.	Nabi et al. (2017)	Islamic microfinance as a tool of financial inclusion in Bangladesh	*Journal of Islamic Economics, Banking and Finance*	Qualitative Study
19.	Parvej et al. (2020)	Role of Islamic microfinance in alleviating poverty in Bangladesh: A study on RDS of IBBL	*International Journal of Financial Research*	Statistical Analysis
20.	Ranabahu, N., & Wickramasinghe, A. (2022)	Sustainable leadership in microfinance: a pathway for sustainable initiatives in micro and small businesses	*Sustainability*	Qualitative Study
21.	Rathore, B. S. (2017)	Joint liability in a classic microfinance contract: review of theory and empirics	*Studies in Economics and Finance*	Qualitative Study
22.	Rohman et al. (2021)	A review of literature of Islamic microfinance from 2010-2020: lesson for practitioners and future directions	*Heliyon*	Literature Review
23.	Saki et al. (2021)	An assessment of borrower satisfaction of micro finance services in Grameen Bank of Bangladesh	*BUFT Journal of Business & Economics*	Quantitative Approach
24.	Uddin, T. A., & Mohiuddin, M. F. (2020)	Islamic social finance in Bangladesh: Challenges and opportunities of the institutional and regulatory landscape	*Law and Development Review*	Mixed-Method Approach

4. Results and Discussion

4.1 Role of microfinance in poverty alleviation and economic empowerment

It is commonly acknowledged that poverty levels can be reduced significantly and sustainably by using the right microfinance tools and services (Ahmed et al., 2021). Since microfinance enables the diversification of income-generating initiatives, it can have a long-lasting effect on reducing poverty. The meagre loans that MFIs provide to low-income borrowers might be used by them to launch new businesses. Additionally, this can assist them with meeting their everyday demands, such as those for food and drink, medical and educational fees, and wedding costs. MFIs are viewed as a potential answer to the poverty issue in this way (Rohman et al., 2021).

Moreover, microfinance can assist women's emancipation. It has also developed into a useful tool for assisting several "unbanked" people in society. As a result, it has also significantly enhanced the rate of financial exclusion. Through all these strategies, microfinance has proven to be an effective tool for promoting economic growth and combating poverty in many regions of the world (Alaro and Alalubosa, 2019).

Additionally, microfinance can help borrowers have better housing, health, and education options and reduce their exposure to sudden deaths, crop failure, and drought. As a result, microfinance can dramatically enhance the borrower's socio-economic situation. Hence, numerous NGOs, governments, and people have stepped up to support microfinance institutions (MFIs) around the world (Alaro and Alalubosa, 2019). Furthermore, Herath (2018) contended that microfinance has the potential to significantly lower poverty through enhancing crisis-coping mechanisms, diversifying sources of income, accumulating assets, and enhancing the socio-economic circumstances of the poor. Herath (2018) concluded that households with access to credit have significantly higher household incomes than households without credit.

4.2 The joint liability model of Grameen Bank

The joint liability model developed and implemented first by Grameen Bank in Bangladesh, leverages group lending to address the issues associated with adverse borrower selection[1] and mitigate the risk of moral hazard[2] by the borrowers. Borrowers are required to form small groups and request for small loans, as mentioned by Obaidullah and Khan (2008). The microfinance institutions will outline the requirements for obtaining loans as well as the terms of repayment. For these loan repayments, all the group's members share the liability or risk. All other members of the group attempt to assist the defaulting member in making timely loan repayments. Additionally, by doing this, the dangers of default and delinquency can be reduced (Gallenstein et al., 2020).

Similar to this, as discussed by Ranabahu and Wickramasinghe (2022), in the joint liability model, microfinance recipients establish particular groups that are frequently referred to as peer groups, solidarity groups, or shared liability groups. A special group consisting of three to five individuals provides credit guarantees for one another. A centre or cluster, which is an informal village-level unit, is made up of six to ten peer groups of this kind. These clusters are used by the MFI personnel to facilitate loan distribution, share other important details, and collect weekly repayment[3]. Using the available data and their personal relationships, borrowers and informal leaders screen people and distinguish between "good" and "bad" borrowers at peer group and cluster levels. These procedures enforce or guarantee the loan is paid back in full and on time (Ranabahu and Wickramasinghe, 2022). The joint liability lending procedure explained here is illustrated in Figure 1.

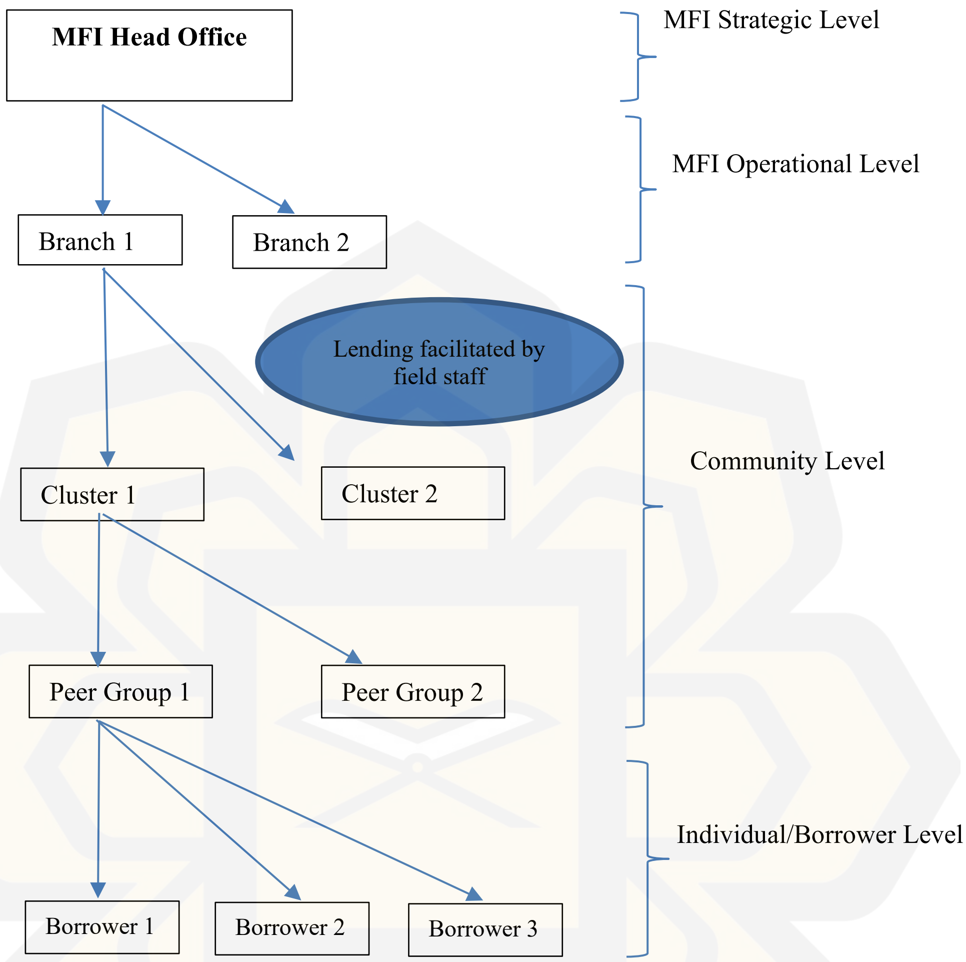
Due to the difficulty financial institutions have in successfully monitoring their debtors, moral hazard issues have been found to be reduced by using this joint liability model. In a group lending arrangement, however, everyone in the group consents to watch over one another and share obligations. Even when a member takes on dangerous initiatives but fails to repay the loan on time, other members may threaten to inflict "social sanctions" on that person (Alaro and Alalubosa, 2019). Additionally, this technique makes it very quick and straightforward for financial institutions to assess the borrowers' eligibility (Alaro and Alalubosa, 2019).

[1] The adverse selection risk exists when the borrower possesses characteristics that cannot be verified or confirmed by the MFIs but which affect his/her likelihood of repaying the loan.

[2] Moral hazard is the possibility that a party did not engage into a contract voluntarily or gave false information about its resources, liabilities, or creditworthiness.

[3] In Bangladesh, majority of the MFIs collect the payments or installments on a weekly basis from the borrowers.

Figure 1: Joint liability lending process



4.3 The success factors of the joint liability model of Grameen Bank in Bangladesh

As Rathore (2017) argued, Grameen Bank achieved immense success through its joint liability model using the proper application of peer selection, peer pressure, and peer monitoring. Even though loans are given to specific people, the group is held jointly responsible if there are problems with repayment. Through these, the joint liability model has overcome both the enforcement and informational failures that appear in the credit markets for impoverished people. When the problem of information asymmetry exists, it makes it difficult for MFIs to understand the characteristics of the borrowers. Therefore, they fail to avoid the problems related to adverse selection, which affects the lone repayment rate, leading to high transaction costs. Rathore (2017) also opined that the success of the joint liability model depends on the economic, social, and cultural environment.

Using the joint liability model, Grameen Bank has successfully overcome the following problems due to easy access to information (Rathore, 2017):

1. Avoiding investments in risky projects by the borrowers,
2. Differentiating between the good and bad risks,
3. Avoiding the reluctance of the borrowers to repay, and
4. Preventing the borrowers from strategically declaring that they are unable to pay on time.

As a result, Grameen Bank has successfully tackled issues related to default risk, i.e., when the borrowers are unable to fulfil their financial obligations at the agreed time or when the lenders fail to recover the loans properly. As found by Kassim and Rahman (2018), the loan recovery rate of Grameen Bank was 99.05% in 2016. Thus, the joint liability model has proven to be an effective instrument for the Grameen Bank to avoid moral hazards and default risks.

In addition, Grameen Bank has taken some other initiatives to improve the satisfaction of the borrowers, as well as its employees. For instance, Grameen Bank regularly arranges training programmes for its officials so that they can provide improved services to their customers or borrowers. Specific skill-development training programmes are also arranged regularly for the borrowers by the organisation. In some cases, by reducing the interest rates, Grameen Bank has become successful in attracting more borrowers. By eliminating the need for collateral, Grameen Bank (GB) has taken the lead in reversing conventional banking. As a result, a new banking system that guarantees cooperation, participation, accountability, and creativity has been established. The impoverished people in rural Bangladesh are given credit by GB without any kind of collateral. This bank, which has numerous locations across the nation, offers microcredits to the neediest individuals so that they can prosper and improve their way of life. Through all of these, Grameen Bank in Bangladesh has emerged as a major organisation that has ensured the financial sustainability of poor rural people and mobilised rural money (Saki et al., 2021).

4.4 Islamic microfinance programmes in Bangladesh

Numerous MFIs are currently in operation in this nation and are providing millions of the nation's poor with credit without the need for collateral. However, since the top microfinance companies have not yet begun implementing Islamic Shariah, the sector of Islamic microfinance is still relatively young in Bangladesh (Nabi et al., 2017). In Bangladesh, Islami Bank Bangladesh Limited (IBBL) is a prominent financial institution that introduced an Islamic microfinance initiative called the Rural Development Scheme (RDS) in 1995 (Ashraf, 2018). The RDS programme offers investment finance for a variety of industries, including agro-machinery, agricultural cultivation, poultry, cattle, nurseries, rural housing, fisheries, rural transportation, and off-farm enterprises (Ashraf, 2018). It has also been claimed by Ashraf (2018) that the RDS programme has greatly boosted household income, expenditure, employment, and agricultural and livestock productivity (Ashraf, 2018).

The operations of RDS and Grameen Bank in carrying out microfinance programs are compared in the following Table 3:

Table 3: Comparison of operations between RDS and Grameen Bank

Item	RDS	Grameen Bank
Assets or mode of financing	Non-interest-based Islamic financial instrument	Interest-based
Liabilities or sources of funds	Islamic charities, clients' savings, external funds	External funds, clients' savings
Financing the poorest	Include the poorest	Exclude the poorest (in most cases)
Transfer of funds	No cash (goods)	Cash
Target Objective	Family welfare	Women empowerment
Target group	Family	Women
Deduction at contract inception	No deduction	Partial fund deducted
Loan liability (for women clients)	Recipient and spouse	Recipient
Dealing with default	Using Islamic ethics	Peer pressure and threats
Incentives for Employees	Religious and monetary	Monetary
Nature of programme	Religious social development	Secular social development
Amount of loan	Less than US$100	Up to US$1,500, dependent on the sector
Loan repayment schedule	Flexible	Weekly instalment
Savings	Flexible	Compulsory weekly savings
Financial services	Credits, savings, education funds, micro-insurances, social welfare funds	Credits, savings, education funds, micro-insurances

Item	RDS	Grameen Bank
Cost of loans	Much less than 35 percent (annually, with no interest)	More than 35 percent (annually, including 20 percent absolute interest rate)

Source: Ashraf (2018)

Another prominent actor in the field of Islamic microfinance is Muslim Aid Bangladesh, a renowned worldwide organisation that has been active in this country since 2004. This IMFI employs public donations, subsidised funding from multilateral organisations like the Islamic Development Bank (IsDB), as well as local commercial banks to provide microcredit facilities to its customers (Uddin and Mohiuddin, 2020). Muslim Aid charges roughly a 12 percent service fee (*munafa'ah*) for Qard (personal and microbusiness cash lending), and around a 13 percent profit rate for its SME financing product called "*bai-muajjal*" (Uddin and Mohiuddin, 2020). For RDS, however, this rate is 10% (Uddin and Mohiuddin, 2020). Uddin and Mohiuddin also discovered that RDS and Muslim Aid both have loan recovery rates of over 98 percent.

However, IMFIs like RDS and Muslim Aid do not make a significant contribution to the economy of Bangladesh, comparing to other prominent conventional MFIs like the Grameen Bank (Hossain and Abdullah, 2018). Furthermore, other Islamic Banks and the Islamic divisions of conventional banks have not been effective in aggressively promoting Islamic microfinance products or developing programs with the same level of success as RDS of IBBL. Islamic microfinance is still in its early stages in Bangladesh due to these factors.

Furthermore, since there is no unified Shariah regulatory structure at the national level, all Islamic MFIs in Bangladesh rely on their own Shariah Supervisory Committees (SSCs). To obtain Shariah judgements on various financial concerns, these Bangladeshi IMFIs are always forced to rely on the fatwas (rulings) of their own SSCs. These SSCs also consult AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and several other international standards-setting agencies and seek advice from well-known scholars around the world, including Mufti Taqi Usmani, when making decisions (Uddin and Mohiuddin, 2020).

4.5 Challenges faced by IMFIs in implementing microfinance programmes

According to various works of literature, several factors contribute to the relative unpopularity of the Islamic microfinance system. Adhering to the principles of Islamic Shariah poses the major challenge for the IMFIs of Bangladesh. Due to poverty, people residing in various distant places, for instance, in coastal areas, are regularly denied access to Islamic microfinance programmes. In addition, some individuals exhibit indifference and apathy regarding Islamic microfinance products due to the lack of required information. Furthermore, due to the absence of efficient marketing initiatives, people frequently are uninformed of the existence of different Islamic microfinance products in their area, which hinders the expansion of Islamic microfinance programmes in various regions of the nation (Muhammad, 2022b).

Besides, the expansion of Islamic microfinance in this country has lagged behind expectations due to a number of issues, like the lack of sufficient resources, shortage of regulatory support, and the high cost of transactions (Hossain and Abdullah, 2019). Major obstacles to the growth of Islamic microfinance in Bangladesh include the predominance of conventional NGOs/MFIs and the absence of Islamic financing sources. As a result, just 5% of Bangladesh's microfinance market is accounted for by the Islamic microfinance sector, even though more than 37 million poor individuals in this nation already benefit from various microfinance programs (Nabi et al., 2017).

Hossain and Abdullah (2019) asserted that a number of issues, including a lack of enough resources and regulatory help, as well as high transaction costs, have prevented Islamic microfinance from growing as quickly as was anticipated in Bangladesh. According to the report, many funders are not well informed on Islamic microfinance, and as a result, they typically show little interest in funding such initiatives. Again, there is a shortage of workers and employees who are willing to work in remote areas to manage Islamic microfinance programmes. This makes it challenging for these Islamic MFIs to grow their business (Hossain and Abdullah, 2019).

In addition, the dominance of traditional NGOs/MFIs and the absence of Islamic financing sources pose serious obstacles to the development of Islamic microfinance in Bangladesh. Furthermore, there is a dearth of appropriate direction from higher authorities, which negatively impacts the IMFIs operating in this nation. Islamic MFIs are also not successful in this region due to the higher transaction costs and hazards (Hossain and

Abdullah, 2019).

Muhammad (2022b) also noted several additional issues that are impeding Bangladesh's Islamic microfinance initiatives from moving forward. The lack of funding and support, the dominance of traditional MFIs or NGOs, the sporadic demand for Islamic microfinance products over conventional ones, and accusations that Islamic MFIs occasionally assist extremist or militant activities are a few of these. Besides, according to Mahmood et al. (2020), there are some obstacles preventing the development of the Islamic microfinance system, including the lack of effective Islamic microfinance products, improper marketing of Islamic microfinance products, a shortage of human capital in the microfinance industry, inadequate government support, and a lack of the branches of Islamic microfinance institutions in rural areas.

4.6 What lessons IMFIs can learn from the success of Grameen Bank?

Islamic microfinance institutions (IMFIs) of Bangladesh can learn some important lessons from the examples of Grameen Bank's Joint Liability System that can help them achieve the desired success. For example, by following the joint liability model, IMFIs can ensure peer lending, peer monitoring, sharing of credit risk among group members, and homogeneity matching. Through these, IMFIs can become successful in managing the related risks and monitoring the debtors, and eventually minimising the issues related to moral hazard (Alaro and Alalubosa, 2019). In this system, every week, all group members meet with the loan officer to discuss their progress, pay the weekly instalment, and receive the required instruction. These meetings also include an explanation of the MFIs' policies and procedures. These sessions are also where the Chief of each group is chosen. When any specific member fails to repay the loan in a timely manner, other group members accept the responsibility to pay that amount; otherwise, the entire group is prevented access to future financing. This kind of microfinance approach is regarded as the most successful model globally, and Islamic microfinance institutions need to adopt it (Banu et al., 2021).

Particularly, by following the joint liability and group lending approach, Islamic MFIs can successfully overcome the problems related to information asymmetry and separation of the good risks from the bad risks. In other words, through this approach, Islamic MFIs can avoid the issues related to the adverse selection and improve the loan repayment rate quite efficiently. Eventually, these IMFIs will be able to manage the high transaction costs related to enforcement and informational problems (Rathore, 2017).

Furthermore, IMFIs need to conduct various kinds of effective marketing activities like the Grameen Bank to make Islamic microfinance products attractive to clients (Parvej et al., 2020). Additionally, specific initiatives must be taken to increase public awareness of Islamic microfinance programs and their benefits. IMFIs must participate in a variety of workshops to do this. For these products to become more well-known, Islamic microfinance issues must receive attention from both print and internet media. There is a good likelihood that if these initiatives are successful, the entire society will change, and Bangladesh's poverty rate will drop significantly (Muhammad, 2020b).

Additionally, the reviewed articles have recommended that users of Islamic microfinance products be provided with appropriate skill-development training, as offered by MFIs like Grameen Bank, to increase their earnings potential and ensure that they can return their loans without delays. These poor borrowers can access investment funds through a variety of loans, including short-term, long-term, school, and housing loans (Nabi et al., 2017). Due to higher risks and transaction costs, Islamic MFIs are also having trouble reaching a sizable portion of the population in Bangladesh. Hossain and Abdullah (2019) noted that as a result, these IMFIs need to be creative to reduce transaction costs and risks. These IMFIs should also start expanding their staff and giving them the necessary training so that they can utilise all their resources to promote Islamic microfinance products across the country. At the same time, through the equity and savings deposits of the members, these Islamic MFIs should be suitably financed (Parvej et al., 2020).

5. **Conclusion and Recommendation**

Islamic microfinance can contribute considerably and positively to enhancing the socio-economic conditions of troubled people from different regions of the world, especially in the aftermath of the COVID-19 pandemic situation. It is crucial to analyse the ways Islamic microfinance might promote to improve the financial inclusion and economic empowerment of distressed individuals, particularly in a developing country like Bangladesh. This country has also been affected hard by the pandemic's impacts. Islamic microfinance may play a key role in supporting the unfortunate people of Bangladesh and bringing smiles to their faces at the end.

IMFIs like IBBL need to learn from the successful experience of the Grameen Bank and other prominent microfinance institutions. By integrating the concepts and processes of the joint liability model and following the *Maqasid* al-Shariah, Islamic MFIs can bring success in minimising the distress of poor people, particularly those living in remote areas of Bangladesh. Through the determination and concerted efforts of the IMFI officials, recipients of Islamic microfinance products, the government, and different civil-society organisations, IMFIs can contribute significantly towards improving the economic empowerment and financial inclusion of the destitute people of this country.

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