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.

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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