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Is the 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 a sustainable tool for lifting the impoverished portion of society from extreme poverty. Through institutional comparison among conventional micro-credit and Islamic microfinance models in Bangladesh, this study aims to investigate whether Islamic microfinance models can be established as viable alternatives to mitigate the loopholes of their conventional counterparts. The study involves qualitative analysis, specifically content analysis of institutional models. Moreover, descriptive statistics for representing data of conventional microfinance institutions (MFIs) from 2010 to 2020 for Grameen Bank and Association for Social Advancement (ASA); 2010 to 2019 for Bangladesh Rural Advancement Committee (BRAC) along with Islamic banks from 2010 to 2020 for Islami Bank Bangladesh Limited (IBBL); 2016 to 2020 for Al-Arafah Islami Bank Limited (AIBL); 2015 to 2020 for Social Islami Bank Limited (SIBL) have been performed. Similarities are identified in focus groups, sectorial preferences, basic lending activities, and concentration of deposits. However, the *Shari'ah-based* products' upgradation opportunities, cooperative approach for loan repayment, gender neutrality, and prevention of fund diversification adopted by Islamic models can appease the respective loopholes. This study has significant implications for policymakers and microfinance providers in developing countries to ensure smooth microfinance services to achieve the first goal of the Sustainable Development Goals (SDGs).

JEL Classification: G20; G21; N25

Keywords: Islamic *Shari'ah*, microfinance, missing middle, spouse guarantee, upgradation opportunity

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Is the Islamic Microfinance Model a Viable Alternative to Conventional Counterparts

1. Introduction

Finance, the elixir behind the success of any organization, can be divided into two branches: conventional and Islamic. Albeit conventional finance is an ancient term in finance, Islamic finance has been a flourishing concept during the last few decades. Basically, the quirky position of conventional finance under any financial crisis unfolds the emergence of different alternatives of which *Shari'ah*-based finance – financing based on Islamic principles including profit and loss sharing, materiality, prohibition of riba (interest), no exploitation of parties, and no association with sinful actions; known as Islamic finance, is one of the promising ones.

Microfinance is considered a successful financial innovation for ensuring financial fitness by alleviating global poverty and has received a warm welcome since its inception. Microfinance is usually defined as providing credit, loans, saving vehicles, and other related financial services to the poor and vulnerable population who might otherwise have no access to those provisions or could borrow only on highly unfavorable terms (Farooq & Khan, 2014). Also, microfinance programs have been acknowledged as an approach to address income inequalities, provide better job opportunities to the unemployed, and promote microenterprises (Mobin & Ahmad, 2018). Consequently, microfinance institutions (MFIs) have grown in size and number over the past few decades as they offer access to funds to impoverished people that can be used to develop small businesses (Hurlburt, 2012). MFIs are divided into conventional and Islamic; the former is based on the application of a predetermined rate of interest for a given amount of cash credit, and the latter is governed by the concept of profit and loss sharing (PLS) principle, where goods are transferred rather than cash as a loan (Rozzani et al., 2017).

However, conventional MFIs, which are for-profit, charge significantly higher interest rates when markets are less competitive (Baquero et al., 2018), and several conventional MFIs have been accused of acting like loan sharks because they not only charge extremely high interest rates but also follow aggressive loan collection methods (Boatright, 2014). Apart from this, conventional microfinance provided by MFIs has very limited reach to the core poor (Weiss & Montgomery, 2005). Since Islamic microfinance provided by Islamic banks is based on the zero-interest rule, it benefits the poor better than its conventional counterpart (Khan & Akhter, 2017, p. 10). Therefore, Islamic microfinance is considered an alternative for meeting the financial needs of the poor and financially excluded segment (Karim et al., 2008).

Islamic banking is consistent with many elements of microfinance. According to Rahman (2007, p. 43), the collateral-free loans given by Islamic banks in a few cases can be viewed as an instance of how these two branches share common aims. Besides, both systems patronize the entrepreneurial development of borrowers and risk sharing with the depositors. These convergences may induce Islamic banks to engage in microfinance as an opportunity to diversify their investment portfolios.

Bangladesh, the polestar of micro-credit, is blessed with institutions such as Bangladesh Rural Advancement Committee (BRAC), Grameen Bank, and Association for Social Advancement (ASA) founded in 1972, 1976, and 1978, respectively. Even though the models developed by these MFIs have received worldwide acceptance and replication in numerous countries, some established loopholes, including higher interest rates, missing middle, coercive loan recovery strategy, gender bias, social repulsion, religious pressure on micro investors for association with *riba*, diversification of fund, and debt overlapping gave birth to significant controversies regarding the ultimate outcome of these models. These issues and the growing demand for microloans compel many MFIs and Islamic banks to initiate Islamic microfinance in Bangladesh. In the first place, Islami Bank Bangladesh Limited (IBBL) launched the initial Islamic microfinance program in the name of 'Rural Development Scheme (RDS)' in 1995. Further, two promising Islamic banks, Al-Arafah Islami Bank Limited (AIBL) and Social Islami Bank Limited (SIBL), entered the market in 2001 and 2015, respectively, with diversified microfinance programs.

Even though several existing studies concentrate on conventional microfinance models of Grameen Bank, BRAC, and ASA, and Islamic microfinance model, especially RDS of IBBL, separately, none of them incorporate both types of models in a single study. With such consideration, this paper, through institutional comparison among three popular conventional micro-credit models and three microfinance models of Islamic banks in Bangladesh, aims to investigate whether Islamic models can be regarded as viable alternatives for mitigating the loopholes of their conventional counterparts. Specifically, it aims to identify the basic form of each model, analyze different programs offered under each model, and compare potential convergences and divergences in these models.

The remaining part of the paper is organized into six sections. Section 2 introduces pertinent literature of the field; section 3 portrays research methodology; section 4 demonstrates the conventional micro-credit models of Grameen Bank, ASA, and BRAC; section 5 concentrates on the Islamic microfinance models of IBBL, AIBL, and SIBL; section 6 highlights the institutional divergences and convergences making an institutional comparison between conventional microfinance models and Islamic microfinance models of Bangladesh, and the last section concludes the paper with some implications and future research directions.

2. Literature Review

Although microfinance is regarded as a basic tool for reducing poverty, in most cases, conventional microfinance has failed to play a reliable role due to the existence of some inherent hurdles. The study conducted by Siddiqi (2008) mentions some of these loopholes, such as high interest rates charged by MFIs, hesitation of Muslim people in getting micro loans associated with *riba*, and women empowerment as the female clients are abused by the male partners for getting loans thus creating scope for fund diversion and subsequent moral hazard problem. In addition, he regards conventional microfinance activities as not for helping the poor but for generating profit. After investigating the lasting effect of micro-credit through the consideration of graduation rate, the rate at which entrepreneurs can raise adequate funds to launch their own full-scale firm, Ahlin and Jiang (2007) find that micro-lending can break the vicious cycle of poverty only when micro-saving is combined with it. In addition, microfinance can easily lower the total income and raise longer-term poverty if the graduation rate of borrowers is minimal, resulting in negative long-run effects. Yusuf, Shirazi, and Ghani (2013) examine the determinants of the Pakistani Poverty Alleviation Fund (PPAF) and the impact of microfinance on poverty alleviation in Pakistan. Applying a logit regression model, it is concluded that microfinance has an insignificant effect on the poverty status of poor beneficiaries. Abdullah et al. (2017) also find the presence of higher interest rates that increase poverty rather than eradicate it, peer pressure as collateral for distributing loans, and women as a focus group in the operation of the Grameen Bank model. Side by side, Zainuddin and Yasin (2019) show that conventional MFIs may face difficulties balancing their social and financial goals together.

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To refute the existing loopholes of conventional microfinance, Islamic microfinance has become an illuminating as well as extensively accepted concept worldwide. Therefore, many studies have been undertaken regarding various models of Islamic microfinance through which the prospect of such microfinance is enlightened. Haneef et al. (2015) recommend a suitable tool for poverty alleviation, namely the *waqf* (inalienable charitable endowment) based Islamic microfinance model in member countries of the Organization of Islamic Cooperation (OIC). Mobin and Ahmad (2018) regard a cash *waqf*-based model using a two-tier *mudarabah* contract as an alternative source of financing for Islamic MFIs. In addition, the model can be used to reconstruct the existing microfinance framework on the one hand. Further, the *waqf* fund can be used to promote overall performance, enhancing the socio-economic condition as a whole. Following the decomposed theory of planned behavior, Maulana, Razak, and Adeyemi (2018) find that perceived behavioral control significantly impacts clients' perception of Islamic microfinance in East Java. Therefore, model-based studies worldwide are exploring the authenticity of Islamic microfinance.

Although there are many studies regarding conventional and Islamic microfinance separately, a few are attributed to focus on their comparison. To compare performance and its determinants, some notable studies, including Berguiga, Said, and Adair (2020); Mobin et al. (2017); Fersi and Boujelbéne (2016), and Farooq and Khan (2014) are undertaken. The significant findings of these studies indicate that Islamic MFIs experience lower financial and social performance and concentrate more on social objectives rather than profitability. It is also evident that conventional MFIs show better financial performance even though Islamic MFIs are more cost-effective. Most importantly, it is found that the effect of religion on the performance of microfinance differs from region to region since significant differences exist between the performance of Islamic and conventional MFIs, albeit in some particular regions, little distinction is visible. In aggregate, Islamic MFIs exist to assist extremely marginalized portions of society, and accordingly, they are considered viable and sustainable alternatives.

Regarding efficiency and sustainability, most studies found that Islamic MFIs do better than or equivalent to their conventional counterparts. In this regard, Ahmad, Lensink, and Mueller (2020), using cross-section and panel regressions, express that Islamic MFIs perform better than conventional MFIs in terms of outreach. Similarly, the study of Mahmood et al. (2014) compare the efficiency of both types of institutions in Pakistan and report that Islamic MFIs are more efficient and sustainable and, thus, require greater attention from the policymakers.

Some studies shed light on the comparison of clients' perceptions and operational aspects of microfinance side by side. Khan and Akhter (2017) examine customer satisfaction in Islamic and conventional microfinance institutions in Pakistan, considering *Shari'ah* (Islamic principle) perception as a moderator between service quality and client satisfaction. The result reveals that *Shari'ah* perception possesses a significant and strong moderating role between service quality and client satisfaction in Islamic MFIs. To address operational aspects, Ahmad et al. (2014) differentiate between the two institutions, considering liabilities, mode of financing, process, target group, and profit earned. The study, however, revealed that interest-free loans, elimination of *riba*, more varied funding sources, and ability to encompass the hard-core poor make Islamic microfinance a better tool for eradicating poverty and facilitating small business development. Masyita and Ahmed (2013) investigate the reasons for the sluggish growth of Islamic microfinance compared to conventional counterparts in Indonesia. The findings indicate that most of the clients prefer Islamic MFIs. However, in reality, their economic choices appear to be based on economic factors such as low interest rates, low collateral, and size of the loan, and non-economic factors including quality of services, easiness, speed, and payment method.

The literature based on the Bangladesh context is significant enough since the most popular conventional MFIs are rooted in this country. Suzuki et al. (2013) depict institutional comparison in terms of incentive and sanction mechanisms of Islamic banking and Grameen mode of micro-credit and reveal that the borrowers of Grameen Bank, after the upgrade from their current status, may become the clients of Islamic banks and generate a long-term influence on Islamic banking. Dhaoui (2015), through an investigation, shows the impact of the Islamic microfinance system and its products on poverty alleviation, empowerment of the poor, and sustainable development. Along with focusing on different microfinance programs undertaken by IBBL and AIBL, the study suggests adopting full-fledged financial services for the clients rather than the existing sole lending opportunities. Analyzing the conceptual models of Islamic microfinance, Nabi et al. (2017) represent it as a medium of financial inclusion for the extremely poor in Bangladesh. Hassan et al. (2017) analyze the impact of the RDS program on the social and economic well-being of members, especially women clientele. The results affirm the presence of a significant and positive link between the RDS program and socio-economic factors. Applying logit regression, Islam (2020) finds a significant positive impact of Islamic microfinance services on rural women empowerment in Bangladesh.

Therefore, the existing literature focusing on different models, operational aspects, region-wise analysis, and so on fails to provide any consensus about the supremacy of either of the models– conventional or Islamic- creating room for further research in this regard. By adopting an institutional comparison, this study is undertaken to identify whether the microfinance models of Islamic banks can be considered alternatives for mitigating the loopholes of conventional MFIs.

3. Data and Methods

The study has been undertaken to perform a comparative analysis of conventional micro-credit and Islamic microfinance models and thus find a sustainable alternative to conventional counterparts. Therefore, the data for the study has been retrieved from reliable secondary sources such as annual reports, credit rating reports, and MRA reports. The period for conventional MFIs spans from 2010 to 2020 for Grameen Bank and ASA, 2010 to 2019 for BRAC, whereas for Islamic banks, from 2010 to 2020 for IBBL, 2016 to 2020 for AIBL, and 2015 to 2020 for SIBL. In addition, descriptive statistics have been used to represent the yearly performance of particular institutions. Moreover, qualitative analysis, specifically content analysis, has been performed by detailing the conventional Grameen model, ASA model, and BRAC model along with the Islamic RDS model, AIBL model, and SIBL model, including the yearly performance of each. Henceforth, institutional convergences and divergences have been unearthed through the model-based comparison.

4. Conventional Micro-Credit Models of Bangladesh

The idea of group-oriented microfinance was first introduced in Bangladesh by Akhtar Hameed Khan in the 1950s through the ‘Comilla Model’ (Bateman, 2010). After that, noble laureate Dr. Mohammad Yunus introduced the first structured microfinance model, named the Grameen Bank model, in 1976, and the model received worldwide popularity and recognition. In general, non-government organizations (NGOs), MFIs, conventional commercial banks, Islamic banks, government departments, and specialized banks are the major providers of micro loans in Bangladesh. Table 1 shows the loan range, interest rate, and service charges of Grameen Bank, ASA, and BRAC.

Table 1

Loan Range, Interest Rate, and Service Charge of Grameen Bank, ASA, and BRAC

MFIs	Loan Range		Annual Interest plus service charge
	Minimum	Maximum	
Grameen Bank			
Basic loan	40,000	N/A	20%
Struggling members (beggars) loan	N/A	5,000	0
Housing loan	N/A	60,000	8%
ASA			
Primary loan	5,000	99,000	24%
Special loan	99,001	1,000,000	Above 24%
MSME	300,000	2,000,000	22%
BRAC			
Dabi or BCUP	12,000	400,000	23-30%
SCDP or NCDP	10,000	300,000	29%
Trade loan	100,000	20,000,000	20-25%
Migrant loan	100,000	10,000,000	20-25%
Remittance loan	100,000	15,000,000	N/A
Agri-business credit	100,000	1,000,000	N/A
Dependency loan	25,000	350,000	25%

Source: Constructed by the authors based on annual reports of Grameen Bank, ASA, and BRAC.
Notes: Minimum and maximum loan ranges are shown in BDT. Therefore, the accumulated annual interest and service charge is shown above.

4.1 The Grameen model

Starting in 1976, the program has received accolades and recognition from academicians and development agencies for its effort to extend banking services to the doorstep of the poor. To create a poverty-free world, the bank serves 9.34 million borrowers in 81,678 villages with a network of 2,568 branches (Grameen Bank, 2020). The micro-credit program of Grameen Bank usually offers a collateral-free group lending program for the poor. The landless and poor with minimum literacy skills and long-term residency in the project area, whose minimum cultivable land is less than 0.50 acres and whose value of all other possessions is less than one acre of cultivable land, are eligible to be members. Prospective borrowers are identified and divided into a group of five to ten members. Group members must be residents of the same village but not from the same family. Initially, two out of five or ten members in each group are eligible to receive micro-credit. Only if the first two borrowers are successful in making repayment within fifty weeks of disbursement and all group members conform to the bank rules do other members become eligible as borrowers.

Four distinct credit programs are conducted under the Grameen model: basic loan, housing loan, higher education loan, and struggling members (beggars) loan. Among these, only the basic loan is distributed for commercial purposes and others for welfare purposes with a minimum or zero interest. Until 2020, BDT 2,142,686 million has been disbursed as a basic loan, and BDT 2,007,349 million has been recovered (Grameen Bank, 2020). With the intent of helping every single dweller in its project area to leave the poverty line, Grameen Bank introduced its struggling-member loan in 2002 for beggars. The program has been an ultimate success, with 21,383 beggars left begging, and 9031 of them joined Grameen Bank under the mainstream basic loan program (Grameen Bank, 2020).

Considering the necessity of housing as a basic human need, a housing loan was introduced in 1984. Moreover, Grameen Bank provides interest-free loans for the higher education of its members' children. In addition to micro-credit, Grameen banks introduced micro-enterprise loans for its members, leaving the threshold of poverty.

Table 2 offers a comparative summary of Grameen's performance over the last eleven years of operation. It indicates that Grameen Bank has been focusing on extending its member base and volume of services while reducing exaggerated operational costs emanating from scattered networks. The bank has already reached a matured network in Bangladesh and currently focuses on providing concentrated service under an efficient center and area network. Accordingly, from 2010 to 2020, the bank reduced its number of centers by around 5.39 percent and the number of areas by 11.19 percent. Over the same time frame, only three branches have been added. Interestingly, more than 300 villages have been newly added to Grameen's network, supporting the previous statement of concentrated but more extensive service coverage policy. On the other hand, the number of borrowers experienced an increase of a percentage of 11.87 from 2010. Moreover, the amounts of disbursements and deposits of members increased sharply by 81.83 percent and 195.46 percent, respectively. Three types of deposit schemes are available for the members: personal savings, Grameen Pension Scheme (GPS), and loan insurance. A member is compulsorily required to save BDT 10 weekly, from which he can buy shares of Grameen Bank and earn interest on the deposit. Similarly, the amount of loans outstanding has gradually improved since 2011. The percentage of female borrowers has been growing since 2011, reaching 96.79 percent in 2020. Loan recovery performance also improved from the same year till 2017, after which it deteriorated by 4.6 percent.

Table 2

Comparative Summary of the Performance of Grameen Bank from 2010-2020

Items/Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of Members	8.34	8.37	8.37	8.54	8.64	8.81	8.90	8.93	9.08	9.26	9.33
Number of Centers	144,619	144,095	143,061	143,057	142,613	142,573	142,087	140,262	138,143	137,141	136,826
Number of Branches	2,565	2,565	2,567	2,567	2,568	2,568	2,568	2,568	2,568	2,568	2,568
Number of Villages	81,376	81,380	81,386	81,389	81,390	81,392	81,395	81,400	81,677	81,678	81,678
Number of Areas	268	266	266	266	266	265	257	246	239	238	238
Number of Zones	40	40	40	40	40	40	40	40	40	40	40
Percentage of Female Members	96.39	96.12	96.19	96.21	96.26	96.51	96.54	96.65	96.66	96.78	96.79
Amount Disbursed	96,149	108,539	118,609	126,026	133,321	149,227	187,533	234,715	246,810	254,374	174,831
Loan Outstanding	66,434	75,325	80,321	84,385	87,495	96,422	118,244	144,504	153,599	156,721	142,019
Members' Deposits	56,346	66,547	79,162	92,134	105,791	118,792	128,934	141,056	157,137	170,679	166,481
Non-members' Deposits	48,133	50,328	51,945	56,219	64,002	70,738	70,872	67,291	68,927	72,332	74,509
Percentage of Loan Recovery	97.37	96.75	97.03	97 .31	98.15	98.47	99.05	99.24	99.00	98.92	94.66

Source: Constructed by the authors based on different annual reports of Grameen Bank.

Notes: The number of members is in millions; the amount disbursed, the amount of loans outstanding, members' deposits, and non-members' deposits are in BDT million.

4.2 The model of ASA

With more than a decade of experience at the grassroots level, ASA has deployed its microfinance program 'banking at the bottom of the pyramid' since 1991, although its operations began in 1978. Moreover, after only a decade of financial operation, ASA declared itself financially self-sufficient from a fully donor-based organization by denying accepting any grants or donations from home and abroad. ASA serves 6.67 million members across 66,930 villages of 64 districts, with an outstanding loan of BDT 185.17 billion and a deposit balance of BDT 88.96 (ASA, 2020).

A person possessing minimum cultivable land of 0.50 acre except for residential land or one decimal cultivable land in an infertile area with a maximum monthly income of BDT 4,500 (BDT 8,000 for the urban industrial area), residing in tin-roofed or straw-made house, lacking own capital, and borrowing at high rate in times of emergency are eligible to become a member of ASA. Primarily, a group called a collection center is formed with a minimum of 10 members. A member can receive the first cycle of credit within a week of membership.

ASA offers all its loan products under two broad categories: primary and special. The primary loan is facilitated for economically active poor to undertake or strengthen income-generating activities with a term of 4 to 12 months on weekly or monthly installments or lump sum at maturity. In contrast, special loans are designed to target informal or formal small and micro enterprises or entrepreneurs to promote and scale up production, business activity, and employment generation with a maturity of 12 to 30 months on weekly or monthly installments. However, 5 percent during the initial sanction and 10 percent of the loan amount for the following sanctions must be deposited as collateral before disbursing the special loans.

Since 2017, ASA has introduced micro, small, and medium enterprises (MSME) loans, considering the necessity of the small and medium enterprise (SME) sector in fostering the economic growth of the country. Moreover, the micro-credit program of ASA has some unique features that make it different from its counterparts. ASA encourages its branches to adopt cost-effective methods and earn an adequate income to be self-reliant within 12 months of branch inception. Moreover, members are given freedom in their regular business by allowing them the choice to remain present in the group meetings. Loan disbursement also follows a quicker procedure by sanctioning within seven days of membership without any group guarantee.

Table 3 shows ASA's performance over the years. The figures indicate that the number of members and active borrowers of ASA has been decreasing till 2012, which changed its direction till 2018. The worldwide economic depression in 2011 and political instability in Bangladesh during 2012, respectively, along with ASA's focus on enhancing service quality instead of increasing the number of clients, are the reasons behind such a downward trend. With continued effort coupled with an innovative product design, ASA has registered an increase of around 60 percent in its members and 47 percent in its borrowers' coverage in the last six years. The cumulative loan disbursement and outstanding figure reflect the gradual rise in the loan portfolio till 2018. Due to the pandemic, the above four factors show a decreasing trend in the latter two years, 2019 and 2020. The cumulative savings have increased more than eight times over the last eleven years. It is important to mention that the members of ASA are required to deposit a regular fixed amount of minimum savings of BDT 10 per week and BDT 50 per month for a primary loan, and BDT 50 per week and BDT 100 per month for a special loan throughout the membership period. Moreover, the average loan size also increased over the assessment period despite fluctuations in the number of active borrowers due to a rise in loan utilization capacity. The percentage of loan recovery has been well above 99 percent in all reported years except 2019. ASA's number of branches experienced a decline for four years since 2010. After that, it continued to rise, though it never reached the same level as that of the starting year. This can be linked to the decline in active members till 2012, the number of active borrowers till 2013, and village coverage till 2014. In effect, ASA planned to shift to a more suitable location to achieve more efficient coverage during the same period, which is responsible for this decreasing trend.

4.3 The model of BRAC

As the world's largest NGO in terms of number of employees, BRAC started its journey in 1972 and initiated the microfinance program for the first time in 1974 through a relief program for group of males, named '*Shula Project*' with the motto of eliminating extreme poverty of the Bangladeshi people. To assist people in building sustainable and empowered livelihoods, microfinance, as part of BRAC's holistic approach to development, completes other social development approaches, enabling it to offer a powerful group of services. Small farmers, micro and small entrepreneurs, migrant workers, households, and jobholders, particularly women, are BRAC's focus groups in offering customized loan products. In 2019, 7.1 million clients, of whom 5.9 million were borrowers, received microfinance services (BRAC, 2019). The first step for the microfinance program of BRAC is the survey of target customers to assess their socio-economic condition, income opportunities, and education of target customers to identify a work area of 10 kilometers for establishing a branch comprising 5,000 to 8,000 families, a minimum of 1,000 eligible borrowers, and 40-50 villages capable of forming 72-108 village organizations (VOs). Only one family member who eats together can be a member of the VO. Afterward, small groups with a team leader selected by the members are formed with 5-7 members from interested villagers.

With the belief that the needs of the target customers differ, BRAC offers two diversified products for its customers: group financing and individual financing. Since 1976, group financing has been initiated to ensure women's empowerment. Major products under group financing are divided into three main categories, including general credit (*Dabi*), Secondary Crop Diversification Project (SCDP) or Northern Crop Diversification Project (NCDP), and *Borga Chashi Unnayan Prokolpo* (BCUP). *Dabi* is a group financing program for creating employment opportunities for poor females, whereas BCUP projects are designed for sharecroppers with prior experience in agriculture. Finally, SCDP or NCDP is attributed to farmers with at least three years of agricultural experience.

Table 3

Summary of Yearly Performance of ASA from 2010- 2020

Items/Year	2010	2011	2012	2013	2014*	2015	2016	2017	2018	2019	2020
Number of Members	5.56	4.94	4.74	4.86	5.03	6.31	7.43	7.84	7.58	6.83	6.99
Number of Active Borrowers	4.47	4.36	4.18	4.34	4.44	5.34	6.15	6.53	6.16	5.92	5.74
Loan Disbursement	68.49	86.7	95.58	99.96	102.64	146.39	209.06	269.59	296.81	283.68	252.16
Loan Outstanding	37.53	47.41	50.9	54.08	59.29	87.72	120.28	154.71	161.99	161.10	177.05
Total Savings	10.55	13.38	16.64	21.81	28.38	37.24	50.68	66.62	81.03	90.47	85.30
Average Loan Size	14,183	18,675	21,052	21,325	21,706	25,259	30,395	35,761	39,535	42,101	46,404
Cumulative Percentage of Loan Recovery	99.8	99.84	99.65	99.57	99.63	99.67	99.66	99.63	99.53	98.92	99.06
Number of Branches	3,194	3,154	3,025	2,933	2,931	2,932	2,933	2,959	3,042	3,045	3,073
Number of Villages	N/A	N/A	65,885	63,881	63,837	63,859	63,881	64,447	66,255	66,930	66,930
Number of Active Groups	273,317	271,697	205,713	227,919	224,219	247,247	285,097	301,654	299,170	293,529	291,725

Sources: Constructed by the authors based on different annual reports of ASA.

Notes: ASA maintained a calendar year in financial statements till 2012, when it started to follow the fiscal year in conformance with the instructions of MRA. The number of members and borrowers is in millions; loan disbursement, outstanding loans, and total savings are in billions of BDT. N/A represents not available.

Individual financing started its journey in BRAC as Microenterprise Lending and Assistance (MELA) in 1996. The entrepreneurs and farmers, including both males and females involved in small businesses or agricultural farms with an experience of a minimum of 1 year, expatriates and their families, and small job holders are qualified for the *Progoti* program under individual financing. Basic products under the *Progoti* program cover trade loans for SME owners and house owners, migration welfare loans for financing new or re-entry visas, remittance loans for family members of expatriates, agri-business loans for agriculturists, and dependency loans for low-income service holders. For all categories of *Progoti* loans, the mortgage of land and the guarantor are mandatory, though the land mortgage is not required for the dependency credit.

Table 4 indicates that the number of BRAC's clients has declined for the first five assessment years since 2010. This can be attributed to cyclone Aila in 2009 and two consecutive floods in the next two FYs. Afterward, BRAC decided to adopt steps to avoid the over-indebtedness of the borrowers by introducing stringent screening procedures. During FY 2012, it started focusing on the disbursement of medium-sized loans to fewer members. The amount of savings has grown by around four times with increasing balances over the years despite a decline in the number of clients and borrowers. It is important to mention that every borrower is required to deposit 12 percent of their installments on a general deposit account upon which 6 percent interest is earned, and after adjusting the credit amount, borrowers can withdraw their savings. Unlike the number of borrowers and members, the number of VOs peaked in 2011 with a decline in the next two consecutive FYs following the decisions to introduce strict borrower screening and focus on medium loans. Moreover, the number of branches recorded a drop in 2013 but continued to rise from 2015 in the next five years. The loan recovery percentage has always been over 99 percent, except for four years from 2011 to 2014, reflecting the post-cyclone and flood-affected defaults.

5. Islamic Microfinance Models of Bangladesh

Islamic microfinance emerged as an alternative to overcoming the failure to reach a substantial portion of poor people through conventional microfinance. However, IBBL, the first Islamic bank in Bangladesh, started its microfinance program titled RDS in 1995 to address the need for rural development. In Bangladesh, all Islamic banks are regulated by Bangladesh Bank, the country's central bank, whereas Islamic MFIs work under the supervision of MRA. Islamic banks serve almost 96 percent of borrowers of private commercial banks under microfinance. Moreover, the amount of loan disbursement and loan outstanding by Islamic banks was 98.5 percent and 97.7 percent, respectively, of the microfinance provided by the private commercial banks. Also, the loan recovery of Islamic banks depicts a better position than that of private commercial banks.

Table 4

Comparative Performance of BRAC from 2010-2019

Items/Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of Clients	8.36	8.12	6.8	5.8	5.57	5.42	5.48	6.10	6.84	7.10
Loan Outstanding	44,886	45,881	57,241	71,890	81,773	103,695	128,801	157,166	186,612	233,503
Number of Active Borrowers	5.94	5.22	4.19	4.19	4.47	4.70	5.20	5.50	6.00	5.90
Total Savings	18,872	20,227	23,114	24,907	30,925	36,101	43,364	53,385	62,347	71,021
Number of VOs	295,507	306,278	284,347	279,175	282,671	283,785	284,412	284,781	285,005	285,167
Number of Branches	N/A	2,350	2,350	2,119	2,029	2,051	2,088	2,088	2,172	2,272
Percentage of Loan Recovery	99.36	98.00	98.05	98.76	98.20	99.86	99.32	99.44	99.45	99.43

Source: Constructed by the authors based on annual reports and credit rating reports of BRAC.

Notes: The number of clients and active borrowers is shown in millions. Loan outstanding and total savings are shown in BDT million. N/A stands for not available.

Table 5

Microfinance Provided by the Banking Sector by the end of 2018-2019

Providers	Number of Borrowers	Loan Disbursement	Loan Outstanding
State-owned Banks, including Specialized Banks	218.73 (33.73)	3,017.9 (7.08)	29,395.21(35.85)
Private Commercial Banks, including Islamic Banks	233.43 (35.99)	19,928.18 (46.80)	26,598.17 (32.44)
Islamic Banks	232.38 (35.83)	19,639.63 (46.12)	25,991.37 (31.70)
Total	648.54 (100.0)	42,585.71 (100.0)	81,984.75 (100.0)

Source: Constructed by the authors based on the annual report of MRA

Notes: The figures in parentheses represent the percentage market share of the banking sector as a whole. The number of borrowers is in the thousands; loan disbursement and loan outstanding are in BDT million.

5.1 RDS of IBBL

Being the first Islamic bank in Southeast Asia, IBBL provides equal focus on the economic development of both rural and urban sectors since the former in Bangladesh has been facing acute income discrimination either in the form of underemployment or unemployment. To address acute rural-urban disparity and lessen the gap, the bank introduced its Islamic microfinance program in the name of RDS. The core objective of this program is to generate adequate rural job opportunities, extend investment facilities, and strengthen basic human development efforts through providing vocational training and conducting social awareness-building programs. On the contrary, the rate of impoverished people has increased in large cities of Bangladesh due to rapid urbanization. To shed light on this portion of society, IBBL introduced its Urban Development Scheme (UPDS) in 2012 to extend its micro-investment activities. At present, RDS and UPDS programs are available in 282 and 24 branches, respectively, with a total of BDT 320,833.33 million disbursed to more than 1 million beneficiaries of 25,842 villages under 33,619 centers (Islami Bank Bangladesh Limited, 2020).

The RDS model considers both individual and group-based financing for its target customers in which the range of investment is BDT 10,000 to BDT 75,000 for micro-investment and a maximum of BDT 500,000 for Micro Enterprise Investment Scheme (MEIS). Basically, five members with similar mentality and socioeconomic status, not the members of the same family, form a group, and eight groups form one center. Group leaders are assigned to control the activities of the group members. Field officers make weekly visits to RDS members, and central leaders organize weekly meetings where all the members are present; thus, monitoring RDS members becomes easier and more effective.

The clients of micro-investment projects are developed through capacity-building training, counseling, and logistic support for a gradual upgrade to an individual approach. Moreover, there are two types of investment facilities: (1) micro-investment without collateral for RDS members and (2) micro-enterprise investment with collateral for graduated micro clients and new local micro-entrepreneurs. Table 6 shows a better up-gradation status of micro clients along with RDS clients. It is easily evident that the number of graduated micro clients increased more than three times from 2010 to 2018. Besides, there is a sharp rise in the number of RDS members who graduated to MEIS after 2015, about a 10.26 percent increase from 2016 to 2018. In contrast, the number of graduated clients to mainstream SMEs also shows a gradually increasing trend.

Table 6

Client Upgradation Status of IBBL from 2010-2018

Particulars/Years	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of graduated micro clients, including local micro-entrepreneurs	28,566	39,015	53,063	60,089	57,985	69,604	76,348	84,309	87,708
Number of RDS clients transferred to MEIS	5,713	8,482	9,618	17,719	27,128	43,604	128,090	136,455	141,231
Clients already transferred to mainstream under SME	NA	NA	NA	NA	NA	NA	5,315	5,349	5,682

Source: Constructed by the authors based on different annual reports of IBBL.

Table 7 provides a summary of the performance of RDS and UPDS. By the end of 2020, investment in RDS reached 3.72 percent of the total portfolio of IBBL. The operational facilities such as centers, branches, and villages of the RDS program of IBBL show an increasing trend of 16.6 percent, 21.9 percent, and 38.8 percent, respectively, from 2015 to 2018. In addition, the number of members under RDS and UPDS has risen by 39.7 percent till 2020. Side by side, the amount of savings and investment outstanding have more than doubled over the years. The members of RDS and UPDS must maintain a compulsory weekly saving with the bank at least TK. 50. Most interestingly, the total disbursement under both schemes has increased continuously, but after 2016, a huge amount of investment was made, which resulted in an increase of about 58.88 percent from 2017 to 2020. Despite this, IBBL has taken a conservative approach in the case of increasing the operating facilities of UPDS, and it is clear that UPDS is performing better with almost doubled investment, disbursement, and savings till 2018.

Table 7

Summary of RDS and UPDS

Items/Year	RDS				UPDS				RDS & UPDS	
	2015	2016	2017	2018	2015	2016	2017	2018	2019	2020
Number of Branches	227	228	247	248	24	24	24	24	295	306
Number of Members	923,250	970,750	1,076,297	1,076,429	24,055	28,390	32,413	31,854	1,253,512	1,323,705
Number of Clients	553,098	564,873	637,083	607,402	16,722	17,979	20,302	18,130	687,234	707,490
Total Disbursement	29,023.84	30,348.61	197,524.83	230,725.68	900.2	1,097.55	4,420.47	5,698.12	278,660.02	320,833.33
Investment Outstanding	20,074.20	23,537.73	27,323.37	28,372.37	724.62	939.26	1,109.87	1,063.90	32,722.02	37,766.98
Overdue	96.62	98.34	117.69	144.89	12.92	13.04	15.1	21.95	209.75	449.77
Savings	6,779.50	7,758.18	9,083.70	10,172.24	111.18	194.46	250.01	292.66	11,852.25	12,653.05
Number of Centers	28,822; 28,960; 30,032; 30,112; 33,059 and 33,619 respectively as a whole.									
Number of Villages	18,615; 19,418; 20,653; 21,992; 24,626 and 25,842 respectively as a whole.									

Source: Constructed by the authors based on different annual reports of IBBL.

Notes: Total disbursement, investment outstanding, overdue, and savings are in BDT million.

Investment modes such as *Mushakara*, *Mudaraba*, *Bai-muajjal*, *Bai-murabaha*, and Hire Purchase under *Shirkatul Milk* (*HPSM*) are used to serve the clients of the RDS model. On the other hand, the *Shari'ah* Supervisory Committee of IBBL ensures supervision of the activities run by the RDS by framing policy for strict adherence to the *Shari'ah* principle with a proper guideline to comply with the principles for each mode of investment.

5.2 The AIBL model

To inaugurate a modern banking system based on the Islamic *Shari'ah*, AIBL started its journey in 1995. To include the unbanked people in the banking system as well as to broaden the base of Islamic microfinance, AIBL launched its own program in 2001. The bank usually provides micro-financing services under its SME and microfinance division and closely combines this segment as micro, small, and medium enterprises (MSME) or cottage, small and medium enterprises (CSME). According to Bangladesh Bank, AIBL is concentrating on CSME financing based on three categories of enterprises: industry, trade, and services. Most importantly, CMSME is a catalyst for creating employment opportunities, generating income, developing forward and backward industrial linkages and fulfilling social needs.

The AIBL model considers individuals or groups as the target customers. Primarily, microfinance can be allocated to two from each group with five members. If the investment condition is satisfactory, the other two from the remaining members receive finance, and the process goes on a 2+2+1 basis. The core objective of the model is to encourage and ensure the participation of the underserved working class of society. The investment ceiling for micro borrowers is BDT 5,000 to BDT 100,000, which requires weekly, fortnightly, or monthly repayment. To protect against loan default, separate meetings are called at regular intervals, and the saving requirements of depositors/investors are summoned strictly. AIBL first selects the surrounding areas of the branches and then performs a survey. In the case of upgradation, the model only provides such opportunities to existing and trusted clients because they are well known by the bank, making it easier to track them.

The investment modes such as *Bai-muajjal*, *Bai-salam*, and *HPSM* are used to serve the clients. On the contrary, the *Fatwa* and *Shari'ah* Supervision Board of AIBL assists in creating innovative *Shari'ah*-based investment and financing products and supervises the progress of the program. Besides, *fatwas* are issued on any affair proposed to the board by different business units of the bank. Apart from these, *Shari'ah's compliance with* the products is ensured through a representative of the board of directors. In this way, AIBL is supervised by the respective authority.

It is clear from Table 8 that the internal resources of AIBL microfinance, such as the number of branches and employees, possess a continuously rising trend of 31.43 percent and 25.93 percent, respectively. Besides, the number of borrowers declined by 37 percent until 2019 since the competition is increasing in the Islamic banking sector, making it easier for clients to switch to other banks offering similar services. Apart from this, both total disbursement and CMSME disbursement experienced a decline after 2017 and 2019, respectively. Furthermore, investment outstanding has shown an increase in 2019. According to the authority of AIBL, the pandemic had an impact on the above performance in 2019 and 2020.

Table 8

Summary of Microfinance Operations of AIBL

Items/Year	2016	2017	2018	2019	2020
Number of Borrowers	36,469	33,063	30,383	22,749	NA
Number of Branches	140	154	168	182	184
Number of Employees	3,070	3,446	3,682	3,795	3,866
Total Disbursement	1,206.17	1,589.79	1,525.65	1407.02	NA
Investment Outstanding	698.26	922.13	793.46	810.16	NA
CMSME Disbursement	7,228.47	9,568.44	7,898.13	8,576.12	6,100.54

Source: Constructed by the authors based on different annual reports of AIBL and MRA.

Notes: Total disbursement and investment outstanding are in BDT million. NA stands for not available.

5.3 The SIBL Model

With a unique theme of the three-sector banking model including the formal sector- associating Islamic commercial banking using modern technology, the non-formal sector – empowering families through micro-credit and micro-enterprise programs, and the voluntary sector- urging for social capital mobilization through cash WAQF, SIBL developed the vision of minimizing poverty level in Bangladesh. Thus, focusing on activities from poverty alleviation to family empowerment, SIBL has ornamented itself with its diversified products for small and medium entrepreneurs as well as women entrepreneurs. Further, the bank launched the Family Empowerment Islamic Microfinance Program (FEIMP) in 2014 to enter the formal microfinance sector. The prime objective of this program is to empower the family as a whole, not individual men or women. In the first place, the FEIMP was started as a pilot scheme in 5 rural branches and then launched formally under the formal, non-formal, and voluntary categories in 4 rural branches of SIBL in 2015.

FEIMP, with a motto to empower poor and marginal families as a whole, is one kind of group-based lending process for uplifting the condition of rural and urban poor by creating income opportunities and casting down internal migration. This program aims to serve the people below the poverty line, particularly those not connected by any other MFIs or NGOs. Presently, a total of 1,941 Family Clusters have been formed, with 33,175 members in the program having a total group savings of BDT 344.68 million (Social Islami Bank Limited, 2020).

The range of investment is BDT 20,000 to BDT 120,000. Since family is the prime target of the program, five members are considered for a sub-family cluster, followed by five sub-family clusters in a family cluster (FC), 15 FCs in a social cluster, four social clusters in a social map, and a social map in each branch. In the FEIMP, microfinance facilities are provided only to existing borrowers to reduce the risk of default and make management easier. Since one of the objectives of FEIMP is to upgrade microfinance graduates to micro-enterprise, SME, and finally to the corporate level, the up-gradation opportunity is given to the micro borrowers, thus considering them as corporate clients of the bank. The most used investment modes under the FEIMP are *bai-muajjal* and *HPSM*. The *Shari'ah* Supervisory Committee of SIBL formulates policies for the strict adherence of the *Shari'ah* principle. It also supervises and ensures the implementation of *Shari'ah* compliance in all banking products.

Table 9 summarizes FEIMP performance from 2015 to 2020, which exhibits a consecutive rise in the number of FC and FC members, with almost 27 times and 40 times respective growth from 2015 to 2020. There was also a tremendous rise in the number of branches, which doubled from 2016 to 2018. Side by side, total savings show a sixfold growth from 2017 to 2020.

In addition, total disbursements and investments outstanding have experienced a sharp growth of three times and two times more than the period of 2017. Thus, it is clear that the FEIMP depicts a better signal for SIBL with its fast-operating speed and efficiency in microfinance.

Table 9

Summary of FEIMP of SIBL

Items/Year	2015	2016	2017	2018	2019	2020
Number of FC	72	558	1,357	1,619	1,835	1,941
Number of FC Members	839	7,505	18,192	23,074	29,648	33,175
Number of Borrowers	506	3,326	9,001	7,709	9,978	10,293
Number of Branches	11	31	61	62	68	70
Total Savings	1.41	13.84	56.52	111.2	264.11	344.68
Total Disbursements	17.85	156.68	596.18	929.5	1,451.63	1,954.27
Investment Outstanding	14.53	108.77	276.69	285.5	395.3	540.18
Number of Social Officers	22	66	130	123	109	108

Source: Constructed by the authors based on different annual reports of SIBL.
Notes: Total savings, total disbursements, and outstanding are in BDT million.

6. Institutional Comparison between Conventional Microfinance Models and Islamic Microfinance Models

Conventional MFIs and microfinance models of Islamic banks resemble each other in terms of focus groups, sectorial preferences, basic lending activities, and concentration on deposits. First, poor and marginalized individuals and groups are considered the focus group by the conventional Grameen model, ASA model, BRAC model, Islamic RDS model, AIBL model, and SIBL model. Besides, agriculture, manufacturing, service, micro-level trade, and other off-farm activities are chosen as the preferred sector for providing financing by both models. Furthermore, the basic lending process, such as collecting information and selecting borrowers through the survey of target customers, is similar, and both models encourage borrowers to save and deposit against their loans.

This section represents a comparative analysis of the institutional factors of both models in which Islamic microfinance models eliminate major predicaments of offering micro-credit under conventional models.

Table 10

Upgradation Summary of Microfinance Borrowers from 2014-2018

Items/Year	2014	2015	2016	2017	2018
GB:					
Number of members availing micro-enterprise loan including poor graduated borrowers	6,210,574	7,221,574	8,716,982	NA	NA
From beggars to Mainstream borrowers	9,029	9,029	9,029	9,029	9,030
ASA:					
Number of small borrowers graduated into medium enterprises	NA	NA	NA	NA	1,077
BRAC:					
Households graduated from extreme poverty	88,425	80,000	86,975	75,658	43,682
IBBL:					
Number of graduated micro clients, including local micro-entrepreneurs	57,985	69,604	76,348	84,309	87,708
Number of RDS clients transferred to MEIS	27,128	43,604	128,090	136,455	141,231
Clients already transferred to mainstream under SME	NA	NA	5,315	5,349	5,682

Source: Constructed by authors based on different annual reports of Grameen Bank, ASA, BRAC, and IBBL.

First, it is observed that the models of the conventional MFIs, including Grameen Bank, ASA, and BRAC, follow collateral-free group lending programs with higher interest rates ranging from 20-30 percent and result in gender disparity as more than 90 percent of the borrowers are women. According to Siddiqi (2008), since the female clients are controlled by their male counterparts in making financial decisions, it creates scope for fund diversion and subsequent moral hazard problems. Thus, due to the forceful empowerment of women in conventional microcredit models, a loophole for fund diversification emerges, thus providing a chance for fund diversification by other family members. For this, unrest in the family occurs, sometimes through the physical oppression of women by male counterparts, funds are snatched away, and ultimately, the dream of long-term relief from the poverty of the whole family remains unfulfilled. On the other hand, Islamic microfinance focuses on poverty alleviation irrespective of gender, which in turn leaves no chance for family problems and social misconceptions induced by the indiscriminate economic empowerment of women. Rather, it empowers women in a sustainable form by adding a spouse guarantee, which engages male members of the family in the process and reduces loan diversification risk to the minimum level. Moreover, unlike their conventional counterparts, Islamic microfinance products are disbursed in kind rather than cash, which makes the process more transparent with little scope for fund diversification. Moreover, goods or machinery provided by the Islamic MF can also act as security, improving the lending institutions' asset quality.

Second, the problem of missing the middle, the portion that crosses the threshold of the micro borrower but is not considered eligible by the formal sector, is prevalent in all conventional microfinance models where proper upgradation opportunities are absent. According to Ahlin and Jiang (2007), whenever the graduation rate is minimal, micro-credit may lower the total income of borrowers and raise long-run poverty as well. On the contrary, the planned up-gradation opportunity of clients eradicates the missing middle problems under the Islamic microfinance model. In particular, the in-built mechanism of these programs provided by Islamic banks, which is more compliant and trustworthy than conventional MFIs, helps bridge the gap between eligibility and access groups.

Grameen Bank's annual report shows an increase in micro-enterprise borrowers by around 40% in two years from 2014. However, no data is provided on the portion of upgraded borrowers in this sector. Besides, the upgradation of beggars to mainstream borrowers was stagnant from 2014 to 2018. After starting its MSME program in 2017, ASA has graduated a total of 1,077 micro borrowers. Moreover, the performance of the upgradation of BRAC shows a decreasing trend of around 50 percent from 2014 to 2018. In comparison, the up-gradation performance of IBBL is praiseworthy, with an increasing trend in the number of graduated micro clients, including local micro-entrepreneurs, the number of RDS clients transferred to MEIS, and clients already transferred to mainstream under SME. Under this model, the clients of micro-investment projects are developed through capacity-building training, counseling, and logistic support to upgrade to an individual approach gradually. The upgradation is possible if the clients reach the highest ceiling of investment of BDT 75,000, can manage the living expenses from their sources, have entrepreneurial skills, and can manage 20 percent of the capital. Under the model of IBBL, there is around a 51.26 percent increase in micro clients who graduated to micro-enterprise borrowers, while there is around 420.61 percent increase in RDS clients who upgraded to the same from 2014 to 2018. Moreover, mainstream banking embraced 5,682 micro-enterprise clients in the last three years, starting in 2016. The upgradation data of the other two banks are not available from any public sources. However, the AIBL model provides upgradation opportunities only to existing and trusted clients because they are well-known by the bank, and thus, tracking them becomes easier. For this purpose, surrounding areas of the branch is selected first, then surveys are performed; separate meetings are called at regular intervals, and saving requirements of depositors/investors are summoned strictly to protect against loan default. Since one of the objectives of FEIMP is to upgrade microfinance graduates to micro-enterprise, SME, and finally to the corporate level, upgradation opportunities are given to micro borrowers, thus considering them corporate clients of the bank. This clearly depicts the scenario of better and planned upgradation opportunities under Islamic microfinance models, which is absent in conventional counterparts.

Third, in conventional microcredit models, borrowers face religious pressure for association of high interest. Interestingly, such problems can be solved by Islamic microfinance (Siddiqi,

2008) models where the *Shari'ah*-based products provided by Islamic banks have lessened the religious and social pressures on micro investors.

Fourth, conventional MF models follow a coercive loan recovery strategy by taking the belongings of borrowers. In contrast, the welfare-oriented mechanism and support and time for loan repayment under Islamic microfinance induce borrowers' confidence in entrepreneurial activities and avoid the chance of debt overlapping.

Finally, the prime goal of microfinance is to alleviate poverty, which matches the first goal of SDG, i.e., no poverty. However, the findings of this study have a direct impact on poverty alleviation by assuring balanced family empowerment, limited scope for fund diversion, missing middle problem mitigation by providing up-gradation opportunities, and cooperating approach of loan recovery.

7. Conclusions

Bangladesh, the founding place of conventional micro-credit, is now experiencing the growing trend of Islamic microfinance provided by Islamic banks. The paper reviews how conventional microfinance models, despite achieving worldwide accolades and replication, fail to address the issue of sustainable poverty alleviation due to several loopholes demonstrated by the existing literature. Through the comparison between popular conventional and Islamic microfinance models, the major goal of this paper was to investigate whether Islamic microfinance models can be established as viable alternatives to mitigate the established loopholes of their conventional counterparts. For this purpose, the microfinance models followed by Grameen Bank, ASA, and BRAC, as well as IBBL, AIBL, and SIBL, were taken into consideration where following content analysis, it is apparent that there are convergences in their focus group, sectorial preference, basic lending activities, and deposit keeping. However, the loopholes of conventional microfinance, such as higher interest rates, gender disparity, fund diversion, missing middle problem, religious pressure on borrowers, and coercive loan recovery strategy, can be mitigated by the *Shari'ah*-based products and other techniques such as gender neutrality, prevention of fund diversification, up-gradation opportunity, and co-operating approach for loan repayment adopted by Islamic models.

This study has significant implications for policymakers and microfinance providers in developing countries like Bangladesh to assure smooth microfinance services to micro clients and contribute toward a sustainable microfinance alternative offered by Islamic banks. Moreover, this study possesses some limitations. Firstly, it is based on the perspective of developing countries where Islamic microfinance has huge potential. Besides, the effectiveness of these models may vary based on context and implementation. Hence, the countries unwilling to adopt Islamic finance may not benefit. Secondly, since conventional microcredit is mature enough, whereas Islamic microfinance is rising in Bangladesh, poor borrowers tend to take loans from the former source due to the lack of proper knowledge about bank-based Islamic microfinance.

Indeed, the scope for further studies lies in employing quantitative analysis by the researchers to explore the causal relationship among variables in this study. Furthermore, examining the existing Islamic microfinance models by investigating the impact of diverse products of microfinance institutions could be considered. Moreover, how Islamic microfinance instruments can easily be offered to mass populations of the deprived segment of society to ensure poverty reduction at a greater speed is yet to be explored.

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