

FINTECH AND PARTNERSHIP-BASED ISLAMIC
MICROFINANCE FRAMEWORK FOR FINANCIAL
INCLUSION AND ECONOMIC EMPOWERMENT
IN BANGLADESH: A PRACTITIONER'S
PERSPECTIVE

BY

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ABSTRACT

Millions of people in Bangladesh live in extreme poverty because of their failure to access formal financial services. Consequently, they are unable to participate in different development projects and, hence, cannot fund their children's education, accumulate assets, and take advantage of various economic opportunities. The present frameworks of Islamic microfinance are unable to uplift the overall socio-economic conditions of the poor in this country. Therefore, this study aims to explore how Islamic microfinance might assist poor people in living in a culture that values dignity and respect and in improving their socioeconomic conditions. Specifically, the objectives of this study include: i. To identify the major challenges in implementing the Islamic microfinance system in Bangladesh; ii. To determine the best possible ways to effectively implement the Islamic microfinance system in Bangladesh; iii. To propose a new fintech- and partnership-based Islamic microfinance framework that will be appropriate for the poor people of Bangladesh; and iv. To assess the ways to enhance financial inclusion and economic empowerment through Islamic microfinance in Bangladesh. This study uses the institutional theory of savings, financial intermediation theory, and the theory of financial inclusion to explain the theoretical framework of the research. It employs a qualitative method in which data were acquired from both primary and secondary sources. A standard open-ended questionnaire was also used to elicit expert opinions from 15 experts in Islamic finance working in various Islamic financial institutions in Bangladesh. The findings of this study point to the primary reasons why Bangladesh continues to lag behind in successfully implementing Islamic microfinance products and services, including people's ignorance, multiple borrowings, ensuring Shariah compliance, lack of resources and accountability of Islamic microfinance institutions (IMFIs), ineffective promotion, lack of experts, inadequate government assistance, lack of trained and skilled field workers, and mission drift. It also elaborates on the ways Islamic microfinance can be effectively implemented in this country, like conducting effective training programmes for both field workers loan recipients, raising public awareness and government support, enhancing the monitoring system, ensuring proactive approaches by Islamic commercial banks, introducing Islamic finance courses both public and private universities in Bangladesh, etc. Here, a new fintech- and partnership (Mudarabah, Musharakah, and Qard-al-Hasan)-based framework of Islamic microfinance is proposed, and the results have revealed that if implemented properly by IMFIs in Bangladesh, it can be hugely beneficial for Bangladesh's impoverished population in terms of improving the rate of financial inclusion and also enhancing the overall economic empowerment. It is recommended in this study that the government and policymakers must come forward to develop the necessary regulatory framework so that Islamic social finance tools and fintech can be effectively integrated with the Islamic microfinance programmes, thereby improving the socioeconomic standing of the impoverished population in Bangladesh.

ملخص البحث

يعيش ملايين الأشخاص في بنغلاديش في فقر مدقع نتيجةً لعدم قدرتهم على الوصول إلى الخدمات المالية الرسمية. ونتيجةً لذلك، يعجزون عن المشاركة في مشاريع التنمية المختلفة، مما يحول دون تمويل تعليم أبنائهم، وتكوين الأصول، والاستفادة من الفرص الاقتصادية المتنوعة. وتعجز الأطر الحالية للتمويل الإسلامي الأصغر عن تحسين الظروف الاجتماعية والاقتصادية العامة للفقراء في هذا البلد. لذلك، تهدف هذه الدراسة إلى استكشاف الكيفية التي يمكن من خلالها للتمويل الإسلامي الأصغر مساعدة الفقراء على العيش في بيئة تُقدّر الكرامة والاحترام، وتحسين ظروفهم أن يسهم في الاجتماعية والاقتصادية. وتشمل أهداف هذه الدراسة تحديدًا: ١. تحديد التحديات الرئيسية التي أفضل السبل الممكنة تواجه تطبيق نظام التمويل الأصغر الإسلامي في بنغلاديش؛ ٢. استكشاف بفعالية؛ ٣. اقتراح إطار عمل جديد للتمويل الأصغر الإسلامي قائم على تطبيق هذا النظام في بنغلاديش؛ ٤. تقييم سبل تعزيز الشمول التكنولوجي المالية والشراكات، يتناسب مع الفقراء المالي والتمكين الاقتصادي من خلال التمويل الأصغر الإسلامي في بنغلاديش. تستخدم هذه الدراسة النظرية المؤسسية للادخار، ونظرية الوساطة المالية، ونظرية الشمول المالي لشرح الإطار النظري واعتمدت هذه الدراسة على المنهجية النوعية، حيث جُمعت البيانات من مصادر أولية للبحث. وثانوية. كما استخدم استبيان معياري مفتوح لاستطلاع آراء ١٥ خبيرًا في التمويل الإسلامي، يعملون في مؤسسات مالية إسلامية مختلفة في بنغلاديش. وتشير نتائج هذه الدراسة إلى الأسباب الرئيسية التي لا تزال تُعيق نجاح تطبيق منتجات وخدمات التمويل الأصغر الإسلامي في بنغلاديش، جهل الناس، وتعدد الاقتراض، وضمان الامتثال لأحكام الشريعة الإسلامية، ونقص الموارد؛ ومنها وضعف المساءلة لدى مؤسسات التمويل الأصغر الإسلامي، وعدم فعالية الترويج، ونقص الخبراء، وعدم كفاية الدعم الحكومي، وندرة العاملين الميدانيين المدربين والمهرة، والانحراف عن الرسالة الأصلية. كما تستعرض الدراسة سبل تطبيق التمويل الإسلامي الأصغر بفعالية في هذا البلد، مثل تنفيذ برامج تدريبية فعّالة لكل من العاملين الميدانيين ومتلقي القروض، ورفع مستوى الوعي العام والدعم الحكومي، وتعزيز نظام المراقبة، وضمان اتباع البنوك التجارية الإسلامية نهجًا استباقيًا، وتقديم مقررات في التمويل الإسلامي في الجامعات الحكومية والخاصة في بنغلاديش، وغيرها من المبادرات. وفي هذا السياق، تقترح الدراسة إطار عمل جديد للتمويل الأصغر الإسلامي قائم على التكنولوجيا المالية والشراكة (مثل: المضاربة، والمشاركة، والقرض الحسن)، وقد كشفت النتائج أنه إذا تم تنفيذه بشكل صحيح من قبل مؤسسات التمويل الأصغر الإسلامية في بنغلاديش، فإنه يمكن أن يسهم بشكل كبير للفئات الفقيرة في المجتمع البنغلاديشي من حيث تحسين معدل الشمول المالي وكذلك تعزيز التمكين الاقتصادي الشامل. وتوصي هذه الدراسة بأن تبادر الحكومة وصانعو السياسات لتطوير الإطار التنظيمي اللازم بحيث يمكن دمج أدوات التمويل الاجتماعي الإسلامي والتكنولوجيا المالية بفعالية مع برامج التمويل الأصغر الإسلامي، مما يسهم في تحسين الوضع الاجتماعي والاقتصادي للفقراء في بنغلاديش.

APPROVAL PAGE

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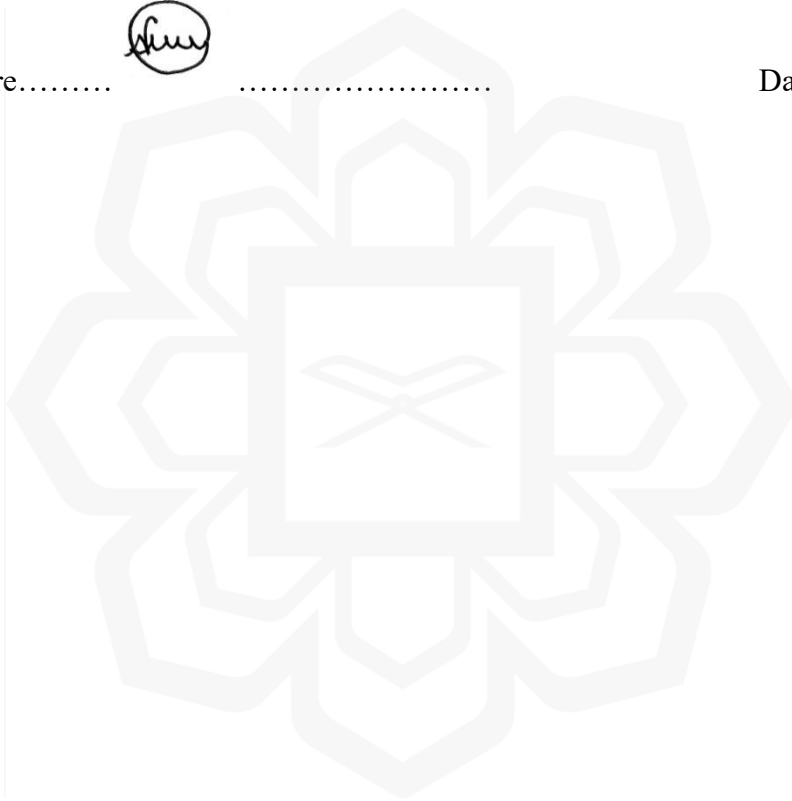
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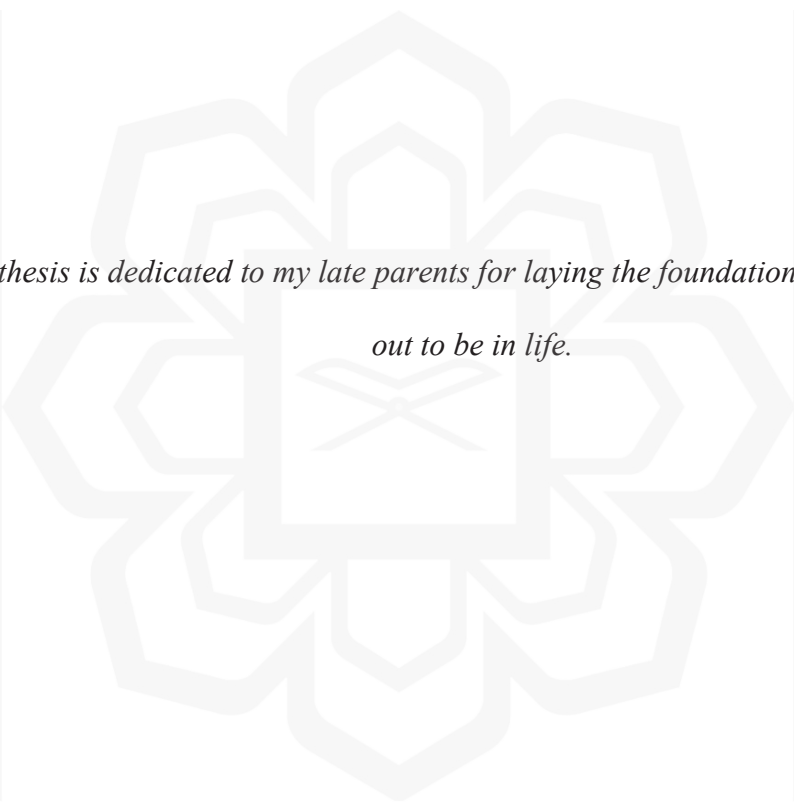
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*This thesis is dedicated to my late parents for laying the foundation of what I turned
out to be in life.*

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

“Along with the three other pillars of development – democracy, education and infrastructures – microfinance is increasingly considered a key instrument in implementing effective and sustainable strategies in the fight against poverty”, said Jacques Attali, President of Positive Planet Foundation (Adeola & Evans, 2017, p. 193).

As a powerful tool for alleviating poverty, microfinance can play a highly influential role. Microfinance involves offering financial services to the poor and deprived people of a country who are unable or not willing to accept formal financial systems. Eventually, it can help the poor improve their financial and social status, reduce vulnerability, and make them a productive force who can contribute to the country's overall development. Specifically, for promoting women empowerment, microfinance can play a very important role. Women who take part in microfinance programmes have more access to financial and economic resources, participate more in household decision-making, have more bargaining power, have access to a wider social network, and have more freedom to move around (Islam et al., 2024).

In conventional microfinance programmes, small amounts of loans are generally given on a short-term basis. These programmes are also characterised by quick disbursement of repeat loans when the previous loans are timely repaid, convenient timing and location of services, and simplified appraisal of investment and borrowers. In most cases, microfinance providers strive to ensure that loan funds reach individuals experiencing extreme poverty and hardship. However, Islam forbids the predetermined price of capital, known as interest/Riba, which is closely linked to conventional microfinance. Due to their faith and social constraints, many religious Muslims try to avoid interest-based microfinance (Islam et al., 2020). According to Cameron et al. (2021), approximately 20% of impoverished people in some Muslim-majority countries opt not to participate in conventional microfinance programmes. Similarly, even though

Bangladesh has seen a massive expansion of the traditional microcredit model, a sizable portion of the country's impoverished population cannot enjoy the benefits of microcredit programmes because of their religious beliefs. Since conventional microcredit services charge interest, which is strictly forbidden in Islam, many of them reject these services (Ahmed et al., 2021).

Using Islamic microfinance, poor people can get out of the vicious circle of poverty in an efficient and Shariah-compliant manner. If effectively implemented, Islamic microfinance can also assist the people in Bangladesh who are hard-hit by poverty and living from hand to mouth. This can help policymakers and planners in Bangladesh take the necessary steps to build an inclusive financial system for this country. As pointed out by Mia (2024), Bangladesh has widely adopted traditional microfinance from its start in the mid-1970s, despite being a predominantly Muslim country. Nevertheless, Islamic microfinance, which has a lot to offer to the underprivileged, is still relatively new and hasn't taken off in this country.

Unlike traditional microfinance initiatives, the Islamic microfinance system does not usually ignore the hardcore poor. According to scholars such as Mohamed and Fauziyyah (2020), Islamic microfinance can be accessed in a variety of ways to meet different needs and poverty levels, including those of the extremely impoverished. Mohamed and Fauziyyah's (2020) study came to the conclusion that Islamic microfinance, particularly in Muslim societies, is one of the most effective tools for reducing poverty. Similarly, through empirical research, Uddin et al. (2024) found that The Shariah-based products and various approaches used by Islamic microfinance models, like prevention of fund diversification, gender neutrality, and co-operating approach for loan repayment, can mitigate the shortcomings of conventional microfinance, such as higher interest rates, fund diversion, extreme pressure on borrowers, coercive loan recovery strategy, and gender disparity.

Islamic microfinance, according to Maikabara et al. (2020), is an ethical financial tool that targets low-income individuals, those without bank accounts, and small businesses that lack sufficient creditworthiness to be eligible for loans from traditional commercial banks or microfinance banks. Islamic microfinance programmes provide financial inclusion to all groups based on demographic factors such as age,

gender, marital status, area, occupation, religion, and monthly income. It is important to highlight that Islamic microfinance generally benefits all segments of society, regardless of ethnicity or religious affiliation, specifically for poverty alleviation. Notably, a number of studies focused on particular Nigerian regions have demonstrated the important influence and potential of Islamic microfinance on the country's socioeconomic development, as it has helped to eradicate poverty and raise household income, improve children's education, raise household standards, and even open the door to job creation, as highlighted by Maikabara et al. (2020).

The Islamic microfinance model has gained popularity among Muslim consumers worldwide due to interest-avoidance financial modelling, the introduction of profit-loss sharing financial services, and the provision of high levels of financial welfare for its clients. As a result, the number of Islamic microfinance institutions (IMFIs) has been increasing to serve the Muslim community better (Hossain, 2019). In order to raise impoverished Muslim people out of poverty, Islamic microfinance has been seen as an alternative to regular microfinance services (Ahmad et al., 2020a).

Again, financial inclusion, or having bank accounts or using digital financial services, can help people escape poverty by facilitating investments in their education, health, and different businesses. Access to financial services can also assist needy people in increasing their savings, which can be useful for managing financial emergencies, like crop failure or job loss, that can lead families towards destitution. At the same time, always relying on cash can be unsafe or hardly manageable (Demirguc-Kunt et al., 2018). Islamic microfinance programmes can also play a crucial role in enhancing the financial inclusion rate in developing countries like Bangladesh. Specifically, in terms of ensuring sustainable financial inclusion for the previously underserved groups in the remote and rural areas of these developing countries, the contribution of Islamic microfinance can be significant (Rizqon et al., 2024).

As Umar et al. (2022) found during the COVID-19 pandemic, Islamic microfinance can contribute positively and significantly to improving the socio-economic conditions of distressed people from different parts of the world. Hence, it is important to analyse the ways Islamic microfinance can enhance the financial inclusion and economic empowerment of distressed people, particularly in a developing country

like Bangladesh. This country has also been hit hard by the consequences of the pandemic, and Islamic microfinance can certainly play a major role in assisting the distressed people of Bangladesh and bringing smiles back to their faces in the end.

1.2 STATEMENT OF THE PROBLEM

In Bangladesh, millions of people suffering from extreme poverty cannot participate in development initiatives due to their inability to access formal financial services. As a result, they are also unable to finance their children's education, build assets, and take advantage of different economic opportunities. Furthermore, they become seriously vulnerable when they have to face financial shocks. Even though Bangladesh is a pioneer country in terms of implementing microfinance projects, the conventional microfinance system is unable to satisfy the requirements of the poor people here and also fails to elevate their overall socio-economic conditions (Ahmed & Khan, 2016; Uddin & Benabderrahmane, 2019). Particularly due to high interest rates and some hidden costs related to credit disbursement, the contribution of conventional microfinance programmes to alleviating poverty is not significant (Ahmed & Khan, 2016; Uddin & Benabderrahmane, 2019). It has been found that microfinance institutions in Bangladesh often charge interest rates of around 31%, which is much higher than the interest rates of conventional banks, which are 10% - 15% (Mamun, 2012).

Higher operational costs, lack of interest from the religious people, and shortage of customised products are creating hindrances to the popularisation of the conventional microfinance system in Bangladesh (Nabi et al., 2017). As an effective solution to this problem, people can adopt Islamic microfinance systems. However, the Islamic microfinance industry accounts for only a 5% share of the microfinance market in Bangladesh, where more than 37 million impoverished people in this country benefit from different types of conventional microfinance products at present (Nabi et al., 2017; Muhammad et al., 2022). This is a major issue, as around 90% of the people of this country are Muslims.

Furthermore, as found by Ahmed and Khan (2016) and Uddin and Benabderrahmane (2019), moderately poor people are benefiting from microfinance programmes more than the extremely needy people due to high interest rates in Bangladesh. Ahmed and Khan (2016) also concluded that high management costs force the microfinance institutions in Bangladesh to charge high interest rates for microcredit loans. Inexperienced field workers and their lack of motivation are also contributing factors in this regard (Kassim & Rahman, 2018). Again, here in this country, women are the main targets of microfinance programmes due to higher repayment rates. This has resulted in men requiring their wives to obtain loans for them (Westover, 2008). Even in many incidences, the male members of the family try to take control of these funds and use them in non-income-generating activities (Uddin & Benabderrahmane, 2019). Besides, as the loan receivers are required to pay the instalment on a daily or weekly basis by different NGOs or microfinance institutions, it often becomes burdensome to them. Consequently, as they do not get sufficient time to be involved with income-generating actions, they often become defaulters in the end. It often results in more charges or additional interest, creating more trouble for the poor (Uddin & Benabderrahmane, 2019).

In numerous cases, increased dependency on microcredits, the vicious cycle of debt, and domestic violence occur due to participation in microfinance programmes (Westover, 2008). Moreover, it has been found that the employees of different microfinance institutions are using coercive or harsh methods to ensure the timely repayment of credit, and in this process, they also charge excessive interest rates (Westover, 2008). Because of all of these reasons, conventional microfinance programmes are unable to satisfy the needs of the poor people of Bangladesh, where Islamic microfinance can offer a very effective solution.

According to the International Monetary Fund (IMF), more than 45% of individuals in Bangladesh lack access to formal financial services (Uddin et al., 2017). Access to basic financial services continues to be a significant difficulty in this country, particularly for marginal farmers, women, and other socially excluded groups (Akter, 2016). In particular, just 26% of women are included in this (Uddin et al., 2017). Islamic microfinance systems may also be useful for improving the nation's financial inclusion situation (Nabi et al., 2017). At the same time, due to the factors related to religiosity,

the poor and religious people of Bangladesh are often reluctant to be associated with conventional microfinance programmes. Hence, they may be interested in Islamic microfinance products that follow the principles of Mudarabah and Musharakah.

At present, four banks and 20 microfinance institutions are providing Islamic MF services across Bangladesh (Ahmed et al., 2021). However, they are finding it very hard, with the existing frameworks of Islamic microfinance, to manage the source of funds that can be used to help poor microfinance clients. These institutions only depend on local and foreign donations or investments and the contributions of the shareholders. They are currently not using any type of Islamic social finance instruments, cash waqf, or Sukuk, to ensure the regular supply of source funds to meet all the requirements. As a result, these Islamic microfinance institutions are finding it extremely hard to regularly arrange the source funds as per the needs of the poor.

The use of technology is totally absent in the Islamic microfinance sector in Bangladesh. All of the Islamic microfinance institutions of this country are still avoiding the use of technology like mobile banking or blockchain, and as a result, they are unable to improve their performance and reach more people living in remote areas. In this age of information and communication technology, it is not wise to avoid technology altogether, as technology can be a blessing to enhance the overall performance, efficiency, and transparency of these IMFIs.

Hence, it is vital to identify the challenges involved in successfully implementing the Islamic microfinance system in Bangladesh. Furthermore, except for Murabahah, no other Islamic microfinance products are effectively being applied by the Islamic microfinance institutions (IMFIs) in Bangladesh. At the same time, consequently, it is also crucial to develop an effective Islamic microfinance framework that, if properly implemented, can help the impoverished people of this country improve their overall socio-economic conditions and enhance their financial inclusion.

In order to address the problems mentioned here, a qualitative approach has been adopted in this study. A semi-structured open-ended questionnaire was developed, and data were collected from 15 experts in Islamic finance in Bangladesh, who are currently working in different banks and other financial organisations. Information was also

collected from secondary sources, like journal articles, books, and conference proceedings. The collected data were analysed using the thematic analysis approach, with the help of the tool 'Atlas.ti'.

1.3 RESEARCH OBJECTIVES

In line with the above issues, this study aims to accomplish a general research objective of presenting novel ideas to enhance financial inclusion and economic empowerment through Islamic microfinance in Bangladesh.

Specifically, the study aims to achieve the following research objectives:

- RO1. To identify the major challenges in implementing the Islamic microfinance system in Bangladesh.
- RO2. To determine the best possible ways to effectively implement the Islamic microfinance system in Bangladesh.
- RO3. To propose a new fintech- and partnership-based Islamic microfinance framework (using the concepts of Mudarabah, Musharakah, and Qard-al-Hasan) that will be appropriate for the poor people of Bangladesh, considering their current socio-economic conditions.
- RO4. To assess the ways to enhance financial inclusion and economic empowerment through Islamic microfinance in Bangladesh.

1.4 RESEARCH QUESTIONS

To achieve the objectives of this study, a set of research questions is developed, which are listed here. Sincere attempts have been made in this study to answer these research questions:

- RQ1. What are the major challenges being faced by the current Islamic microfinance organisations in this country?

RQ2. What steps should be taken to implement Islamic microfinance programmes effectively in Bangladesh?

RQ3. How can a novel fintech- and partnership-based Islamic microfinance framework be developed that can be effective for the Muslim community in Bangladesh?

RQ4. How to enhance financial inclusion and economic empowerment using Islamic microfinance in Bangladesh effectively?

1.5 SIGNIFICANCE OF THE STUDY

This study is significant for a number of reasons. For example, it highlights the main reasons why Bangladesh is still lagging behind in terms of successfully applying Islamic microfinance products and services. It also highlights the importance of Islamic microfinance as a tool for fighting extreme poverty in Bangladesh. In addition, the opportunities and challenges regarding the implementation of Islamic microfinance in this country are extensively discussed. It also evaluates the best practices of Islamic microfinance that can be applicable in Bangladesh and how these can help more than 90% of Muslims in this country get out of the poverty trap. Through Islamic microfinance programmes, these poor people will get the opportunity to come into the fold of the formal financial system. This process will be the primary focus of this study.

Most importantly, this study presents a novel Islamic microfinance framework based on partnership-based Islamic microfinance products like Mudarabah and Musharakah. In addition, innovative ways to collect funds using cash waqf, Islamic crowdfunding, Sukuk, etc., to be used for Islamic microfinance are explained in this study. At the same time, the best possible ways to use technology for managing the source and disbursement of funds are clarified through this study. It is argued in this study that if this novel framework of Islamic microfinance can be properly implemented in Bangladesh, it can dynamically improve the overall socio-economic conditions of the poor people of Bangladesh. This will eventually enhance the economic empowerment and financial inclusion of the poor people of this country.

Millions of unproductive people often act as a burden on the Bangladeshi economy. Islamic microfinance can offer a golden opportunity for these people to

contribute effectively for themselves, for society, and for the entire country as a whole. This study highlights what steps need to be taken by the government, civil society organisations, and financial institutions to make this a reality. It is highly expected that if the suggestions and guidelines offered in this study are properly implemented, it will be possible for this country's poor and distressed people to join the productive force and effectively contribute to society in the end.

Additionally, it is anticipated that this study will provide researchers, academics, and policymakers in Bangladesh with a clear picture of the opportunities regarding the implementation of Islamic microfinance in Bangladesh. The study's findings will provide clear guidance to policymakers regarding the activities that must be performed to spread awareness of this unique system in this nation. Also, this study explains the issues of making the microfinance initiatives fully Shariah-compliant in this country. This enhances the overall significance of this study.

The educational leaders of Bangladesh are also provided with some essential recommendations in this study so that they might launch courses pertinent to Islamic Microfinance in various educational institutions around this nation. In the end, this study will be a milestone in this particular field of research, and future researchers will be able to gain many valuable ideas while researching Islamic microfinance in Bangladesh. Furthermore, it is also expected that if the recommendations offered in this study are properly implemented, they will significantly contribute to the socio-economic development and poverty alleviation of the country.

1.6 SCOPE AND LIMITATIONS OF THE STUDY

This study focuses on Islamic microfinance issues related to Bangladesh's perspective. It presents a novel Islamic microfinance framework that is based on partnership-based Islamic microfinance products. It is claimed in this study that if the necessary resources can be collected through means like Islamic crowdfunding, cash waqf, Sukuk, etc. and the system is properly implemented through fintech, the poor and marginalised people of Bangladesh can be immensely benefitted through the Islamic microfinance

programmes. The study also highlights the challenges related to the successful implementation of Islamic microfinance programmes in this country.

The main limitation of this study is the small number of respondents. Primary data were collected from 15 experts on Islamic finance located in the capital city of Bangladesh, Dhaka. However, considering the scope of this study, the expert opinions of 15 knowledgeable persons were enough to gain the necessary insights about the issues related to Islamic microfinance and its implementation in Bangladesh. Furthermore, a data saturation point was also reached in this process, so the researcher felt that 15 respondents were enough to gain the necessary insights for achieving the research objectives.

This study is further limited by the selection biases inherent in the purposive sample strategy that was used. Furthermore, there is a significant chance of bias in the results because the researcher's subjective judgment was used to choose the sample units. However, considering the research objectives of this study, a purposive sampling approach was chosen, and unique and valuable information was obtained from the research respondents who are all experts in Islamic finance. Furthermore, ten out of 15 respondents were not chosen by the researcher directly, rather they were recommended by the initial five respondents, and the snowball approach was adopted in this regard. This minimises the selection bias in a significant manner.

Additionally, this research is grounded in the viewpoint of developing nations such as Bangladesh, where Islamic microfinance holds immense promise. Additionally, depending on the context and method of application, the efficacy of the Islamic microfinance model may vary. So, the principles and ideas offered may not be advantageous to nations that choose not to implement Islamic financing.

1.7 ORGANISATION OF THE STUDY

This thesis is organised into six chapters. Chapter One provides a general introduction to the study. It includes a background of the study, problem statement, research objectives, and research questions. This section also focuses on the overall significance

of the study, its scope and limitations, and offers an overview of the structure or organisation of the thesis.

Chapter Two reviews the relevant literature on Islamic microfinance, financial inclusion, and economic empowerment. This section explains the general concepts of microfinance and how microfinance is being used to alleviate poverty and ensure the economic development of a country. It also elaborates on the existing microfinance models in Bangladesh and highlights the variety of ways Islamic microfinance is being implemented in different countries like Malaysia, Indonesia, Nigeria, and Pakistan. This chapter also discusses the challenges faced by these countries while implementing Islamic microfinance programmes. Furthermore, it provides a clear picture of Bangladesh's current status in implementing different microfinance programmes. In addition, it highlights the issues related to financial inclusion and economic empowerment in this country.

Chapter Three focuses on the theoretical foundation of this study. First, it highlights the Shariah principles or the issues related to Maqasid-al-Shariah in Islamic microfinance. Second, it explains the theories that are relevant or heavily used in implementing microfinance programmes in different countries and highlights the concepts that can be applicable to Islamic microfinance programmes as well. It also clarifies the concepts related to Islamic social finance instruments, Sukuk, and Islamic crowdfunding. Finally, this chapter identifies the literature gaps which have been filled by the current study.

Chapter four explains the methodology used in this study. It presents the research design and focuses on the data collection procedure obtained in this study. This chapter also explores the process that has been used to choose the samples and analyse the collected data. In addition, this chapter presents a conceptual framework proposed in this study for successfully implementing Islamic microfinance programmes in Bangladesh.

The results of the study are presented in Chapter 5, along with an analysis of the participant responses. It explains how these responses have aided the researcher in providing an efficient response to the research questions, thereby achieving the study's

goals. Furthermore, this chapter has outlined the obstacles that now stand in the way of Islamic microfinance's advancement in Bangladesh and the most effective solutions. This chapter has also concentrated on how an Islamic microfinance system can be used to improve financial inclusion and the economic empowerment of Bangladesh's impoverished population. A novel fintech-based Islamic microfinance framework is presented in this chapter, and it also highlights how Islamic microfinance institutions can effectively use this framework, considering Bangladesh's socio-economic conditions. Technologies used in the framework, like blockchain and smart contracts, are also explained in detail in this chapter. In addition, this chapter elaborates on how different social finance instruments, as well as Sukuk, can be efficiently used in Islamic microfinance initiatives as a source of funds.

Chapter six presents a brief summary of the research findings. It also highlights the contributions of this study, offers some practical recommendations, and presents the concluding remarks. In addition, this chapter explains how Islamic microfinance might help the impoverished in Bangladesh improve their overall socioeconomic situation and enable them to live in society with dignity and respect. It also highlights how Islamic microfinance can contribute towards enhancing financial inclusion and economic empowerment in a country like Bangladesh.

CHAPTER TWO

REVIEW OF LITERATURE ON MICROFINANCE AND ISLAMIC MICROFINANCE IN BANGLADESH CONTEXTS

2.1 INTRODUCTION

The purpose of this chapter is to explore the issues relevant to Islamic microfinance in Bangladesh. It also highlights what the previous researchers have explained about the Shariah principles related to Islamic Microfinance and the current status of Islamic Microfinance in different parts of the world and in Bangladesh. Furthermore, this chapter explores the literature focusing on issues like financial inclusion and economic empowerment. Though limited published research can be found on Islamic microfinance in Bangladesh, this literature review provides some background information about this topic.

2.2 MICROFINANCE AND ITS ROLE IN POVERTY ALLEVIATION AND ECONOMIC DEVELOPMENT

Microfinance provides borrowers, mainly low-income clients, with different financial services that the general financial institutions usually neglect due to a lack of assets or collateral (Sengupta & Aubuchon, 2008). It's also a tool for assisting low-income people in becoming self-sufficient by giving them access to financial services that allow them to save money, move funds, and/or obtain insurance (Mansori et al., 2020). To put it another way, microfinance encourages economic growth, employment, and small businesses, all of which help to lift low-income people out of poverty (Mansori et al., 2020).

Different microfinance products include microcredit, microinsurance, micro-equity, micro-savings, micro-transfers, etc. (Obaidullah, 2008). These microfinance products are also considered a better tool for outreach and cost recovery for lending to the poor (Kumari, 2020). According to Ahmad et al. (2020a), microfinance institutions

(MFIs) try to achieve a ‘double bottom line’ by trying to create positive social impacts and, at the same time, by ensuring sound financial performance. Ahmad et al. (2020a) also reported that by the end of 2017, performance reports had been submitted to the Microfinance Information Exchange (MIX Market) by 981 MFIs, which confirmed 139 million customers and an estimated US\$114 billion in loan volume.

Tamanni and Besar (2019) examined 7,200 microfinance data points from the Microfinance Exchange Market and also reviewed the websites and annual reports of 25 IMFIs. As argued by the researchers, the birth of the microfinance movement is triggered by market failure, i.e., the failure of mainstream banks and other financial institutions to reach out to microentrepreneurs or poor families who are in desperate need of capital. This market failure is also due to agency problems and asymmetric information. These all resulted in the success of Grameen Bank, Bank Rakyat Indonesia Unit Desa, BancoSol, Accion, and many other pioneers in microfinance that complemented the poverty reduction programmes of respective governments in Bangladesh, Indonesia, Bolivia, and India (Tamanni & Besar, 2019). The focus of the MFIs has also been shifted from only providing microcredits to small entrepreneurs to offering diverse financial products, like insurance and savings, that serve the growing needs of the impoverished people so that the broader objective of enhancing financial inclusion can be achieved (Tamanni & Besar, 2019). The study looked at the global data rather than local data to compensate for the limitation regarding the sample size, which strengthened the arguments posed by the researchers.

Across the globe, it is widely recognised that appropriate microfinance products and services can effectively bring down poverty levels in a sustained manner (Obaidullah, 2008; Ahmed et al., 2021; Muhammad et al., 2022). Hermes and Lensink (2011) opined that microfinance can have a long-lasting impact on poverty alleviation as it facilitates the diversification of income-generating projects. The small amount of loans that poor borrowers receive from the MFIs can be used to open new businesses. This can also help them cover their daily needs, including education and health costs, wedding expenses, as well as food and drink. In this way, MFIs are considered as a solution to the poverty problem (Rohman et al., 2021).

Microfinance can contribute to reducing vulnerability due to drought and crop failure or sudden deaths and also contribute to better housing, health, and education for the borrower (Hermes & Lensink, 2011). Consequently, microfinance can improve the socio-economic condition of the borrower quite significantly. So, different NGOs, governments, and individuals have come forward to support microfinance institutes (MFIs) worldwide (Hermes & Lensink, 2011). Besides, as argued by Herath (2018), microfinance has the potential to considerably reduce poverty by boosting crisis-coping strategies, diversifying income-earning options, building assets and improving the overall socio-economic conditions of the impoverished people. Herath (2018) also concluded that household income with access to credit is substantially higher than comparable households without access to credit.

Since its inception, microfinance has been welcomed and is seen as a successful financial innovation that ensures financial fitness by reducing global poverty. Additionally, microfinance initiatives have been seen as a means of addressing economic disparities, giving jobless people better employment options, and fostering microbusinesses. Because they give the poor access to money that they can use to start small businesses, microfinance institutions (MFIs) have expanded in size and quantity over the past few decades (Uddin et al., 2023).

In addition, microfinance can have a positive impact on women empowerment (Rai & Ravi, 2011). It has also evolved as an effective instrument for helping a large number of 'unbanked' members of society. Consequently, it is also playing a vital role in reducing financial exclusion. Through all these measures, microfinance has turned out as a genuine tool for facilitating economic growth and fighting poverty in many parts of the world (Alaro & Alalubosa, 2019). As opined by former UN Secretary-General Kofi Annan (UNCDF, 2004, p. 1):

The International Year of Microcredit 2005 underscores the importance of microfinance as an integral part of our collective effort to meet the Millennium Development Goals. Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. The great challenge before us is to address the constraints that exclude people from full participation in the financial

sector. Together, we can and must build inclusive financial sectors that help people improve their lives.

In order to better understand the possible problems and issues regarding Islamic microfinance, Kassim and Hassan (2018) surveyed 402 female microentrepreneurs who were clients of various AIM centres in Hulu, Selangor. As highlighted by the researchers, the microfinance industry is still facing different issues and challenges, though there are bright prospects and encouraging development. These challenges include the incapability of MFIs regarding financial and risk management, lack of trust among customers, inability to handle the unique and diversified characteristics of the clients, unfamiliarity with technology and fintech, and wide geographical and regional gap. In addition, incapable employees, lack of funding, unsuccessful marketing efforts, internal competition, lack of coordination among the MFIs, and weak supervision from the relevant authority are also hampering the desired progress of the MFIs in different countries globally (Kassim & Hassan, 2018).

2.3 POPULAR MICROFINANCE MODELS IN BANGLADESH

The roots of microfinance can be found in Bangladesh, where Prof. Muhammad Yunus, the founder of Grameen Bank and Nobel Laureate, started microcredit programmes back in the 1970s (De Aghion et al., 2007). Grameen Bank showed remarkable performance in ameliorating the suffering of the poor through microfinance, as well as empowering poor women and making them independent economically (Alaro & Alalubosa, 2019). Since then, many other microcredit providers have come forward and started their ventures in different parts of this country (De Aghion et al., 2007). In the last three decades, the microfinance industry has experienced tremendous growth in Bangladesh (Hossain & Abdullah, 2019).

The microfinance system, particularly the microcredit system that has become popular in Bangladesh, has particular characteristics. It is different from the mainstream financial systems due to its alternative approach to collateral based on joint liability. Many famous microfinance institutions, like Grameen Bank, Asa, Proshika, and BRAC, are operating in Bangladesh following these concepts (De Aghion et al., 2007). In

addition to these MFIs, at present, three types of institutions are involved in microfinance activities. These include government-sponsored organisations like Bangladesh Bank, commercial or specialised banks like Rajshahi Krishi Unnayan Bank (RAKUB) and Bangladesh Krishi Bank (BKB), and more than 1500 NGOs (non-government organisations) (Banu et al., 2021). These MFIs provide loans to members of borrower groups, where peer monitoring is used for securing loans instead of physical collateral (Banu et al., 2021). In addition to loans, these MFIs in Bangladesh also offer education, skill-based programmes, and training facilities to micro-entrepreneurs and poor borrowers to ensure maximum utilisation of the loan money (Banu et al., 2021). However, the conventional microfinance programmes, like that conducted by Grameen Bank, are still following the traditional methods. At present, they are lagging behind in terms of using technology in their operations. During the field investigation, Rahman et al. (2015) found that the majority of clients employ conventional techniques, which eventually raise prices and augment costs. Utilising contemporary technology is therefore necessary to prevent client illness and to adapt to the market's shifting demands. However, clients lack the skills and expertise to achieve this. This is one of the major issues, according to 50% of Grameen Bank respondents (Rahman et al., 2015).

Rahman et al. (2017) claimed that women are intentionally targeted by microfinance programs in several developing countries. Women have shown that they can repay loans, which is regarded as a lower credit risk for microfinance, despite having little authority in their families and limited access to work income. For example, women's empowerment has been successfully improved by Grameen Bank's rural lending operations in Bangladesh (Rahman et al., 2015). With the help of institutions like Grameen Bank, women can get microcredit to address the needs of their families, especially those pertaining to children. However, in order to completely benefit from microfinance's impact on empowering women, Rahman et al. (2015) stressed that significant skills training must be placed on top of it.

Bhuiyan et al. (2011) analysed the socio-economic and financial performance of the Rural Development Scheme (RDS) of Islami Bank Bangladesh Ltd. (IBBL) for a sample of 14 years from 1996 until 2009. According to the researchers, most MFIs in Bangladesh follow the group-based microcredit model dominated by peer monitoring, peer lending, joint liability with credit risk between the group members, and

homogeneous matching. All group members meet with the loan officer on a weekly basis, where they give updates about their progress, pay the weekly instalment, and get the necessary training. In addition, the rules and regulations of the MFIs are also explained in these meetings. The selection of the chief of each group is also made during these meetings. All over the world, this type of microfinance model is considered the most effective model, and even the majority of Islamic microfinance programmes have adopted this model (Bhuiyan et al., 2011). However, the researchers only collected data from the balance sheet and income statement information from Islamic Bank Bangladesh Headquarter in Dhaka for a total period of 14 years. Collecting primary data could have bolstered and verified the arguments presented by them.

The regulatory and institutional framework for Zakah, awqaf, Islamic microfinance, and microtakaful (microinsurance) in Bangladesh was thoroughly analysed by Uddin and Mohiuddin (2020), who also looked at the obstacles and opportunities facing Islamic social finance in eradicating poverty. According to them, in addition to microcredit, microinsurance or microtakaful is also offered in Bangladesh through various conventional insurance companies, NGOs, MFIs, and other banking and telecommunication companies. However, compared to the total insurance market in Bangladesh, the size and scale of microtakaful are quite small, which also presents a huge market opportunity for the microtakaful companies in this country that remains untapped (Uddin & Mohiuddin, 2020). However, Bangladesh's microtakaful providers are facing challenges like a lack of appropriate risk management and internal controls, the inability to develop expert human resources, etc. (Uddin & Mohiuddin, 2020).

2.4 ISLAMIC MICROFINANCE: AN OVERVIEW

Islamic microfinance (ISMF) is a no-collateral, interest-free financing scheme that provides small loans to the underprivileged (Islam et al., 2020; Mansori et al., 2020). The following Quranic verse supports the notion of Islamic microfinance (Sura Hashr, 59:7):

“Wealth must not circulate only among the rich ones among you.”

Allah SWT also says in the Quran (Sura Nisa, 4:29):

“O you who have believed, do not consume one another’s wealth unjustly but only [in lawful] business by mutual consent.”

Islam et al. (2020) pointed out that Islamic microfinance initiatives have dual objectives. First, through Islamic microfinance, efforts are given to promote social well-being by providing financial and technical assistance to the poor and promoting philanthropy and empathy by following the Shariah principles. The second goal is to achieve institutional sustainability and profit by providing personal loans to economically disadvantaged entrepreneurs. Ahmad et al. (2020a) presented four main principles of Islamic microfinance:

- (1) Interest is totally forbidden.
- (2) Lenders are compensated through profit sharing, albeit the most widely used Islamic microfinance programmes do not follow traditional profit-and-loss sharing concepts.
- (3) MFIs are prohibited from funding activities that are considered sinful by Islam, such as maysir (gambling), alcohol, or borrowing and lending to traditional MFIs that charge interest.
- (4) Due to the prohibition of Gharar or uncertainty, contract terms need to be completely unambiguous and avoid any sort of confusion.

Cameron et al. (2021) used a theoretical approach to compare the welfare characteristics of Islamic and conventional lending contracts. As claimed by them, the majority of Muslims often want to shun conventional microfinance services, particularly microcredit, due to religious restrictions. For them, because of the prohibition of riba, both granting and receiving interest-bearing loans are frequently thought to be in violation of Shariah law principles, and secondly, Shariah law specifically favours risk sharing between lenders and borrowers under the profit-sharing principle. Mainstream microcredit contracts, on the other hand, are structured to give the microfinance institution a guaranteed return on each contract while borrowers carry the risk of unpredictable returns (Cameron et al., 2021). The researchers in this study only used secondary data, which made their arguments weaker, though.

Riwajanti (2013) mentioned that Islamic microfinance has some distinctive features compared to its conventional counterpart. For example, Islamic values lie in the core concept of Islamic microfinance, which offers a better solution for alleviating poverty by promoting social justice and enhancing human capability. Both in terms of economic and social aspects, Islamic microfinance offers superior solutions. On the other hand, the conventional microfinance system often fails to move the poor out of the debt trap, and they cannot change their economic conditions effectively (Riwajanti, 2013).

The literature on Islamic microfinance institutions (IMFI) that was published in reputable international publications was examined by Rohman et al. (2021). According to them, in different countries, the IMFIs try to operate by employing the values of Islamic teachings, including monotheism, prohibition of usury, application of Maqasid-al-Shariah, upholding justice, and eliminating the components of gambling in all financial transactions. At present, the contracts used by the IMFIs include Murabahah (buying and selling-based contracts), Mudarabah and Musharakah (partnership or business cooperation-based contracts), Ijarah (lease-based contracts), and Qard-al-Hasan (interest-free loan contracts) (Rohman et al., 2021).

In fact, Islamic microfinance projects are related to socially responsible investments, where the investors' wealth is used only in Halal projects to benefit the entire community. These projects often involve charity-based Zakat, Waqf, or other sources of investments. Eventually, these work towards alleviating poverty and bridging the gap between the poor and the rich (Dhaoui, 2015). However, compared to conventional MFIs, Islamic MFIs are significantly smaller in terms of size. As found by Fersi and Bougelbène (2021), Islamic MFIs hold only 10% of the total assets held by conventional MFIs, mainly because they are quite new in the microfinance industry.

As stated by Ahmad et al. (2020a), Islamic MFIs present an important alternative to conventional MFIs that induce ethical concerns regarding the social consequences of high interest rates and commercialization. Through a global survey, Ahmad et al. (2020a) found that the market for Islamic microfinance has grown in recent years, and there are immense possibilities that it will continue to grow in every region of the world. Fan et al. (2019) also found that compared to conventional MFIs, Sharia-compliant

Islamic MFIs have a lower credit risk but are less profitable and financially sustainable. However, they provide greater poverty outreach and are less likely to 'mission drift.'

2.5 ISLAMIC MICROFINANCE IN VARIOUS MUSLIM COUNTRIES

Islamic microfinance institutions (IMFIs) have grown rapidly in different Muslim-majority countries in recent decades, particularly in Malaysia, Indonesia, Nigeria, and Pakistan, in addition to Bangladesh. These IMFIs work specifically on models that are non-interest-based. As highlighted by Mahmood et al. (2020), IMFIs mainly use asset financing models (Ijarah and Murabahah) and partnership arrangements like Mudarabah and Musharakah (profit and loss sharing mechanisms) that are different from conventional financing models.

2.5.1 Islamic Microfinance in Malaysia

In Malaysia, Islamic microfinance products are made available to people in various sectors, especially to women, enabling them to start their own microbusinesses. In this nation, efforts have been undertaken through Islamic microfinance to provide every member of society with the chance to participate in the formal financial system (Othman, 2015). In Malaysia, there are currently a large number of conventional and Islamic financial institutions providing microfinance services, like CIMB Islamic Bank, Amanah Ikhtiar Malaysia (AIM), EONCap Islamic Bank, Agro Bank, Bank Simpanan Nasional, Bank Rakyat, etc. (Ibrahim et al., 2016). Particularly, AIM, Yayasan Usaha Maju (YUM), and the Economic Fund for National Entrepreneurs Group (TEKUN) are the three main IMFIs currently operating in Malaysia (Amran et al., 2014). In this country, no IMFIs currently offer Mudarabah or Musharakah instruments because of the possibilities of adverse selection of borrowers, agency problems, moral hazards, and credit risks (Islam & Ahmad, 2020). Rather, these IMFIs offer the interest-free loan called Qard-al-Hasan, with the application of group lending and peer pressure theory (Amran et al., 2014).

Haque et al. (2021) conducted a survey involving 381 AIM borrowers from Terengganu, Pahang, and Kelantan, three regions on the east coast regions of Malaysia. The results of the study revealed that the AIM microfinance programme has positively influenced the borrowers regarding their social, economic, and household empowerment and enhanced their freedom in the overall decision-making processes. Furthermore, as mentioned by Amran et al. (2014), AIM and other IMFIs in Malaysia seriously recognise the value of spirituality and religion among the fraternity of these IMFIs. For example, the weekly meetings of all centres of AIM throughout Malaysia start with the Salawat, dua, and zikr so that the blessings of Allah SWT can be achieved.

A qualitative case study on Amanah Ikhtiar Malaysia (AIM), one of the largest MFIs in Malaysia, was carried out by Amran et al. (2019). The researchers found that Islamic microfinance institutions in Malaysia are extensively using technology, like mobile banking, for managing the microfinance programmes. For example, mobile banking is being used by these IMFIs to streamline their loan repayment system, which has resulted in flexibility enhancement and reduction of cost. As a result, the use of mobile banking has allowed these IMFIs to improve their financial performance and obtain greater outreach. Through mobile banking, these IMFIs are now able to offer cost-effective service delivery channels and target more poor people in remote areas (Amran et al., 2019). Mobile banking has also ensured that the repayment money can be collected securely when the conventional process of collecting money in cash can often become risky (Amran et al., 2019).

Samer et al. (2015) aimed to examine the effect of Amanah Ikhtiar Malaysia (AIM) on household income. As part of a cross-sectional survey, 780 new and existing consumers were questioned in the states of Melaka and Selangor, Malaysia. Utilising the stratified random technique, data was collected from both urban and rural districts. AIM has a positive impact on the household income of women borrowers who have been enrolled in the program for three years, according to multinomial logistics results, as compared to new borrowers who have not received treatment (Samer et al., 2015).

Islam and Ahmad's (2020) study on Amanah Ikhtiar Malaysia suggests that IMFIs can also empower women (AIM). Islam and Ahmad (2020) performed a survey in the rural Malaysian district of Selangor by distributing a structured questionnaire that

they had prepared themselves. In total, the AIM members in Selangor submitted 330 filled-out surveys. The data was analysed using structural equation modelling. Female respondents who received AIM funding underlined the value of product-related education and socialisation, particularly contracts for Mudharabah and Musyarakah and entrepreneurship training. This investigation was limited to Selangor alone. Consequently, it is plausible that the study's portrayal of Muslim women may not be universally held by all Malaysian women.

2.5.2 Islamic Microfinance in Indonesia

Since the early 1990s, Islamic microfinance has grown in popularity in several Muslim-majority nations, particularly Indonesia. Indonesia's Islamic microfinance institution (IMFI), Baitul Maal wat-Tamwil (BMT), was founded in 1990 and is a key new source for the construction of microcredit institutions in the country (Rokhman & Abduh, 2019). More than 515 IMFIs have been founded in Central Java province alone, and they coexist with traditional microfinance institutions and rural banks (Rokhman & Abduh, 2019). As Muslims are predominant in Indonesia, they are encouraged by their religious values to participate in Islamic microfinance programmes as suitable alternatives to conventional microfinance initiatives (Maulana et al., 2018).

Using self-administered questionnaires, Maulana et al. (2018) obtained primary data from a sample of 405 respondents from chosen BMTs in five distinct regencies in East Java. In the analysis, the structural equation modelling method was employed. As found by the researchers, in Indonesia, BMT is divided into two models: Baitul Maal and Baitul Tamweel. The former signifies a variety of Islamic charity funds like waqf funds and zakah-infaaq-sadaqah, while the latter indicates Shariah-compliant profit-seeking modes like investment deposits and micro-savings (Maulana et al., 2018). In order to boost the repayment of loans, BMT emphasises group solidarity and Islamic moral values in addition to the principle of profit-loss sharing. Along with BMT, Islamic micro-banking, offered by Islamic banks, and BPR (Islamic Rural Banks) also offer services related to Islamic microfinance in Indonesia (Maulana et al., 2018). Though BMT focuses on the low-income groups, farmers, and petty traders in traditional markets, other IMFIs mainly target those with more stable or established businesses,

which can be called ‘small entrepreneurs’ instead of micro-entrepreneurs (Maulana et al., 2018). The collection of primary data by the researchers has bolstered the arguments and facts presented by the researchers in this study.

A series of structured interviews with the chairman and employees of the Baitul Mal wan Tamwil (BMT) as IMFI were carried out by Wulandari and Kassim (2016). They looked into how Baitul Mal wat Tamwil (BMT), an IMFI, contributes to financial inclusion in Indonesia. Their investigation revealed that 382 BMTs in Indonesia provide training, facilities, and financing to the impoverished. The poor can choose group-based finance if they do not have the collateral needed for loans. The zakat, infaq, and sadaqah funds of the Baitul Mal division are used as a source to cover the default situation in which a low-income client fails to make a payment. As part of the risk management component, customers who receive financing from BMT are also provided with capacity building for financing.

In Indonesia, different Islamic microfinance institutions (IMFIs) offer a variety of products to Muslim households in rural areas. Using charity-based funds raised through Sadaqah and Zakah, these MFIs are distributing funds to the destitute people to successfully overcome poverty and raise their standard of living (Fianto et al., 2018). As Adnan and Ajija (2015) found, Islamic microfinance has become influential in Indonesia in raising the income levels of the people. It has also become easier for a Muslim-majority country like Indonesia to adopt the principles of Islamic microfinance, like avoiding the use of interests. The National Shariah Board of Indonesia operates here to supervise these affairs (Fianto et al., 2018).

Fianto et al. (2018) also confirmed that Islamic microfinance institutions in Indonesia have performed an important role in improving the family income and living standard of the poor people in this country. Rokhman (2013) also shows that microcredit from Islamic microfinance in Indonesia has a significant influence on poverty reduction, family education, and raising the family standard of life, among others.

2.5.3 Islamic Microfinance in Nigeria

One of the most pressing issues confronting emerging countries like Nigeria is the persistent rise in poverty, which widens the gap between the rich and the poor in the face of rising population and economic growth. There are many microfinance outlets in Nigeria, but their operational products have yet to stop the flood of people descending into poverty. Despite the country's expanding GDP, UNICEF estimates that 70.8% of Nigerians live on less than a dollar per day (Busari & Aminu, 2017). This growth in poverty, resulting from the unequal distribution of national income, has exacerbated Nigeria's economic instability and social insecurity (Busari & Aminu, 2017).

In 2017, the Central Bank of Nigeria (CBN) released "Guidelines on the Regulation and Supervision of Non-Interest (Islamic) Microfinance Banks (NIMFBs)." The objective is to level the playing field between NIMFBs and conventional. It was also meant to provide an alternative microfinance model based on the ideas of profit-and loss-sharing. Providing financial services to "individuals, communities, and corporations that may not be captured by conventional MFBS" is in line with the National Financial Inclusion Strategy's objective (Abdullahi et al., 2021, p. 312). The unbanked, underserved, and low-income populations are among the target clients of these banks, along with other microbusinesses (Abdullahi et al., 2021).

Abdullahi et al. (2021) employed closed-ended questionnaires and a quantitative approach based on the proportionate stratified random sampling methodology to gather data from 450 respondents. As found by the researchers, to solve these problems related to extreme levels of poverty and inequality, the National Financial Inclusion Strategy (NFIS) was launched in 2012 (Abdullahi et al., 2021). After that, significant efforts were made to improve financial inclusion in Nigeria by promoting Islamic microfinance and other alternative financial products. The goal of the strategy was to increase access to financial services, improve financial literacy, improve consumer protection, and focus on gender concerns (Abdullahi et al., 2021). The first non-interest microfinance bank (MFB) in Nigeria, called Tijarah MFB, was licensed in 2014 (Abdullahi et al., 2021). The arguments made by the researchers in this study were substantiated by the collected primary data, which strengthened these arguments in a significant manner.

In the context of Nigeria, Alaro and Alalubosa (2019) looked into the possibilities of implementing Shariah-compliant microfinance programmes to alleviate poverty. The study highlighted the positive role of Islamic microfinance in alleviating poverty and enhancing economic empowerment in this country. Again, Busari and Aminu (2017) proposed using Ar-rahn-based microfinance to ensure that the poor, unemployed, and low-income earners have access to Islamic microfinance products and services. The researchers found that in order to achieve higher financial inclusion and broader microfinance objectives in the country, Islamic microfinance can play a very important role (Busari & Aminu, 2017).

The impact of the Islamic microfinance system on reducing poverty in Kwara State, Nigeria, was examined by Jimoh et al. (2024). In order to choose traders and small business owners from the weekly market setting of particular cities and villages in the three senatorial districts of this state, non-probability, purposive sampling was used. The study specifically looked at the impact of charity, microcredit, and micro-equity on the earnings and productivity of low-income and small business owners in Kwara State. The results indicated a positive correlation between income levels and the Islamic microfinance system's microcredit, micro-equity, and charity products. In Kwara State, Nigeria, the variables had a major impact on efforts to reduce poverty as well. Based on the results, the study came to the conclusion that charity (social finance), micro-equity, and microcredit products had a major impact on reducing poverty in Kwara State, Nigeria. The report also suggested having sufficient amount of shariah-compliant microcredit, micro-equity, and charitable financial resources, including Musharakah, Zakat, Sadaqah, Murabahah, and Mudarabah. This will increase the State's small company owners' and low-income earners' levels of productivity and income.

The most well-known Islamic microfinance institution in Nigeria is Al-Hayat Relief Foundation, which operates in six states. Al-Hayat was established to apply the Islamic economic system on an individual basis and encourage interest-free financing to its registered members (Salaudeen & Zakariyah, 2022). Al-Hayat Relief Foundation, a microfinance organisation, has taken the initiative to eliminate poverty among Muslims through a variety of interrelated strategies (Adepoju & Oyesanya, 2014).

Furthermore, this organisation offers Islamic financial literacy training to its clients (Adepoju & Oyesanya, 2014).

Furthermore, Salako and Azeez (2018) used a descriptive study survey approach to try to evaluate the social and economic impacts of Al-Hayat Relief Foundation members. The instrument utilised to collect the data was a self-made questionnaire. The data gathered from the survey replies was subjected to a descriptive analysis. To validate null hypotheses, Pearson's correlation analysis was carried out using the SPSS 2011 version program. The study's findings show that the Al-Hayat Relief Foundation considerably enhances the public's social and economic well-being and that, to a reasonable degree, its initiatives comply with Shariah.

2.5.4 Islamic Microfinance in Pakistan

In Pakistan, the fields of Islamic finance and Islamic microfinance are developing. Guidelines for Islamic microfinance were developed by the State Bank of Pakistan in 2007 (Mahmood et al., 2015). If a bank or institution offers both conventional and Shariah-based products, these guidelines specify the requirements for licensing, appointing Shariah advisors, and separating funds for Islamic and conventional products. They also outline various arrangements that institutions can make in order to provide Islamic microfinance services. Islamic MF items are distributed in Pakistan by a few organisations, including Islamic Relief, Farz Foundation, Wasil Foundation, Akhuwat, and Naymat (Mahmood et al., 2015).

In Pakistan, the most successful IMFI is Akhuwat, which offers Shariah-based interest-free loans to poor people in order to enhance their quality of life and reduce poverty (Rafay et al., 2020). The Akhuwat model is based on the concepts of Qard-al-Hasan (interest-free loans) and Muakhaat (brotherhood) (Rafay et al., 2020). Akhuwat was established in 2001 in Lahore by the prominent Pakistani philanthropist Dr. Amzad Sakib (Rafay et al., 2020). As mentioned by Rafay et al. (2020), so far, Akhuwat has distributed PKR17 billion to the poor and relieved 900,000 destitute families from the

poverty trap. In this way, Akhuwat acted as the trendsetter in Islamic microfinance in Pakistan, which is currently offering seven different types of Shariah-compliant loans as microfinance products (Rafay et al., 2020):

1. Family enterprise loan
2. Freedom loan (to help those poor who borrowed money from cash moneylenders)
3. Education loan
4. Marriage loan
5. Emergency loan
6. Silver loan (used for further growth of the current business of customers)
7. Housing loan.

The Farz Foundation began offering Islamic MF services in 2009 after launching a pilot project. Similarly, although not to the same extent as Akhuwat Foundation, Islamic Relief Pakistan started offering Islamic microfinance services in 2001 along with other social services that adhere to Sharia law to assist the poor and disadvantaged. To assist the nation's entrepreneurs, these organisations offer Islamic microfinancial services through murabaha. Additionally, Asassah and the WASIL Foundation (Murabaha, Ijara, Istisna, Salam, etc.) have been striving to help the impoverished become financially independent for a short period.

2.6 CHALLENGES FACED BY DIFFERENT COUNTRIES IN IMPLEMENTING AND SUSTAINING THE ISLAMIC MICROFINANCE

While implementing Islamic microfinance projects, different countries have faced some major challenges. For example, limited assets and insufficient regulations have hindered the progress of this system (Seibel, 2008). Ensuring the sustainability of Islamic microfinance products is another major challenge faced by these countries (Wediawati et al., 2018).

As argued by Obaidullah and Khan (2008), at the micro level, Islamic microfinance providers must tackle issues related to Shariah compliance, diverse organisational structures, poor linkages with capital markets and banks, lack of product

diversification, etc. Again, at the macro level, they suffer from a lack of enabling policies and regulatory environments. The success of any Islamic microfinance programme depends largely on how these issues are managed. Furthermore, Islamic commercial banks and cooperatives need to play vital roles to overcome these challenges (Seibel, 2008).

Whilst implementing Islamic microfinance projects, different countries have faced some other challenges that have hindered the overall success of these initiatives. For instance, by using a quantitative approach, Mahmood et al. (2020) found that issues like unavailability of effective Islamic microfinance products, lack of appropriate marketing of Islamic microfinance products, no proper government support, dearth of human capital in microfinance and shortage of Islamic microfinance institutions in rural areas are making the progress of Islamic microfinance system in India quite difficult.

Some other factors also contribute to the unpopularity of the Islamic microfinance system in different countries. For instance, due to extreme levels of poverty, people living in different remote areas are often excluded from mainstream financial services. Furthermore, in many Muslim societies, people show apathy and indifference towards Islamic microfinance products due to their lack of knowledge (Mahmood et al., 2019). At the same time, due to a lack of marketing activities, people often remain ignorant about the availability of different Islamic microfinance products in their locality (Mahmood et al., 2019).

As found by Siti-Nabiha and Siti-Nazariah (2022) and Tamanni and Besar (2019), different NGO-based Islamic microfinance institutions (IMFIs) are often focused only on ensuring loan repayment and gaining efficiency, like conventional microfinance institutions. The researchers also found that the top management of these IMFIs is driven by financial issues and sometimes neglects social norms and values. As commented by one of the directors of an IMFI, “The achievement of the financial result is our first priority. Only if we are self-sufficient are we able to reach out to our target groups” (Siti-Nabiha & Siti-Nazariah, 2022, p. 314). This sort of commercial mindset is also pushing these IMFIs to act like business entities, hampering the progress of these organisations and limiting their contributions to the welfare of the poor and distressed people of different countries around the world. Tamanni and Besar (2019) also found

that the smaller MFIs genuinely aim to serve the poor. However, as they grow larger, they become more inclined toward sustainability and profitability objectives. In other words, like many conventional MFIs, a large number of IMFIs are facing a dilemma between remaining loyal to the mission of poverty alleviation or pursuing the sustainability of the institutions.

IMFIs from different countries are also finding it difficult to boost their financial performance and sustainability, as they are often unable to manage different kinds of risks in an efficient manner. Through empirical research, Mutamimah et al. (2021) found that the IMFIs at Baitut Tamwil Muhammadiyah (BTM) of Indonesia, due to weak human resources and lack of a good control system, could not efficiently manage the risks, including the risk of ensuring Sharia compliance, as well as financing and operational risks. These risks have negatively impacted their profitability as well.

Salaudeen and Zakariyah's (2022) objective was to examine the barriers in Nigeria that are impeding the expansion of Islamic microfinance organisations. Semi-structured interviews were employed in order to collect data for this investigation. The data was also successfully analysed using techniques for data reduction, coding, integration, and visualisation. The end shows that some legislative barriers, like the requirement for paid-up capital for licensing application procedures, are challenges. Additionally, there are still significant obstacles that IMFIs in Nigeria must overcome in terms of knowledge, acceptance, and perception. A shortage of Islamic fintech, easy access to the unbanked population, and human capital are some internal problems that IMFBs struggle with. In order to eradicate poverty and promote financial inclusion, the report advises those involved in the Nigerian financial system to launch public education campaigns about the importance of Islamic microfinance institutions.

Table 2.1 summarises the outcomes of the literature review discussed here.

Table 2.1 Summary of Literature Review

No.	Title of the Paper	Authors	Summary of Outcomes
1.	An analysis of the religious, social factors and income's influence on the decision-making in Islamic microfinance schemes.	Mansori et al. (2020)	Microfinance is a tool for assisting low-income people in becoming self-sufficient by giving them access to financial services that allow them to save money, move funds, and/or obtain insurance
2.	Profitability vs Poverty alleviation: has banking logic influences Islamic microfinance institutions?	Tamanni and Besar (2019)	The birth of the microfinance movement is triggered by market failure, i.e., the failure of mainstream banks and other financial institutions to reach out to microentrepreneurs or poor families who are in desperate need of capital.
3.	An analysis of the joint liability model in Bangladesh: lessons for the Islamic microfinance institutions.	Muhammad et al. (2022)	Appropriate microfinance products and services can effectively bring down poverty levels in a sustained manner.
4.	Potential of Shariah compliant microfinance in alleviating poverty in Nigeria: A lesson from Bangladesh.	Alaro and Alalubosa (2019)	Grameen Bank showed remarkable performance in ameliorating the suffering of the poor through microfinance, as well as empowering poor women and making them independent economically
5.	Islamic microcredit is the way of alternative approach for eradicating poverty in Bangladesh: a review of Islami Bank Microcredit Scheme.	Bhuiyan et al. (2011)	Most MFIs in Bangladesh follow the group-based microcredit model dominated by peer monitoring, peer lending, joint liability with credit risk between the group members, and homogeneous matching.
6.	Peer monitoring and Islamic microfinance.	Cameron et al. (2021)	The majority of Muslims often want to shun conventional microfinance services, particularly microcredit, due to religious restrictions.
7.	The contribution of non-conventional Microfinancing on economic, social and household empowerment of women borrowers in Malaysia.	Haque et al. (2021)	AIM microfinance programme has positively influenced the borrowers regarding their social, economic, and household empowerment and enhanced their freedom in the overall decision-making processes
8.	Equity financing and debt-based financing: Evidence from Islamic microfinance institutions in Indonesia.	Fianto et al. (2018)	Islamic microfinance has become influential in Indonesia in raising the income levels of the people
9.	Islamic Microfinance in India: A Quantitative Approach.	Mahmood et al. (2020)	Issues like the unavailability of effective Islamic microfinance products, lack of appropriate marketing of Islamic microfinance products, no proper government support, dearth of human capital in microfinance and

No.	Title of the Paper	Authors	Summary of Outcomes
			shortage of Islamic microfinance institutions in rural areas are making the progress of Islamic microfinance system in India quite difficult.
10.	Risk management practices of Islamic microfinance institutions to improve their financial performance and sustainability: a study on Baitut Tamwil Muhammadiyah, Indonesia.	Mutamimah et al. (2021)	IMFIs at Baitut Tamwil Muhammadiyah (BTM) of Indonesia, due to weak human resources and lack of a good control system, could not efficiently manage the risks, including the risk of ensuring Sharia compliance, as well as financing and operational risks.

2.7 ISLAMIC MICROFINANCE IN BANGLADESH: CURRENT STATUS

Bangladesh is known worldwide for Grameen Bank and its microfinance programmes. This organisation got the Nobel Peace Prize in 2006 for its outstanding contribution to poverty alleviation through conventional microcredit programmes. At present, a large number of MFIs are operating in this country that are offering credits free of collateral to millions of poverty-stricken people of this country. However, the field of Islamic microfinance is relatively new in Bangladesh, as the leading microfinance providers have not started adopting Islamic Shariah yet (Nabi et al., 2017). Furthermore, the majority of the current Islamic MFIs in Bangladesh are still following the group lending model of Grameen Bank (Uddin & Mohiuddin, 2020).

Due to a number of challenges, like a lack of necessary resources and regulatory support and the high cost of transactions, the growth of Islamic microfinance in this country is not as anticipated (Hossain & Abdullah, 2019). The dominance of conventional NGOs/MFIs and the lack of Islamic financing sources are major barriers to Bangladesh's Islamic microfinance development (Haque & Yamao, 2011). Consequently, the Islamic microfinance industry accounts for only a 5% share of the microfinance market in Bangladesh, where more than 37 million impoverished people in this country are getting benefitted from different types of microfinance products (Nabi et al., 2017; Muhammad et al., 2022).

At present, four banks and 20 microfinance institutions are providing Islamic MF services across Bangladesh (Ahmed et al., 2021). Out of these, Islami Bank Bangladesh Limited (IBBL) have come forward with Islamic microfinance programmes like the Rural Development Scheme (RDS) and Urban Poor Development Scheme (UPDS) (Qadri & Ali, 2024). The RDS programme was started in Bangladesh in 1995 (Ashraf, 2018). RDS scheme provides investment funding in different sectors, like agromachineries, crop cultivation, poultry, livestock, nursery, rural housing, fisheries, rural transport, and off-farm activities (Ashraf, 2018). Rahman (2010) tried to assess the impact of the service offered by RDS, and found that the household income, expenditure, employment, and the productivity of crops and livestock had significantly increased due to the impact of invested money by RDS.

Table 2.2 shows a comparison between the operations of RDS and Grameen Bank in implementing microfinance programmes:

Table 2.2 Comparison of Operations between RDS and Grameen Bank

Item	RDS	Grameen Bank
Assets (mode of financing)	Non-interest-based Islamic financial instrument	Interest-based
Liabilities (sources of funds)	Islamic charities, external funds, clients' savings	External funds, clients' savings
Transfer of funds	No cash (goods)	Cash
Financing the poorest	Include the poorest	Exclude the poorest
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
Employee work incentive	Monetary and religious	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	Savings, credits, education funds, micro-insurances, social welfare funds	Savings, credits, education funds, micro-insurances

Item	RDS	Grameen Bank
Cost of loans	Much less than 35 per cent (No interest)	More than 35 per cent (including 20 per cent absolute interest rate)

Source: Ashraf (2018)

Al-Arafah Islami Bank (AIBL) began operations in 1995 with the goal of establishing a contemporary banking system founded on Islamic Shari'ah. In 2001, AIBL started its own initiative to expand the base of Islamic microfinance and integrate the unbanked into the banking system. Under its SME and microfinance division, the bank typically offers microfinance services. This segment is closely grouped as micro, small, and medium enterprises (MSME) or cottage, small, and medium enterprises (CSME). Bangladesh Bank claims that AIBL is focusing on CSME lending based on three business categories: commerce, services, and industries. Most significantly, CSME is a driving force behind the creation of jobs, revenue, forward and backward industrial linkages, and social demands (Uddin et al., 2023).

In the Islamic microfinance arena, another significant player is Muslim Aid Bangladesh, which is a leading international charity working in this country since 2004. In order to offer microcredit facilities to its borrowers, this IMFI uses public donations and subsidised funding from multilateral organisations, like the Islamic Development Bank (IsDB), and also from local commercial banks (Uddin & Mohiuddin, 2020). Muslim Aid charges a profit rate of approximately 13% for its SME financing product, called 'bai-muajjal', and a service charge of approximately 12% ('munafa') for Qard (personal and micro-business cash financing) (Uddin & Mohiuddin, 2020). However, this rate is 10% for RDS (Uddin & Mohiuddin, 2020). It is also found by Uddin and Mohiuddin (2020) that the loan recovery rate for both RDS and Muslim Aid is over 98%.

Still, the contribution of IMFIs like RDS and Muslim Aid in Islamic microfinance is not significant (Hossain & Abdullah, 2018). Other Islamic Banks and the Islamic windows of conventional banks have failed to promote Islamic microfinance products in a vigorous manner and could not come up with successful programmes like

RDS of IBBL. For all of these reasons, Islamic microfinance is still at a nascent stage in Bangladesh.

Based on demographic variables, including age, gender, family size, and education, Ahmed et al. (2021) looked into the behavioural intention of potential clients toward Islamic microfinance services in Bangladesh. The intention of potential clients toward Islamic microfinance services was ascertained in this study using a self-administered survey questionnaire based on five variables: behavioural intention, normative belief, behavioural belief, attitude toward behaviour, and subjective norms. 326 responses, or 72.44%, were obtained from the 450 questionnaires that were sent. The results of this study show that compared to female respondents, male respondents had a stronger behavioural intention toward Islamic microfinance services. Conversely, when it comes to Islamic microfinance services, female respondents have a stronger behavioural belief than male respondents. The outcomes of the study by Ahmed et al. (2021) indicate that there should be more awareness campaigns to increase the degree of intention among potential clients to use Islamic microfinance services in Bangladesh.

In Bangladesh, all of the Islamic MFIs depend on their own Sharia Supervisory Committees (SSCs), as there is no uniform Shariah regulatory framework at the national level. These Bangladeshi MFIs always need to depend on the fatwas of their own SSCs to get the Shariah rulings about different financial matters. While making decisions, these SSCs also consult AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and different other international standards-setting bodies, as well as take help from internationally renowned scholars like Mufti Taqi Usmani (Uddin & Mohiuddin, 2020).

The frequent use of Murabahah by Islamic microfinance organizations in Bangladesh can be attributed to several factors. Puspitasari et al. (2019) listed four advantages of Murabahah. Customers can, first and foremost, make purchases depending on their financial situation and potential. The second advantage is that the customer is relieved of the strain because the financing is done in instalments. The third advantage is transparency between the bank and the customer. The customer is aware of the supplier's pricing and the bank has already given them information about the goods they want to buy. At the start of the transaction, extra benefits for the bank are

guaranteed by a mutual agreement between the bank and the consumer. Lastly, the bank is assured additional benefits from the outset of the transaction based on mutual agreement between the bank and the consumer, eliminating the possibility of mutual tyranny in this situation. As a result, the IMFIs have very little risk when using the Murabahah-based system. All Islamic microfinance institutions in Bangladesh employ this Murabahah-based Islamic microfinance model because of these advantages.

Murabahah contracts benefit IMFI members and have proven successful at every stage of the financing process. This demonstrates that by putting in place a Murabahah-based system that complies with the requirements of the microfinance recipients, the IMFIs may accomplish their objectives. Additionally, this motivates IMFIs in Bangladesh to implement a system based on Murabahah. Furthermore, due to the ease of calculating the profit-sharing ratio for the customers, the IMFIs are more inclined to use Murabahah-based microfinance products in this country (Puspitasari et al., 2019).

2.8 ROLE OF MICROFINANCE IN ENHANCING FINANCIAL INCLUSION AND ECONOMIC EMPOWERMENT

2.8.1 The Concept and Determinants of Financial Inclusion

According to the World Bank, financial inclusion means having access to and use of formal financial services (Demirguc-Kunt et al., 2018). It is also defined as a process for ensuring the availability, ease of access, and usage of financial services for every member of society (Nabi et al., 2017). In a similar manner, as defined by Qadri and Ali (2024, p. 16), financial inclusion is the “process that ensures the accessibility, availability, and utilisation of financial services by all members of society.”

According to Abdullahi et al. (2021), financial inclusion is concerned with arranging the provision of a wide variety of financial services at an affordable cost to meet the needs of all consumers while minimising involuntary financial exclusion. At the same time, people are considered financially excluded when they have limited access to formal financial services (Shinkafi et al., 2019).

Financial inclusion is closely associated with ensuring the delivery of financial services at an affordable cost to the low-income segments of society (Nabi et al., 2017). The use of digital financial services, like mobile money services, different payment cards, and other fintech (financial technology) applications, is gaining wide popularity worldwide. This financial inclusion can have a significant impact on alleviating poverty and helping the destitute manage financial emergencies (Demirguc-Kunt et al., 2018).

The most comprehensive set of data regarding financial inclusion in the world is available in the Global Findex database of the World Bank (Demirguc-Kunt et al., 2018). It provides information on how people borrow or save money, make payments, and manage risks. In 2017, the third edition of the database was compiled, which contains information related to the financial inclusion of over 140 high-income and developing countries. Updated indicators on access to and use of formal and informal financial services are included in the database (Demirguc-Kunt et al., 2018). This World Bank report also suggests measures to increase unbanked people's access to financial services, as well as ways to encourage them to adopt digital financial services (Demirguc-Kunt et al., 2018).

Account ownership is one of the most important determinants of financial inclusion (World Bank, 2019). This account ownership, according to the 2017 Global Findex database, is defined as holding an individual or jointly holding an account at a financial institution, like a bank, or through a mobile money provider (Demirguc-Kunt et al., 2018). Furthermore, 1.7 billion adults worldwide still don't have bank accounts (Chen & Yuan, 2021). All of these unbanked people live in different developing countries, as in high-income countries where account ownership is nearly universal. Around a quarter of unbanked individuals live in the lowest 20% of their economy's households, roughly twice the share who live in the wealthiest 20% (Demirguc-Kunt et al., 2018).

In a similar manner, as demonstrated by Nabi et al. (2017), the proportion of the population served by commercial bank branches and ATMs, as well as the size of deposits and loans made by low-income households and SMEs, are all indicators of an economy's financial inclusion. People may actively exclude themselves from financial services for religious or cultural reasons, even if they have access to and can afford

them. Therefore, the availability of financial services does not always imply financial inclusion (Nabi et al., 2017).

Using qualitative research and case studies, Zulkhibri (2016) investigated the connections between financial inclusion and the Islamic financial services sector in Muslim nations. As found by them, only 27% of adults in Muslim-majority countries have bank accounts. The important obstacles to financial inclusion, as identified by Zulkhibri (2016), include lack of trust, religious beliefs, high cost and difficulties in opening accounts, and long distance with the banks and other financial institutions. However, the author suggested that Islamic distributive instruments like Sadaqah, Zakat, Qard-al-Hasan, and Waqf can be useful for bringing over 40 million financially excluded Muslim people into the formal financial system (Zulkhibri, 2016).

The World Bank database also reveals that 50% of adults in Bangladesh have some form of accounts (Demirguc-Kunt et al., 2018). Most significantly, the share of adults with a mobile money account rose from 3% in 2014 to 21% in 2017 (Demirguc-Kunt et al., 2018). However, women in Bangladesh are still less likely to have an account than men. According to the World Bank database, the gender gap in account ownership is nearly 30% in Bangladesh (Demirguc-Kunt et al., 2018). In 2021, 41% of adult males had mobile money account ownerships, though it was 20% for females, as reported by the GSM Association of Bangladesh (Ali, 2022).

2.8.2 Impacts of Financial Inclusion

Financial access in the form of savings accounts, loans, or insurance products can be considered a prerequisite for growing economies and assisting the poor. Financial inclusion benefits the economy, increases the availability of funding for efficient allocation and intermediation, reduces income inequality, and encourages the creation of new businesses (Adeola & Evans, 2017; Banna et al., 2022). As argued by Baber (2020), financial inclusion can be an effective path towards achieving sustainable development goals that can increase the standard of living of poor people worldwide and lead to poverty reduction worldwide.

As Nabi et al. (2017) pointed out, in emerging and developing countries, financial inclusion has become apparent as a significant tool for supporting inclusive economic growth, alleviating poverty, and reducing inequality. Furthermore, financial inclusion promotes savings, productive investment, and women empowerment (Nabi et al., 2017). It can also help the poor participate in productive activities, make long-term decisions regarding investment and consumption, and cope with unexpected situations (Nabi et al., 2017).

Financial inclusion also aids in the reduction of severe poverty, the expansion of shared prosperity, and the promotion of inclusive and long-term growth (Abdullahi et al., 2021; Qadri & Ali, 2024). It also encourages efficient resource allocation and improves people's well-being by encouraging saving habits and curbing the rise of informal credit sources (Abdullahi et al., 2021). At the same time, when people refrain from using formal financial services, it often leads them to poverty and creates inequality (Nabi et al., 2017; Qadri & Ali, 2024). Moreover, they may face idiosyncratic or systematic shocks when they are compelled to depend on their own resources to meet unexpected financial needs (Nabi et al., 2017). When the need arises to invest in income-generating projects, these helpless people often fail to react in an effective manner (Nabi et al., 2017).

2.8.3 Financial Inclusion in Bangladesh: An Overview

At present, financial inclusion is considered one of the key enablers for enhancing prosperity and alleviating poverty. However, in Bangladesh, more than 47% of adults are out of formal financial services, according to the Global Findex Database (2022). Particularly for marginal farmers, women, and other socially excluded groups, having access to basic financial services remains a big challenge here in this country (Akter, 2016). In particular, the inclusion rate for women here is only 43% (Global Findex Database, 2022). Islamic microfinance system can also be effective in improving the financial inclusion scenario of this country (Nabi et al., 2017).

Due to low literacy rates, vast rural population, and high interest rates of the conventional banking system, people are unable to become bankable in Bangladesh

(Uddin et al., 2017). Even due to voluntary exclusion, the weak infrastructure of financial institutions, and severe political unrest, the number of non-bankable people here in Bangladesh is precariously high (Uddin et al., 2017). Simultaneously, formal financial institutions in Bangladesh, including banks or investment companies, are not willing to sanction loans to slum dwellers because they do not have collateral (Hossain, 2019). For these reasons, millions of people in this country are financially excluded.

2.8.4 The Impact of Microfinance on Financial Inclusion

As claimed by Kassim and Hassan (2018), microfinance has proved to be an effective way to enhance financial inclusion by improving access to credit for specific categories of people who are frequently left out of mainstream finance, such as women micro-entrepreneurs and impoverished people. Again, microfinance and financial inclusion possess a long-run relationship, according to Adeola and Evans (2017). Microfinance has a good but negligible impact on financial inclusion in the short run, according to the study, but it has a positive and statistically significant impact on the degree of financial inclusion in the long run. Currently, the poor often need to resort to microfinance banks, as formal financial institutions are disinclined to lend to people with low income or without collateral. Therefore, it has been demonstrated in the study by Adeola and Evans (2017) that microfinance is a major driver of financial inclusion in Nigeria. The authors also suggested that microfinance needs to be promoted more aggressively in order to increase financial inclusion. Singh and Padhi (2017) also concluded that microfinance is one of the most effective mechanisms for promoting and facilitating financial inclusion and empowering the poor and financially excluded.

As opined by Milana and Ashta (2020), the ultimate target of microfinance programmes is to lift the needy and indigent from poverty through financial and social inclusion. These poor people, microentrepreneurs, or small businesses do not have access to formal banking services, and they depend on relationship-based banking and group-based models, which are the main facets of microfinance programmes (Malhotra, 2018). In some regions like Southern Africa, microfinance is synonymous with the supply of financial services to people with low income (Malhotra, 2018). However, high interest rates charged by MFIs are often inhibiting the poor from taking loans from these

MFIs. In the end, this is also impacting the financial inclusion rate of a country (Bharti & Malik, 2022).

Using a qualitative methodology, Hai et al. (2021) demonstrated how microfinance encourages financial inclusion by providing financial services and products to the non-bankable segment of the population. Through sustainable development goals, the UN's development agenda has placed a stronger emphasis on financial inclusion, e.g., SDG 1 (no poverty), SDG 2 (zero hunger), SDG 3 (good health and well-being), SDG 5 (gender equality), SDG 8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure), SDG 10 (reduce inequalities), and SDG 17 (partnerships for the goal) (Hai et al., 2021).

2.8.5 Economic Empowerment of the Poor

The word 'empowerment' originated from the word 'empower', which means giving power or authority to someone (Haque et al., 2019). 'Empowerment' refers to a process in which people gain more control over the factors that affect their lives (Herath, 2018). As defined by Haque et al. (2019, p. 241), "Empowerment is a process that enables one to gain power, authority, and influence over others". Considering the social and political environment, a person is empowered when he/she has control and mastery over his/her life (Haque et al., 2019). The perception of 'women empowerment' has also become prominent, which means allowing women to realise their full identity and power in every sphere of their lives so that they can cope with every situation in a successful manner (Haque et al., 2019).

According to Zitouni and Zedidia (2022), empowerment is centred on four essential components: accountability, inclusion/participation, local organization, and information access. Therefore, as Jouti (2019) pointed out, economic empowerment presupposes a move from financial inclusion to economic inclusion through the creation of an economic value chain that provides the necessary ecosystem. Collaborating within an ecosystem would facilitate the most efficient allocation of financial resources for all parties involved, as well as the definition of metrics intended to track results, spot deficiencies, and implement solutions. Since there are several elements that make the

poor vulnerable, economic empowerment is essential. In actuality, they do not have access to networks for acquiring inputs or selling outputs, financial resources, the necessary atmosphere for efficient labour, safety nets in the event of shocks or life events, or economic chances (Zitouni & Zedidia, 2022).

The notion of empowerment is traced back to Sen's capability approach, which says empowerment is the ability of people to live the life they want (Sen, 1989). Economic empowerment signifies the bargaining power and decision-making of people, particularly women, within households as well as in society (Laszlo et al., 2020). Empowerment is an intrinsic quality which cannot be granted by a third party (Haque et al., 2019). According to Rowlands (1997, as cited in Haque et al., 2019, p. 241),

The empowerment is a process of enabling or authorizing an individual to think, behave, and take action and controlling work autonomously. It involves some degree of personal development. Individuals become empowered when they obtain the right to determine choices in life and to influence the direction of change through the ability to gain control over material and non-material resources. The World Bank 'Empowerment Source Book' also defines empowerment in the same way.

2.8.6 Microfinance and Economic Empowerment

As highlighted by Herath (2018), women, in many areas, are economically and socially marginalised, and hence it is widely believed that microfinance programmes aimed at them have higher empowering potential. Different microfinance programmes can assist women in building their own income-generating ventures and thus foster their self-confidence, self-reliance, and self-worth. Women who participate in microfinance programmes are also able to achieve greater bargaining power inside the household and can become community leaders (Herath, 2018). In order to participate in most microfinance programmes, women are required to be members of small groups. This can give them the chance to become more responsible, exchange novel ideas, support each other when necessary, and develop leadership qualities. Furthermore, these women can gain the ability to help their spouse, children, and other relatives whenever necessary and thus can gain more respect from other family members (Herath, 2018).

Colombage et al. (2008) wanted to investigate the participation of women in the decision-making process for agricultural and non-agricultural activities. For this purpose, they developed the 'Women's Empowerment Index' and found that microfinance has a positive effect on the empowerment of women at an individual level, family level, community level, and also at business level (Colombage et al., 2008). Using the loans obtained from the MFIs, women can be involved with income-generating activities that can ameliorate their socio-economic conditions and help them get out of the poverty trap (Haque et al., 2019). This can also help them to be empowered, improve their self-confidence, and participate more in household decision-making (Haque et al., 2019). As highlighted by Tasha (2021), the access and use of microcredits by women can lead to their economic empowerment so that they can make decisions on their credit use and savings. This can also permit them to set up microenterprises, which can lead to more income and more control and enhance their overall well-being in the end.

According to a study conducted in Pakistan's Bahawalpur District by Noreen (2011), women who use loans perform better than male family members. Thus, a lot of MFIs exclusively target women. Targeting women is also done to empower them. Another study conducted in Pakistan examined the effects of the Punjab Rural Support Program's microcredit program on women's empowerment (Khan et al., 2011). Microcredit increased women's awareness and empowerment, according to the study, which contrasted their status before and after obtaining it. It increased their self-identity, shopping trips, and involvement in the family budget and children's schooling. Microcredit significantly increased the socio-economic empowerment of credit borrowers, according to a different study by Shah and Butt (2011) that examined how microcredit empowers women and what activities produce revenue in Pakistan's Kasur area. According to the survey, the majority of women who used microcredit services eventually experienced socioeconomic empowerment.

The factors influencing rural women's access to microcredit and its impact on women's empowerment in Bangladesh were examined by Debnath et al. (2019). Using primary data, descriptive statistical analysis, and econometric modelling, they discovered that family size had a positive correlation with loan accessibility, whereas income had an inverse association. They also noted that microcredit had a favourable

impact on women's awareness and household decision-making. To hasten women's emancipation, they recommended that MFIs offer their financial services to rural women with higher incomes.

Table 2.3 summarises the outcomes of previous researchers on the current topics:

Table 2.3 Literature Review Summary

No.	Title of the Paper	Authors	Summary of Outcomes
1.	The Growth and Contemporary Challenges of Islamic Microfinance in Bangladesh.	Hossain and Abdullah (2019)	Due to a number of challenges, like a lack of necessary resources and regulatory support and high cost of transactions, the growth of Islamic microfinance in Bangladesh is not as anticipated.
2.	Use of bounded rationality theory to understand participation of women in Islamic microfinance.	Ashraf (2018)	RDS scheme of IBBL provides investment funding in different sectors, like agromachineries, crop cultivation, poultry, livestock, nursery, rural housing, fisheries, rural transport, and off-farm activities
3.	Islamic social finance in Bangladesh: Challenges and opportunities of the institutional and regulatory landscape.	Uddin and Mohiuddin (2020)	In Bangladesh, all of the Islamic MFIs depend on their own Sharia Supervisory Committees (SSCs), as there is no uniform Shariah regulatory framework at the national level.
4.	Murabahah as an Islamic financial instrument for agriculture.	Puspitasari et al. (2019)	Only the Murabahah system is frequently used by the Islamic microfinance organisations in Bangladesh.
5.	The Global Findex Database 2017: Measuring financial inclusion and the fintech revolution	Demirguc-Kunt et al. (2018)	Financial inclusion can have a significant impact on alleviating poverty and helping the destitute manage financial emergencies.
6.	Determinants of financial inclusion in Bangladesh: Dynamic GMM & quantile regression approach.	Uddin et al. (2017)	In Bangladesh, more than 45% of adults are out of formal financial services, according to the International Monetary Fund (IMF).
7.	Issues facing Islamic microfinance and their possible solutions: empirical evidence from Amanah Ikhtiar Malaysia.	Kassim and Hassan (2018)	Microfinance has proved to be an effective way to enhance financial inclusion by improving access to credit for specific categories of people who are frequently left out of mainstream finance.
8.	Financial inclusion and the performance of microfinance institutions: does social performance	Bharti and Malik (2022)	High interest rates charged by MFIs are often inhibiting the poor from taking loans from these MFIs. In the end, this is

No.	Title of the Paper	Authors	Summary of Outcomes
	affect the efficiency of microfinance institutions?		also impacting the financial inclusion rate of a country.
9.	Microfinance Theory and Practice (1 st ed.)	Herath (2018)	Women, in many areas, are economically and socially marginalised, and hence it is widely believed that microfinance programmes aimed at them have higher empowering potential.
10.	The Impact of Cash Transfers on Women's Economic Empowerment in an African Context: A Case Study of South Sudanese Women in Yumbe District Bidibidi Refugee Camp Northern Uganda.	Tasha (2021)	The access and use of microcredits by women can lead to their economic empowerment so that they can make decisions on their credit use and savings.

2.9 CONCLUSION

In a nutshell, this chapter explores the concepts of microfinance, Islamic microfinance, financial inclusion, economic empowerment, and fintech. It highlights how microfinance can play important roles in poverty alleviation and the economic development of a country. This chapter also focuses on the popular microfinance models in Bangladesh. Furthermore, this literature review chapter sheds light on the concept of Islamic microfinance and how it exists in different Muslim-majority countries worldwide, including Malaysia, Indonesia, Nigeria, and Pakistan. The challenges faced by these countries while implementing Islamic microfinance programmes have also been discussed in detail. In addition, the current status of the implementation of Islamic microfinance in Bangladesh is also discussed in this section.

This chapter also reviews the concepts of financial inclusion, its determinants and impacts, and then highlights the existing condition of financial inclusion in Bangladesh. It also talks about the issues related to the economic empowerment of the poor. From this chapter, it becomes evident that Islamic microfinance programmes can successfully work towards ameliorating the conditions of the poor and making them economically independent. Countries like Bangladesh can be specifically benefited through Islamic microfinance programmes. By following the examples of countries like

Malaysia and Indonesia, Bangladesh can also become successful in helping millions of poor and distressed people in the country through the effective implementation of Islamic microfinance programmes.

It also becomes clear that the issues related to financial inclusion and economic empowerment are very important in developing countries like Bangladesh, considering their role in ensuring the socio-economic development of the people of this country who are suffering from hardcore poverty. This chapter has also elaborated on how microfinance, specifically Islamic microfinance, can play an important role in enhancing this country's financial inclusion and economic empowerment. It is also necessary to analyse how fintech can be used effectively in implementing Islamic microfinance programmes in Bangladesh. The subsequent chapters will focus on these vital issues. A novel fintech-based Islamic microfinance framework will be presented that, if appropriately implemented, will be hugely beneficial for the common people of this country.



CHAPTER THREE

THEORETICAL FOUNDATION

3.1 INTRODUCTION

This chapter examines the theoretical foundations of this study by highlighting the institutional theory of savings, the financial intermediation theory, and the financial inclusion theory. It also presents the theoretical models that have helped frame the concept of microfinance and guide its proper implementation. These models include the 'Joint Liability' and the 'Self-Help Group (SHG)' models. A discussion has been provided about how these models of conventional microfinance programmes can be applied to the Islamic microfinance system. This chapter also focuses on the Shariah principles that dominate the Islamic microfinance concepts and issues. Finally, this chapter analyses the gaps identified in previous literature, which will be fulfilled through this study.

3.1 THEORETICAL FOUNDATION

In this section, the institutional theory of saving, financial intermediation theory, and financial inclusion theories are analysed to develop the theoretical framework of this study. According to Friedman (1970, p. 193), "Every empirical study rests on a theoretical framework, on a set of tentative hypotheses that the evidence is designed to test or to adumbrate." The theoretical framework also lays the foundation that supports the analysis of data and helps interpret the results of the study.

3.1.1 Institutional Theory of Saving

According to the institutional theory of saving, institutions are essential for promoting or encouraging savings, also specified as deferred consumption (Heckman & Hanna, 2015; Githinji et al., 2018). This theory indicates that institutional arrangements and

institutional constructs are crucial elements that lead to household savings (Githinji et al., 2018). In other words, according to this theory, people's ability to save is significantly affected by institutional factors (Githinji et al., 2018). In addition, according to Heckman and Hanna (2015), this institutional theory of saving suggests that institutions play a vital role in shaping the behaviour of consumers and in this way can also promote saving among households with low income.

As highlighted by Mia and Tabet (2016), this institutional theory of saving postulates that in addition to different individual and socio-economic factors, several institutional factors also influence the saving behaviour of low-income families. These institutional factors or elements include facilitation, incentives, information, security, access, expectation, and restrictions (Heckman & Hanna, 2015; Mia & Tabet, 2016). When different financial institutions are available and easily accessible, they can motivate individuals to save (Mia & Tabet, 2016). Also, according to this institutional theory of saving, asset accumulation and saving are predominantly a result of institutional arrangements involving rules, connections, subsidies, and incentives (Curley et al., 2009).

As found by Karbhari et al. (2020), this institutional theory can help advance Shariah governance by contributing toward boosting the organizational image, inspiring a stronger regulatory environment, and helping to gain religious legitimacy. Islamic financial institutions can achieve a well-designed Shariah governance framework when it is driven by the institutional theory. It can assist in offering the strategies, guidelines, and procedures for Islamic financial institutions so that it becomes possible for them to better control and monitor their activities for helping the poor (Karbhari et al., 2020).

3.1.2 Financial Intermediation Theory

An economic agent who focuses on the buying and selling of financial claims is known as a financial intermediary (Havrylchyk & Verdier, 2018). Financial intermediaries serve two roles in the financial system, according to Greenbaum et al. (2015): a brokerage role and a maturity and risk transformation role.

The financial intermediation theory posits that financial intermediaries can be useful in minimising informational asymmetries and transaction costs (Scholtens & Van Wensveen, 2003; Grassi et al., 2022). Informational asymmetries can generate moral hazard, adverse selection, and the need for auditing or costly enforcement and verification, and consequently can create market imperfections. These imperfections may also result in enhancing the transaction costs, and financial intermediaries can help overcome these costs, completely or partially (Scholtens & Van Wensveen, 2003). For instance, as coalitions of depositors and financial intermediaries, banks can help households prevent idiosyncratic shocks affecting their liquidity positions (Scholtens & Van Wensveen, 2003).

Again, according to Grassi et al. (2022), the transaction costs include the costs related to coordination, as well as the cost of managing and controlling the transactions and monitoring information. As the theory of financial intermediation suggests, these costs can be efficiently reduced by financial intermediaries, like banks (Grassi et al., 2022). Furthermore, these financial intermediaries can expand the transaction possibilities, establish trusts, and connect a variety of participants. Through this, the intermediaries can act as quality guarantors, reduce adverse selection, and make it easy to match buyers with sellers.

3.1.3 Financial Inclusion Theories

Financial inclusion, as defined by Ozili (2020), is the availability and accessibility of basic financial services to all members of the population. Financial inclusion refers to the state in which individuals and organisations have affordable access to financial services and goods that meet their needs in an ethical and sustainable way. The strategies employed for financial inclusion vary from country to country, so it's critical to identify the underlying principles or theories that drive these variations. The observed acts of financial inclusion are given context by theories of financial inclusion. A theory of financial inclusion is necessary in order to achieve a high degree of synthesis between the objectives and outcomes of financial inclusion. A financial inclusion theory, or theories combined, would provide a framework for comprehending the objectives, practices, and outcomes of financial inclusion. Financial inclusion theories may also

serve as a unifying force for the aspirational conversations that are currently taking place in the policy literature on financial inclusion (Ozili, 2020).

As noted by Aburime (2008) and Ozili (2020), the theories of financial inclusion can also be used to identify anomalous patterns in financial inclusion practice, encouraging additional research into the causes of practice deviations. These theories provide a foundation of principles upon which the practice of financial inclusion can be built. When conducting research driven by challenges, social scientists frequently employ one or more theories to analyse and resolve issues. This implies that different theoretical frameworks may be applied to the process of identifying financial inclusion beneficiaries as well as to the funding and execution of financial inclusion initiatives (Inoue & Hamori, 2014).

3.1.3.1 Public Good Theory of Financial Inclusion

According to the public good theory of financial inclusion, providing formal financial services to everyone and making sure that no one has limits on their access to capital are examples of public goods that benefit everyone in the community. Since they are a public good, people cannot be denied access to or forced to use formal financial services. Basic financial services will be provided to everyone at no cost. This notion holds that financial inclusion benefits everyone and leaves no one behind. More usage of the formal financial system would benefit everyone, as one person's access to financial services does not make them less available to others. The public interest presumption states that every person or small business that opens a legitimate bank account is eligible to receive a complimentary debit card. Additionally, they are not required to pay a fee in order to make transactions through automated teller machines (ATMs). Since providing financial services is a sunk cost of doing business in the banking industry, financial service providers, including financial institutions, will also be responsible for covering these costs (Ozili, 2020).

3.1.3.2 The Theory of Vulnerable Groups in Financial Inclusion

According to the vulnerable group theory of financial inclusion, a nation's financial inclusion initiatives and programmes should focus on the most vulnerable citizens, such as the elderly, children, women, and the impoverished, as they bear the brunt of financial stress and crises. It is reasonable to incorporate vulnerable people into the official financial system since, as Ozili (2020) pointed out, they are usually the ones who suffer the most from financial crises and economic downturns. One way to do this is through government-to-person (G2P) social cash transfers into the official accounts of needy people. The payment of G2P social cash transfer benefits into the formal accounts of the elderly, women, and the impoverished could act as a trigger for other elderly, women, and the impoverished people to open formal accounts and join the formal financial sector in order to receive G2P social cash transfer benefits. This may result in a rise in the proportion of financially disadvantaged populations. It makes sense to integrate vulnerable individuals into the formal financial system as they are often the ones who suffer the most from financial crises and economic downturns.

3.1.3.3 The Change Theory of Financial Inclusion

Financial inclusion has caused expectations about how the poor should benefit from their interactions with the financial system to change. According to the "original" (microcredit) theory of change, poverty would decline as a result of increased revenues from business ventures made possible by microloans. In contrast, the change theory of financial inclusion focuses on two forms of financial intermediation: intertemporal and interspatial-interclass, and ignores entrepreneurship. The hypothesis behind intertemporal intermediation is that managing cash flow between times of financial abundance and times of need is a significant economic challenge for low-income people, who often have irregular wages. The hypothesis states that financial services are essential for people to be able to reallocate their spending over time. This suggests that one may decide to use previous, future, or a combination of revenue sources to cover expenses if one's current income is insufficient to do so (Mader, 2018). Therefore, it is proposed that financial services, by transferring money over time, can alleviate poverty from a microeconomic standpoint. "Interspatial-interclass intermediation" is a

macro-level theory that argues that finance reduces transaction costs and divides capital and risk to promote economic growth. Finance transfers capital from individuals and locations with excess capital to those and locations in need of capital; the stronger the ties between these sites and individuals, the more growth results from economic exchanges. Thus, financial inclusion is, from a macroeconomic standpoint, about bringing together more capital providers and users to promote economic growth, which will help the underprivileged (Mader, 2018).

3.1.4 Application of These Theories in the Current Study

The theories explained in this section, e.g., institutional theory of savings, financial intermediation theory, and financial inclusion theory show that the current study is grounded in established ideas or theories. All of these theories explain the foundation of this study and help develop the conceptual framework. These also explain the relationships between poverty alleviation and wealth creation through microfinance.

The institutional theory of savings can be important in the microfinance area because it shows the vital role the microfinance institutions can play in helping poor households to increase their savings and thus improve their socio-economic conditions. When any sort of uncertainty arises, these savings can assist them in minimising the damage (Githinji et al., 2018). In addition, these savings can also play crucial roles in enhancing their economic empowerment and financial inclusion.

As mentioned by Mia and Tabet (2016), for more than 15 years, microfinance institutions (MFIs) in Bangladesh have offered their clients savings services. According to them, these MFIs have all the seven important institutional properties, like facilitation, incentives, information, security, access, expectation, and restrictions, that have helped them develop as ideal savings institutions. In addition to providing credit facilities, these MFIs are also offering savings facilities that are helping the people in this country who are suffering from hardcore poverty (Mia & Tabet, 2016). These savings can assist them not only to regularly pay their debt but also to use them as a reserve for their precautionary expenses in the future (Mia & Tabet, 2016).

The novel Islamic microfinance framework proposed in the current study will also highlight the importance of Islamic microfinance institutions in implementing Shariah-based microfinance programmes efficiently in the rural areas of Bangladesh and helping the poor enhance their savings. Through effective peer monitoring and training, these Islamic MFIs will offer some useful financial education to the microcredit recipients so that they can understand not only the effective ways to use the credit but also the necessity to save money. This will also change the mindset of the poor people and have a positive impact on the financial inclusion rate in Bangladesh.

Besides, Islamic MFIs can provide a golden opportunity for poor clients to access financial services – specifically savings – at nearly no cost, when depositing in these MFIs. By developing different customer-friendly and demand-based saving products, these Islamic MFIs can easily attract the poor, who may find it difficult to get services from the commercial banks that might be located only in the cities. The loan officers of the Islamic MFIs can collect the savings amount directly from the customers, making it easy for them to be involved with the saving processes.

Based on the financial intermediation theory, this study highlights the important role Islamic MFIs can play as financial intermediaries or trusted third parties. For example, they can provide security to the money (savings) of poor borrowers and also contribute toward reducing the transaction costs and issues related to asymmetric information by monitoring, brokering, pooling savings, providing liquidity, spreading appropriate information, and managing risks. Therefore, this study supports and as well proves the institutional theory of savings and the financial intermediation theory by considering the role of Islamic microfinance institutions while implementing Islamic microfinance programmes.

Furthermore, the variety of financial inclusion theories mentioned in this chapter can be vital to signify the importance of financial inclusion in Bangladeshi society to improve the financial conditions of people by using formal financial services, like opening bank accounts. These theories suggest that financial inclusion can help vulnerable people to sustain in different types of disasters. This study also supports these theories by highlighting the role of the Islamic microfinance programme in achieving the expected level of financial inclusion in this country. Quite certainly, the

most vulnerable people of society can be attached to the formal financial systems through Islamic microfinance programmes and bring the desired changes in their socio-economic conditions.

3.2 MICROFINANCE MODELS

Different microfinance models, including the 'Joint Liability' model and the 'Self-Help Group (SHG)' model, are being applied in various countries.

3.2.1 Joint Liability Model

According to Gallenstein et al. (2020) and Muhammad et al. (2022), microfinance depends on the joint liability model, developed and implemented initially by Grameen Bank in Bangladesh, which uses group lending to solve the problems related to adverse selection of borrowers and encourage the right kind of borrowers. As highlighted by Obaidullah and Khan (2008), individuals start to form small groups and apply for small loans. The microfinance providers will clarify what are the necessary conditions for getting loans, and how these loans need to be repaid. All the members of the group share the responsibility or risks for these repayments of loans. If one of the members becomes the defaulter, all others in the group try to help him/her repay the loan in time. This can also minimise the risks related to delinquency and default (Obaidullah & Khan, 2008).

Similarly, as explained by Ranabahu and Wickramasinghe (2022), in the joint liability model, people who know and trust each other play the role of collateral for their loans. Here, these people form particular groups, often known as joint liability groups, peer groups, or solidarity groups. Around three to five people belong to a particular group, who guarantee each other's loans. An informal village-level unit known as a centre or a cluster is formed from approximately six to ten peer groups of these types. The representatives of the MFIs use these clusters to facilitate the disbursement of loans, share vital information, and collect repayment on a weekly basis. At both peer groups and cluster levels, borrowers and informal leaders screen people and make a distinction between 'good' and 'bad' borrowers by using the available information and their

personal connections. These practices enforce or ensure the proper and timely repayment of the loan (Ranabahu & Wickramasinghe, 2022). Figure 3.1 explains the joint liability lending process:

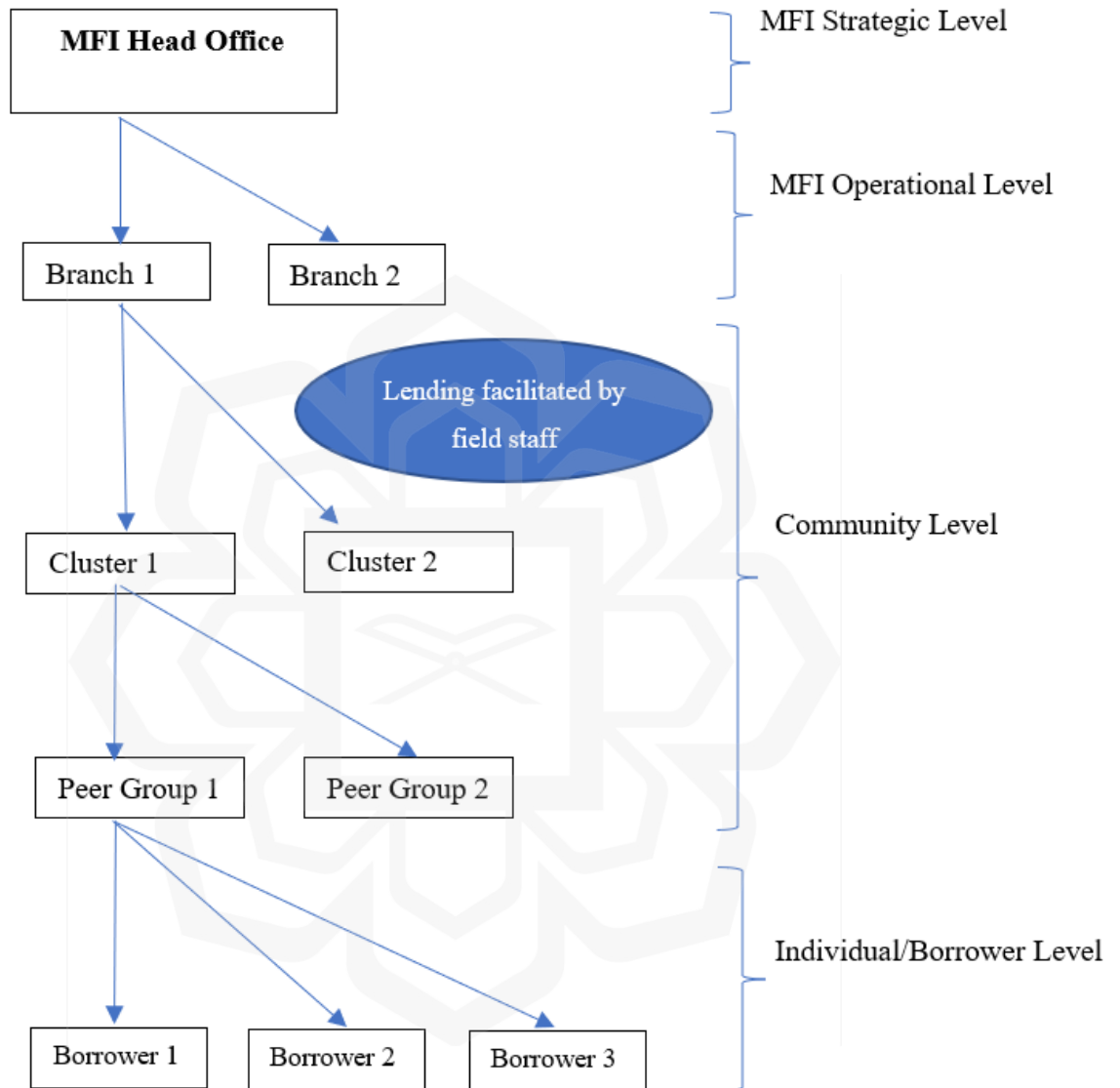


Figure 3.1 Joint Liability Lending Process
(Ranabahu & Wickramasinghe, 2022)

This joint liability model was found to be effective in reducing moral hazard problems, which occur due to the fact that it is not easy for financial institutions to monitor their debtors effectively. However, in a group lending system, all the members

of the group agree to monitor each other and share responsibilities. Even when risky projects are taken, and a particular member fails to repay the loan in a timely manner, other members can potentially threaten him or her to impose “social sanctions” (Alaro & Alalubosa, 2019). This system also helps financial institutions evaluate the qualifications of borrowers relatively quickly and easily (Alaro & Alalubosa, 2019).

3.2.2 Self-Help Group (SHG) Model

This study has highlighted another microfinance model, called the Self-Help Group (SHG) Model, adopted in India in 2011. This model aims to emancipate the poorest women living in remote areas where a 'self-help' system is developed between families to improve their living conditions. This SHG model is partially similar to the joint liability model previously implemented in Bangladesh, Nigeria, and different parts of the world. In this SHG system, 10-15 poor adult women targeted by governments and NGOs are organised into small groups. The membership of these self-managing and sustaining groups fosters a sense of group cohesion and solidarity in supporting others for loan repayment. However, unlike the joint liability groups, members of SHG do not always share liabilities or act as guarantors for each other (Ahmad et al., 2020b; Singh & Padhi, 2017).

Sarma and Mehta (2014) pointed out that micro-entrepreneurs or the members of the Self-Help Groups have similar kinds of financial and social backgrounds, regularly save small amounts of money voluntarily, and contribute to a common fund so that the emergency needs of the members can be fulfilled based on mutual help. They are encouraged to meet weekly to collect and/or deposit money and also to raise their voice on issues related to their need for credit, health, domestic problems, etc. The members of the SHGs are also offered training on financial literacy and different social issues. This model is being implemented successfully in different parts of India (Sarma & Mehta, 2014).

Furthermore, as found by Shah and Panigrahi (2015), the majority of the members of the SHGs receive loans for agricultural purposes from formal sources, though very few households borrow loans from informal sources due to faster delivery

of credit, lack of collateral, or easy access. While selecting the members of SHGS to borrow credit, the factors that are being considered by the MFIS include education, age, economic status, number of children, sources of income, status as head of household, informal debt, caste, distance to banks, etc. (Shah & Panigrahi, 2015).

The small credit received by the financially excluded SHG members in different rural areas is helping them fulfil their basic requirements and giving them a ray of hope for a better future in the long run. It is also ensured that the SHG members can get sufficient profit by selling their products by confirming that they have proper training, easy access to the local markets, and the availability of raw materials. In turn, this is also useful for the survival of the MFIs in the long run (Shah & Panigrahi, 2015).

3.2.3 Discussion on Current Microfinance Models

Sarma and Mehta (2014) argued that both the joint liability model and the Self-Help Group model have their advantages depending upon different external factors like homogeneity within the population, competition, etc. When microfinance institutions have good leadership and possess organisational strength, both models can live up to their optimum promise and contribute towards improving the socio-economic conditions of destitute people from different remote areas. Considering the MFIs' characteristics and the target population's diversity, both models can be effectively applied in different remote areas.

However, the models mentioned in this section only explain how a conventional microfinance programme can be implemented. Hence, there is a need to develop a framework that will help explain the best ways to successfully apply the Islamic microfinance system in different rural areas of Bangladesh. This will be the main focus of this study. Of course, some of the concepts of these conventional microfinance models will be used in the proposed framework.

3.3 ISLAMIC MICROFINANCE: THE SHARIA PERSPECTIVES

Allah Subhanahu wa Taa'la has emphasised the value of sharing wealth so that the gap between the rich and the poor can be minimised. For example, in the Holy Quran, Allah said, "And from their properties was [given] the right of the [needy] petitioner and the deprived" (70:24-25).

In a famous hadith stated in the Book of Sunan Abu Dawood, as reported by Anas ibn Malik (Mahmood et al., 2019, p. 2):

A man from the Ansar came to the Prophet peace and blessings be upon him, and begged from him. The Prophet said, "Have you nothing in your house?" The man said, "Yes, a piece of cloth, a part of which we wear and a part of which we spread on the ground, and a wooden bowl from which we drink water." The Prophet said, "Bring them to me." The man brought these articles to him and the Prophet took them in his hands, and he said, "Who will buy these?" Someone said, "I will buy them for one coin." The Prophet said twice or thrice, "Who will offer more than one coin?" Someone said, "I will buy them for two coins." He sold them for two coins and the Prophet said, "Buy food with one of them and give it to your family. Buy an axe and bring it to me." The man brought it to him. The Prophet fixed a handle on it with his own hands and he said, "Go gather firewood and sell it, and do not let me see you for a fortnight." The man went away and gathered firewood and sold it. When he had earned ten coins, he came and bought a garment and food. The Prophet said, "This is better for you than for begging to come as a blemish on your face on the Day of Resurrection. Begging is appropriate only for three people: one in severe poverty, one in severe debt, and one who must pay a difficult compensation.

This well-known hadith emphasises the need to guide the "below-poverty-line sector" toward self-sufficiency and how to design a successful microfinance program while keeping in mind the main concepts and components of a poverty-reduction strategy (Mahmood et al., 2019). Through different means like Zakat and Waqf, Muslims are encouraged to share their wealth with the poor (Riwajanti, 2013). According to Obaidullah (2008), Islam promotes economic empowerment by transforming idle assets into income-generating assets, building capacity, and providing what the poor need.

According to Azman and Ali (2019), Shariah encapsulates Islam's teachings, establishing a framework of standards, values, and regulations that govern every element of life. In other words, the Shariah creates rules (ahkam) that apply to the entire belief system (aqidah), the notion of morality and ethics (akhlaq), man's relationship with God ('ibadah), and man's relationship with man (mu'amalat). As classified by Abū Ḥamīd al-Ghāzālī, there are five key necessities under the Islamic Shariah (Al-Daruriyyat al-Khams) (Azman and Ali, 2019):

1. Protection (Hifz) of deen (faith)
2. Protection of nafs (lives)
3. Protection of 'aql (intellect)
4. Protection of nasl (posterity or lineage)
5. Protection of maal (wealth)

These necessities are deemed crucial for promoting the well-being of people. Through empirical study, Alkhan and Hassan (2021) found that Islamic microfinance serves many crucial aspects of Maqasid al-Shariah: i) poverty alleviation, ii) economic development, iii) circulation and distribution of wealth, iv) ensuring social welfare, and v) enhancing intellectual levels of society.

According to Abdullahi et al. (2022), Islamic microfinance is the provision of financial services to low-income individuals in accordance with Islamic Shariah. "Islamic law, which opposes dealing in interests, encourages avoiding gharar (ambiguity), participating in risk-sharing activities, and ensuring the welfare of all members of society" is the foundation upon which it bases its operations (Abdullahi et al., 2022, p. 603). Thus, it is the "Shariah-compliant method of distributing money to those rejected by the regular financial institutions to help them start up microenterprises or sustain their existing businesses" (Hassan, 2015, page 354). Islamic microfinance, by utilising the complimentary instruments of loan and zakat, additionally fosters social inclusion in addition to financial inclusion. Through the social tools of sadaqah, zakat, and waqf, it ensures social inclusion in addition to financial inclusion (Abdullahi et al., 2022).

Obaidullah (2008) discovered a few essential elements of Islamic microfinance. These include adherence to Sharia law in contract compliance, avoiding debt, charitable

giving, economic empowerment, teamwork and solidarity, maintaining family unity, and being exempt from Gharar (uncertainty) and Riba (interest). Poor households can increase their income, accumulate assets, and fortify themselves against external shocks with the help of Islamic microfinance (Obaidullah, 2008). Furthermore, because of their particular requirements, such as land and money, collateral, etc., mainstream financial institutions and banks are unable to provide financial aid or credit to a large number of unfortunate and impoverished individuals. In order to get beyond these barriers, the Islamic microfinance system can be quite helpful (Fianto et al., 2018).

The differences between conventional and Islamic microfinance systems are summarised in Table 3.1:

Table 3.1 Difference between Conventional and Islamic Microfinance

Indicators	Conventional Microfinance	Islamic Microfinance
Source of fund	External, client's savings	External, client's savings, Zakat, awqaf
Financing	Interest-based	Islamic modes of financing
Financing the Poorest	Ultra poor are (often) left out	Ultra poor are targeted
Fund Transfer	In cash	In kind
Target Group	Women preferred	Any member of the family
Targeting objective	Women empowerment	Family empowerment
Deduction at the inception of the contract	Yes	No
Work incentive	Material	Material and spiritual
Social development programme	Secular	Religious

Source: Dhaoui (2015, p. 7)

It is argued that IMFIs will operate more sensibly and in a balanced way, attending to the needs of the underprivileged while upholding Islamic Shariah standards, if the Maqasid al Shariah idea is applied there (Rohman et al., 2021). Using an exploratory qualitative approach, Ishak and Asni (2020) concluded that IMFI practices should refer to the Maqasid in order to ease life for the neighbourhood while still abiding by Shariah. For example, it is thought that the profit-sharing financing plan will better serve the underprivileged and adhere to Maqasid al Shariah when carried out by an IMFI (Miah & Suzuki, 2020).

Islamic microfinance is constantly focused on promoting social justice and welfare through Maqasid al-Shariah. It also honours Islamic moral principles, including justice, fairness, cooperation, honesty, Amanah, and diligence (Mohamed & Fauziyyah, 2020). However, Rulindo and Pramanik (2013) noted that programmes for spiritual and religious development are necessary in order to maximise the advantages of Islamic microfinance. Rulindo and Pramanik (2013) found that while higher levels of religiosity may enhance clients' economic performance, higher levels of spirituality can generally result in higher income. These findings imply that Islamic microfinance organisations' capacity-building services for customers should include programmes for spiritual and religious growth.

The growth of microentrepreneurs via the application of Islamic microfinance is another achievement of Maqasid al-Shariah. Ensuring societal and human advantages takes precedence over maximising profit in a corporate setting. Maslahat, or welfare, is the main objective of Maqasid-Al-Shariah, and this is also the same regarding Islamic microfinance programmes. The two main elements of Maslahat are blessings and benefits. The utilisation of Islamic microcredits as working capital will ultimately affect the performance of microentrepreneurs and help with capacity building, mentorship, and spiritual counselling.

A variety of Shariah-compliant microfinance products are being offered to fulfil Muslim demand. Figure 3.2 demonstrates these products:

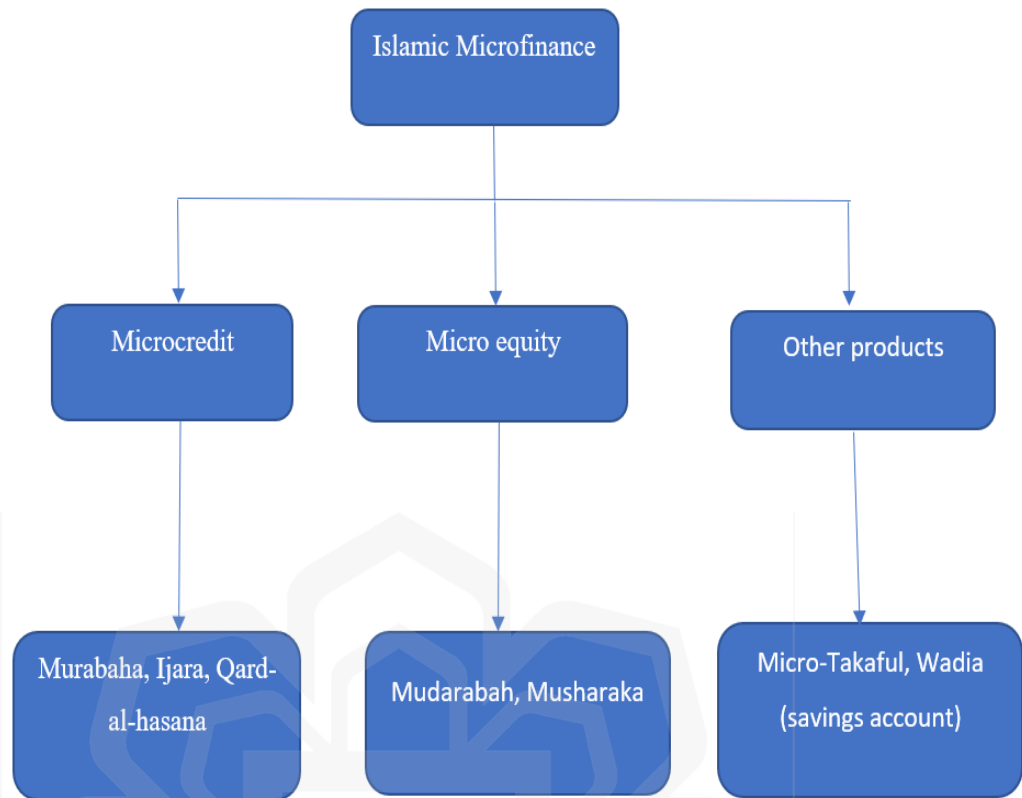


Figure 3.2 Islamic Microfinance Products

3.4 EXPLAINING THE CONCEPTS OF MURABAHAH, MUDARABAH, AND MUSHARAKAH

3.4.1 The Concept of Murabahah

Under a Murabahah agreement, a financier offers a real asset at a cost-plus markup price, which the borrower purchases in instalments (Fan et al., 2019). The basis for Murabahah financing is the cost-plus model, in which an Islamic bank purchases an item and then sells it to a customer at a fixed price that comprises the purchase price plus a profit margin that has been negotiated (Atal et al., 2020). Consequently, Shariah-compliant substitutes for interest-based financing products can be found in the form of Murabahah financing (Atal et al., 2020).

A Murabahah contract has five requirements, and it is null and void if any of them are not fulfilled (Atal et al., 2020). Below is a list of these:

1. A markup, which the buyer and seller can agree upon, should be added to the total acquisition cost of the purchased good.
2. Prior to the sale, the seller is required to disclose to the buyer the entire cost of acquisition of the commodity.
3. The predetermined sales price cannot be changed once a Murabahah contract is signed, even if the buyer pays on time or before the due date.
4. The financial institution must first purchase the goods from a third party before selling it.
5. The financial institution should never provide cash to a consumer on a Murabahah basis; instead, it must bear the risk of ownership of the commodity from the moment it purchases it from a third party until it is sold to the client.

Murabahah contracts have been often criticised for charging implicit rates of profit and neglecting profit-sharing objectives despite increasing rates of financial penetration among Muslim communities (Çokgezen & Kuran, 2015). As a result, many Muslims are hesitant or unwilling to participate in Murabaha contracts (Cameron et al., 2021). Furthermore, as claimed by Cameron et al. (2021), Islamic microfinance is unduly reliant on this single product type, and more diversification is required from the MFIs from different Muslim countries around the world.

3.4.2 The Concepts of Mudarabah and Musharakah

Many scholars of Islamic Shariah and experts in Islamic finance believe Mudarabah and Musharakah contracts to be the perfect Shariah-compliant loan contracts since they avoid riba entirely and embrace profit-sharing principles (Çokgezen & Kuran, 2015; Fan et al., 2019). The bank, or the microfinance institution (MFI), provides 100% of the capital for a business endeavour to the Mudarib (the entrepreneur), who invests the capital; any profit made from the initiative is then split at a pre-determined ratio (Cameron et al., 2021). Islamic MFIs in countries as diverse as Sudan, Sri Lanka,

Algeria, and Australia use profit-sharing microfinance contracts, but they have not been officially modelled in mainstream research (Cameron et al., 2021).

Islamic financing involves assuming duty or accountability, participating in lawful economic activity, and basing funding decisions on assets. The majority of Islamic finance jurists believe that the participatory, profit/loss sharing (PLS), or risk-sharing modalities are the most preferred because they form the basis of Islamic finance (Ayub, 2013). According to Iqbal and Mirakhor (2013, p. 88), Mudarabah is a "partnership where one provides the capital and the other the entrepreneurial expertise with the profits being shared." Mudarabah transfers any financial loss to the investor, protecting the business owner. Thus, in reality, it's a profit-and-loss sharing arrangement. The agent's time and energy are the only things lost. Venture capital is the closest analogue in the West, and it served as the impetus for the information technology revolution in the United States (Iqbal & Mirakhor, 2013).

Modern jurists employ the term "Musharakah" to denote both general and particular ideas. In its strict sense, it refers to a legally binding partnership in which each partner makes a financial contribution—though not always equally—and retains the right to choose whether to hire staff. It is essentially a combination of the two, with the Mudarib using both the capital provided by the Rabbul Mal and his own capital (Ayub, 2013). Mudarabah involves just one party providing the capital while another manages the undertaking and divides the proceeds in accordance with a predetermined percentage. This is in contrast to Musharakah, where multiple parties can contribute capital, participate in a project, and divide the proceeds in accordance with a predetermined ratio (Iqbal & Mirakhor, 2013).

Other Shariah-compliant financial products offered by different Islamic MFIs include credit or debt financing instruments like Ijara, Salaam, and different asset-building products, including investment deposits, saving accounts (e.g., Wadiah), and mutual insurance schemes (e.g., micro-takaful) (Ahmad et al., 2020a). Out of these, the micro-takaful or microinsurance concept is based on the principles of mutual benefits and solidarity. In this system, the members do not pay the premiums like the conventional method, but rather make voluntary contributions (similar to hiba or

donations) into a member's fund to manage risks and guarantee each other's welfare together (Uddin & Mohiuddin, 2020).

3.5 A BRIEF OVERVIEW OF ISLAMIC SOCIAL FINANCE INSTRUMENTS

Instruments related to Islamic social finance (ISF), such as zakat, waqf, qard-al-hasan, infaaq, etc., are intended to improve the living conditions of the poor and vulnerable. Additionally, they help individuals in need get the necessities of life. Eventually, ISF helps improve social justice through wealth redistribution and fair dealings (Kunhibava et al., 2024). Redistributing wealth is crucial for preserving societal well-being in the context of the economy, and these tools can be extremely helpful in ensuring that wealth is not concentrated among a select few wealthy individuals. The goals of Islamic social finance are to lower unemployment and poverty, distribute wealth and income equitably, enhance the socioeconomic status of the poor, achieve social justice, grow the economy, and fill the financing gap for humanitarian purposes (Kuanova et al., 2021).

Islamic social finance is essentially a not-for-profit endeavour and is essentially a benevolent and philanthropic gesture to the less fortunate, in contrast to Islamic commercial contracts that banks enter into, where the primary purpose is to earn returns in the form of profit among other things. By allowing the wealthy to show compassion, empathy, and sympathy in various ways to the less fortunate, Islamic social finance aims to strengthen social cohesiveness among its constituents. The humanitarian aspect of Islamic social finance options is evident in their goal to foster long-term social benefits through a variety of means, such as enhancing the resilience of vulnerable groups, promoting social and economic inclusion, or streamlining various sectors for increased efficiency. As a result, ISF progressively promotes and fosters a charitable environment from both an individual and a corporate standpoint (Dogarawa et al., 2024).

By recognising the four ERs—economic rescue, economic reinforcement, economic resilience, and economic recovery—Islamic social finances such as zakat, waqf, and infaaq can assist underprivileged communities in enhancing their social well-being (Wediastuti et al., 2022). Accordingly, all three ISF instruments are committed to implementing Islamic finance principles in order to have long-lasting social effect (Islam et al., 2023). Zauro et al. (2020) also discussed the roles that infaaq and zakat play in advancing socioeconomic justice among Muslims in Nigeria. To increase financial inclusion and socioeconomic justice in Nigeria, they suggested using each of these Islamic financial instruments.

In contrast to conventional efforts for reducing poverty, institutionalised ISF initiatives have just lately become popular both internationally and in Bangladesh. However, the capacity of Islamic social finance to grow and function effectively has been hampered by a lack of sufficient private sector investment and regulatory backing. As a result, Islamic social finance faces fierce competition from creative anti-poverty initiatives in Bangladesh, including microfinance organisations like Grameen Bank and social enterprises like BRAC. Even though Islamic social finance instruments have been around since the beginning of Islam, they are still very important in Bangladesh and throughout the Muslim world (Hossain et al., 2025).

3.5.1 The Concept of Waqf

Waqf is one of the most significant Islamic social finance tools, which aims to bring the community together and accomplish the goals of mutual aid. Islamic law uses waqf to hold specified property, maintain it for the good of the ummah, and forbid any use or disposition of it other than for that purpose (Mohamad et al., 2018). It is a habit of giving property to Allah for everlasting possession. Because it can provide a tremendous financial source for the state and for social needs without relying on the state budget, waqf can be a great mechanism and instrument in Islamic public finance (Mohamad et al., 2018). By focusing on the Maqasid-al-Shariah, waqf can also be utilised to support nations with a majority of Muslims in achieving the Sustainable Development Goals (SDGs) (Abduh, 2019).

Although the term Waqf is not used in the Qur'ān or the Hadīth, Islamic jurists have inferred its legitimacy and norms from the Qur'ān, genuine Hadīth, and Ijmā (Dogarawa et al., 2024). Waqf is founded on several verses in the Qur'ān that address the topic of charitable giving. The Prophet (peace be upon him) stated in the Hadīth:

The rewards of the good deeds that will reach a believer after his death are: knowledge which he taught and spread; a righteous son whom he leaves behind; a copy of the Qur'ān that he leaves as a legacy; a mosque that he built; a house that he built for wayfarers; a canal that he dug; or charity that he gave during his lifetime when he was in good health. These deeds will reach him after his death (Sunan Ibn Mājah).

Waqf generally possesses the attributes of perpetuity, irrevocability, and inalienability, according to Ambrose and Asuhaimi (2021). According to the definition of perpetuity, something must be non-perishable, last forever, and stay intact. An asset's status cannot be altered once it has been admitted as waqf since it will always stay so, according to the doctrine of irrevocability. An asset needs to be non-transferable or inalienable in order to be sold, purchased, transferred to another individual, or inherited. This well-known hadīth on waqf (Prophetic tradition) lays the groundwork for waqf's inalienability:

“Ibn ‘Umar reported that ‘Umar acquired a piece of land at Khaybar. He came to the Prophet (peace be upon him) to seek his advice about it. He said, “Messenger of Allah, I have acquired land in Khaybar. I have never acquired property more valuable to me than this, so what do you advise me to do with it?” The Prophet (peace be upon him) responded, “If you like, you may set aside the land itself and give its produce as charity. So ‘Umar made a charitable donation of it, declaring that the property must not be sold or inherited or given away as a gift. ‘Umar then devoted its [produce] to the poor, [his] relatives, to the emancipation of slaves, in the way of Allah and for guests” (Sahīh Muslim).

Again, according to Ambrose and Asuhaimi (2021), the term "cash waqf" describes the practice of keeping and safeguarding money solely for the limited benefit of a particular philanthropy. Money is not the only form that cash waqf can take; share certificates can also be used (Mauluddin & Ab Rahman, 2018). Resolution 140 (6/15/1)

of the OIC Islamic Fiqh Academy mentions that “creating cash Waqf is permissible since it satisfies the Shari’ah objective of Waqf, that is, retaining the principal and offering its benefits and because units of money have no specific merits that prevent units from standing for and replacing each other” (Dogarawa et al., 2024, p. 261).

Ambrose and Asuhaimi (2021) claimed that cash Waqf is relatively simple to administer and invest in and that growing its value is also simple. It is also practical for devout Muslims to practise it through monetary contributions. Cash waqf is allowed primarily because of "istihsan bi al urf", which is defined by the Hanafi madhab as a juristic preference based on custom. In Ottoman society, dinars and dirhams were often used for waqf (Mauluddin & Ab Rahman, 2018).

3.5.2 The Concept of Qard-al-Hasan

As stated by Çokgezen and Kuran (2015), the ‘Qard-al-Hasan’ or ‘benevolent loan’ principle of Islamic finance can also be important for implementing Islamic microfinance programmes. In early Islam, the affluent were encouraged to offer, in addition to alms, benevolent loans to people in distress, expecting the recipient to repay only the principal. This practice is known as the ‘Qard-al-Hasan’. At present, Shariah boards of different Muslim-majority countries are interpreting benevolence more liberally and broadly so that Islamic financial institutions can use ‘Qard-al-Hasan’ and make profits from this service by imposing a predetermined fee, as interest charges on cash advances are disallowed (Çokgezen & Kuran, 2015).

Muslims can promote the social justice principles that form the basis of Islamic finance by using Qard al-Hasan. In actuality, Islamic finance permits loans between those who have money and those who don't, all while abiding by Shariah regulations. From this angle, Qard al-Hasan can be understood as a lending arrangement similar to charitable giving. The Qur’ān describes benevolent loans as "beautiful" (Hasan). This is likely due to the fact that all verses mentioning them specify that the loan must be made directly to Allah the Most High, not to the recipient. This likely clarifies Allah's (the Most High) numerous returns promise to those who bestow the "beautiful loan" (Dogarawa et al., 2024).

By helping the impoverished escape poverty, integrating them into the formal financial system, and improving their social and financial inclusion, Qard al-Hasan also acts as a tool to improve social and financial inclusion in society. In this sense, Qard al-Hasan is a crucial instrument for realizing the Islamic vision of social and economic justice. According to Dogawa et al. (2024), the practice of Qard-al-Hasan has also been linked to improving harmony between the rich and the poor, which promotes cooperation, collaboration, and compassion in society.

3.5.3 The Concept of Infaaq or Sadaqah

Infaaq is one type of sadaqah that can be both monetary and non-monetary (Aji et al., 2020). According to Ulya and Al Azizah (2021), infaaq is commonly understood to be the act of distributing a part of one's property to those to whom it is religiously prescribed to give it, such as the impoverished, orphans, kin, and others. Muslims are especially urged to donate to charity or infaaq, which makes Islam one of the most generous religions in the world (Aji et al., 2020). Our Prophet (PBUH) said, "Whoever relieves a believer from one of the troubles of this world, Allah will relieve him of one of the difficulties on the Day of Resurrection. Whoever relieves someone's suffering, Allah will ease his suffering in this world and hereafter" (Sahih Muslim).

The Qur'an also encourages us to give infaaq (2:195): "And spend in the way of Allah and do not throw yourself into destruction, and do good, for verily Allah loves those who do good." The reward for sadaqah can also be multiplied by 700 times, as mentioned by Allah (SWT) in the Qur'an (2:261).

A man who gives sadaqa does not lose his wealth or profits since Allah has promised to give him back at least portion of it, possibly twice or even seven hundred times. Apart from providing monetary defence against it, Allah's assistance offers a host of other advantages. The Quran, however, restricts all of these benefits, stating, for example, that they must be used only for the pleasure of God. Instead of doing it for show or attention, one should do it out of altruism and without expecting payment before passing away (Aziz et al., 2008). Infaaq is a key component of income

redistribution and poverty reduction in Islamic economic philosophy. To ensure the better distribution of wealth, which is required at this time (PBUH), it is imperative to follow the Quran's Infaaq commandments as well as the wisdom of the holy prophet (Aziz et al., 2008).

3.6 SUKUK AND ITS SHARIAH COMPLIANCE

Sukuk, which are defined as ownership certificates of underlying assets, have become essential securities in the Islamic capital market. Originating from the Arabic word "sakk," which denotes a legal document or certificate, Sukuk provides an alternative to traditional interest-based economies. This is especially relevant in light of the vulnerabilities that were made public during the 2008 global financial crisis (Nurhanifah, 2024). Sukuk market dynamics have been the subject of much research, which has shown them to be feasible channels for obtaining money and promoting long-term economic growth (Paltrinieri et al., 2023). Through debt reduction, Sukuk not only reduces risks but also advances social fairness by lowering governments' dependency on both local and foreign bank loans (Nurhanifah, 2024).

According to Yildirim et al. (2020), the term "Sukuk" refers to Islamic bonds and debts that are governed by Shariah. Under the Sukuk concept, owners can purchase asset-backed securities at a pre-agreed profit-sharing rate that is accepted by both parties. The entire transaction process is free of interest-based transactions (Smaoui and Khawaja, 2017). Sukuk and bonds are comparable in real terms. For instance, while the nominal values of bonds and Sukuk are the same, their operational theories differ. As explained by Ahroum and Achchab (2017), bonds are traditional financial instruments that bear interest, while Sukuk is founded on Islamic law and operates interest-free. Furthermore, as mentioned by Billah et al. (2024), Sukuk is distinguished by the following features: it forbids fixed interest payments; it excludes gambling (maysir); it forbids transactions involving a wilful lack of transparency or excessive ambiguity (gharar); and it forbids short selling, speculation, and arbitrage transactions. Sukuk offers lower-risk bonds to individual investors as well as a less expensive and interest-

free source of funding for businesses (Rafay et al., 2017). Sukuk was issued for USD 20.6 billion as of September 2023, up from USD 8.7 billion in 2022 (Billah et al., 2024).

With regard to Shariah matters and uniformity, the market's exponential growth required clarity. Therefore, in May 2003, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) released its Shariah Standard on "Investment Sukuk," which was defined as follows:

Investment Sukuk are certificates of equal value, representing undivided shares owning tangible assets, usufruct, and services or (in possession of) the assets of particular projects or special investment activity; however, this applies once the value of the Sukuk has been received, the subscription has closed, and the funds received have been put into use for which the Sukuk have been issued (Khan et al., 2021, p. 167).

Based on the precepts of Shariah, Sukuk is regarded as an alternative investment vehicle in the international financial market. When it comes to Islamic capital and money market operations, the Sukuk Market signifies the acceptance of Shariah rules. As such, this market must be devoid of any aspects or activities that are forbidden by Islam. According to Yildirim et al. (2020), all financial instruments utilised in the Islamic capital and money market must comply with Shariah in order to uphold the strict norms of Islamic law.

As discussed by Khouildi and Kassim (2018), Socially Responsible Investment (SRI) Sukuk is a financial instrument that has the development of the social sector and environmental protection as its main goals. Unlike other financial products, SRI Sukuk is primarily motivated by ethics and ideals rather than just profitability. Like any other Sukuk, investors in the SRI Sukuk will subscribe to an issued certificate that certifies their undivided ownership of a given project. Investors will be compensated at the end of the project according to their shares or under any previously agreed terms and conditions. Moreover, the revenues from the issuing of SRI Sukuk must be invested, used, or employed in certain assets or purposes that adhere to Shariah's regulations and precepts. The issuance's goal should be specific and well-defined, not vague or overarching (Khouildi and Kassim, 2018).

3.7 A BRIEF OVERVIEW OF FINTECH

FinTech has created new disruptive concepts and business models that have the potential to revolutionise the entire corporate ecosystem (Baber, 2020). Fintech, according to Maier (2016), is a combination of finance and technology that offers more innovative solutions and long-term business strategies. Again, according to Leong and Sung (2018), fintech is an innovative idea that improves financial service operations by providing solutions using technology that is tailored to a certain company context. As defined by Dorfleitner et al. (2017), fintech is a collaboration between companies that provide technical support for the delivery of financial services. However, since the smartphone/mobile internet revolutions, financial technology has advanced quickly, and fintech now refers to a wide spectrum of technological interventions in personal and commercial finance (Mulyk, 2022).

Rapid advancements in FinTech have opened up a slew of new alternative financing options that are entirely different from the traditional financial system. For example, crowdfunding gives businesses an alternative opportunity to raise funds at a reduced cost or in a way that wasn't previously possible. Crowdfunding is, in reality, one of the most widely used forms of alternative finance. At present, crowdfunding operations are often managed by fintech companies (Leong & Sung, 2018). Fintech is also being used by companies to reduce transaction costs, improve the information-sharing process, support better financing decision-making, and enable new financing alternatives (Leong & Sung, 2018).

Different technologies are commonly used in financial products and services. Blockchain is one of these technologies, which is characterised as a distributed database of transaction records that is kept up-to-date and validated by an international computer network. Rather than being under the supervision of a single central authority, like a bank, the records are overseen by a broad community; no one person has power over them, and transaction histories cannot be altered or deleted easily by a single entity (Sarmah, 2018). Because no transaction saved in a blockchain can be tampered with, and all past transactions are traceable and auditable, the immutability of blockchains also ensures distributed trust (Zheng et al., 2020).

As defined by Iftikhar and Saba (2020, p. 33), “a smart contract is a complex software program that is automatically executed upon fulfillment of a contractual obligation or predetermined condition already stipulated or programmed in the contract.” It is possible to personalise smart contracts by programming the terms and conditions, clauses, and other requirements that are specific to the contract. In a distributed ledger, or blockchain, the parties implement a cryptographically signed and time-stamped smart contract when they come to an understanding. The contract is automatically activated when a specific condition is met. Blockchain-based smart contracts can increase the cost-effectiveness, efficiency, and dependability of corporate operations with the lowest possible risk of error, fraud, or delay (Mohamed & Ali, 2019; Iftikhar & Saba, 2021).

Smart contracts, integrated into blockchains, allow an agreement's terms to be automatically enforced without needing a third party to be contacted. Thus, smart contracts can increase the effectiveness of company processes, lower risks, and save money on administration and services (Zheng et al., 2020). Figure 3.3 shows an example of a smart contract based on blockchain technology:

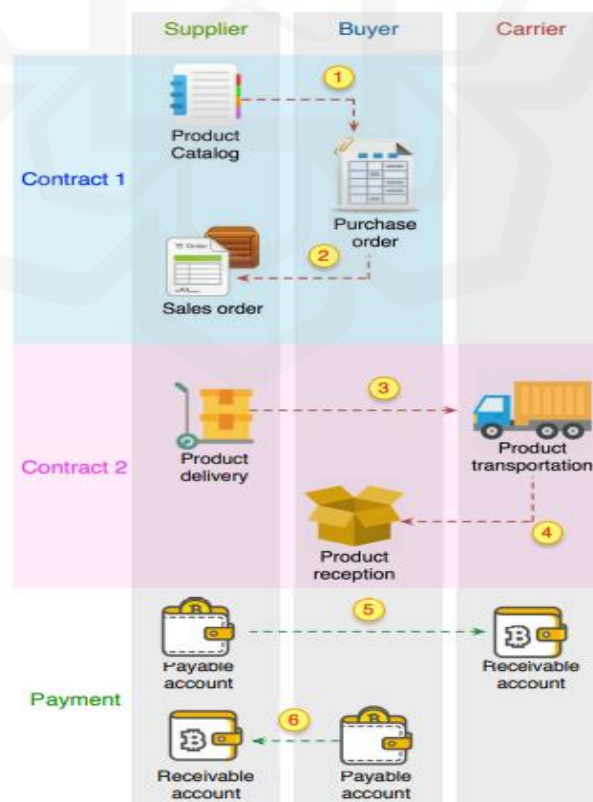


Figure 3.3 A Smart Contract Example Between a Buyer and a Supplier/Seller

Source: (Zheng et al., 2020, p. 475)

Here, a supplier uses the blockchain network to provide a consumer with a product catalogue in Contract 1. This catalogue, which comprises product details (like type, price, quantity, and availability) as well as shipping and payment terms, is distributed and stored in the blockchain so that a buyer can access product details and simultaneously confirm the legitimacy and standing of the supplier. The buyer then uses the blockchain to place the order with the desired quantity and payment date. As the figure shows, this entire process constitutes a purchase contract (also known as Contract 1). It is important to note that the whole process is carried out between the supplier and the buyer without the involvement of a third party. The supplier will then look through the blockchain for a carrier to finish the shipment phase when Contract 1 is completed (Zheng et al., 2020).

Similar to Contract 1, the carrier posts the terms and conditions of the shipment as well as the cargo description (including source, destination, transportation costs, capacity, and delivery time) in the blockchain. The products will be delivered to the carrier, who will then ship them to the buyer if the supplier approves the contract that the carrier issues. This entire process creates Contract 2, as depicted in the figure, and it is carried out independently of outside assistance. The payment processes, which include the payments made by the supplier to the carrier and the buyer to the supplier, are also automatically performed in addition to the automatic execution of Contracts 1 and 2. For instance, the payment between the customer and the supplier will immediately proceed as soon as the buyer certifies that the products have been received, fulfilling the predetermined criteria. Unlike traditional transactions, the entire process is carried out peer-to-peer without the involvement of intermediaries such as banks. Turnaround time and transaction costs can be significantly reduced as a result (Zheng et al., 2020).

The use of fintech, like access to mobile money services, can also be significantly beneficial for people experiencing poverty, particularly women. As found in a study conducted in Kenya, the use of mobile money services enabled women-headed households to increase their savings by more than a fifth (Demirguc-Kunt et al., 2018). In addition, it allowed 185,000 women to develop retail activities or businesses

and leave farming. In this way, eventually, it helped minimise the level of extreme poverty among women-headed households by 22% (Demirguc-Kunt et al., 2018).

3.8 ISLAMIC CROWDFUNDING AND ITS FEATURES

The financial phenomenon of crowdfunding emerged relatively recently, initially serving as a means of securing finance for start-up ventures in wealthy nations. Through the establishment of network plans that enable investors to access the projects they agree upon as investment channels, this form of financing depends on the Internet to connect entrepreneurs with investors. Although it's still not common enough in every nation, crowdfunding is expanding (Abdeldayem & Aldulaimi, 2023). It's a type of funding where a person seeking money pitches the idea of a project or product to a large audience, usually through websites on the internet. Using crowdfunding platforms, those in this audience who find the proposal appealing contribute for a set period of time “estimated in months” by purchasing, selling, investing in, or just giving money until the necessary funds are raised to carry out the project (Abdeldayem & Aldulaimi, 2023).

Finance is raised through the combined efforts of friends, family, clients, and individual financial backers (or givers) in Islamic Crowdfunding (ICF), primarily online, via Shariah-compliant platforms (following Islamic requirements). To ensure Shariah compliance, ICF should also refrain from using the Islamic crowdfunding model to promote illegal substances like alcohol, pork, betting, and other items that are prohibited in Islam (Andaleeb & Mishra, 2016). From an Islamic perspective, crowdfunding is commendable since it fosters collaboration and generosity, as stated by Ishak and Rahman (2021). Nevertheless, making sure that crowdfunding procedures are fully compliant with Shariah law is essential. While some forms of crowdfunding, such as reward- and donation-based platforms, are exempt from Sharia laws, equity- and lending-based platforms must be adjusted to conform to Sharia rulings and requirements. ICF products that are referred to be interest-based advances require this adjustment even though the interest rate is lower than that of traditional financial institutions (Abdeldayem & Aldulaimi, 2023).

Likewise, as noted by Testa et al. (2022), Islamic crowdfunding platforms are accountable for carrying out campaigns in a manner that complies with Shariah. Thus, ICF platforms must: (1) refrain from interest (Riba); (2) invest in projects or products that are halal as permitted by Islam; (3) refrain from excessive risk and speculation (Gharar); and (4) refrain from all other forbidden activities (Haram), such as the use of weapons, alcohol, pork products, pornography, gambling, and other activities that negatively impact the environment and society as a whole (Testa et al., 2022).

As explained by Wahjono and Marina (2017), crowdfunding based on Islam is known as Islamic crowdfunding. The project and product that are being supplied are also approved by Islam and considered halal. Similarly, the funds that will be utilised to support a project need to be certified as halal. The Shariah Supervisory Board, which ensures that the money supplied to finance a project or product that is permissible, must be established in order to determine whether a project or product is halal or not. In addition, the owner of the funds (possible funders) must attest on a declaration form that the funds are originated from halal sources.

In Islamic crowdfunding, all activities are conducted online. Mainly, there are four parties involved in this process (Wahjono & Marina, 2017):

1. Project Initiator (PI - including organisations, individuals, and businesses)
2. Crowdfunding Operator (CFO)
3. Potential Funders (PF)
4. Board of Sharia (BS)

Figure 3.4 depicts the features of the Islamic crowdfunding process:

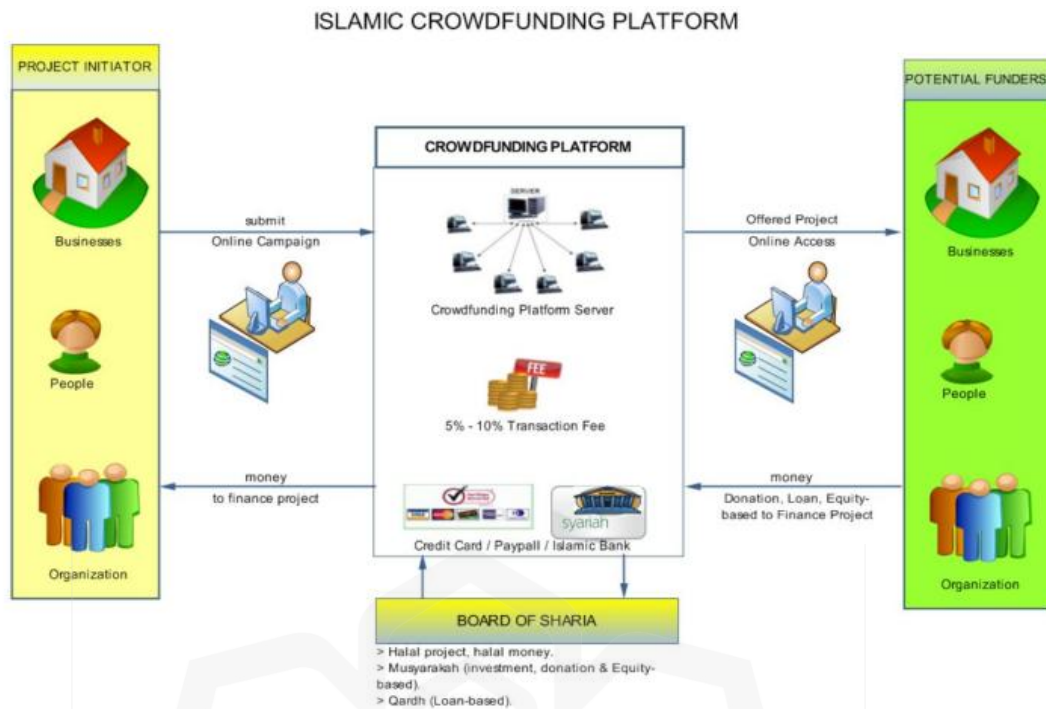


Figure 3.4 Features of Islamic Crowdfunding System (Wahjono & Marina, 2017, p. 37)

As opined by Abdeldayem and Aldulaimi (2023), there are five types of Islamic Crowdfunding models:

1. Equity-based Model (Mudarabah): This model works well with Islamic financing formulas since it is predicated on the concepts of risk and profit sharing.
2. The sales-based model (Murabahah): It involves gathering group capital as an asset to buy all the materials required to expand a campaigner's business and provide it to other campaigners at cost-plus method.
3. Qard-al-Hasan (Good Loan)-based Model: The finance platform offers good loans to address the needs of the community without depending on subsidies or other forms of assistance. Once the project owner finishes the work, the loan's principal is returned.
4. Waqf-based model: Under this model, legal drafts are implemented through the Islamic Waqf system to create projects and project ideas that the benefactor requests be endowed with, with the goal of halal reasons and resulting in advantages for social and developmental advancements.

5. Zakat-based model: This model focuses on creative endeavours to inspire the impoverished to produce. Crowdfunding sites request zakat payers to pay their zakat through the crowdfunding platform, and Shariah regulatory organisations establish a system to distribute zakat cash to the impoverished in compliance with the law.

3.9 THE LITERATURE GAP

From the literature review, it becomes evident that there is a shortage of literature that has explained the issues related to Islamic microfinance in detail from the perspectives of Bangladesh so far. In particular, there is a lack of empirical research works on this topic. Only Haque and Yamao (2011) explored this issue with a limited scope. This research was done 13 years ago, and no data were collected from experts on microfinance issues, such as senior bankers or academicians. This literature gap will be fulfilled in this study. Hossain and Abdullah (2019) also discussed the challenges behind the relatively slower growth of the Islamic microfinance industry, but the study depended on only secondary data.

Literature discussing the inherent reasons for not emphasising Islamic microfinance by this country's Islamic banks and financial institutions is also lacking. Consequently, sincere efforts will be made in this study to address these research gaps. It is also important to discuss the factors related to the efficient management of Islamic microfinance programmes while ensuring Shariah compliance in Bangladesh, which the previous researchers have not elaborated on. In particular, the applicability of different microfinance models in the Islamic microfinance system, like the joint liability model, has not been assessed by them, which will be a major focus of the current research.

In addition, the literature that has focused on the reasons for avoiding Islamic microfinance products and services by the people of Bangladesh is also scant, though it is a Muslim-majority country. For this reason, this study will highlight the socio-economic conditions of the people of this country and try to find out the reasons behind their evasion of Islamic microfinance schemes. In addition, this study will offer some effective suggestions for popularising Islamic banking products and services in Bangladesh.

There is currently a dearth of empirical research despite numerous studies highlighting Islamic microfinance as a strategy for reducing poverty by bringing underserved impoverished individuals into the financial system. This necessitates a more thorough investigation that will provide actionable policy suggestions. Additionally, the potential influence of income accruable to potential recipients of Islamic microfinance on financial inclusion and economic empowerment was overlooked in earlier research. Only Islam (2021) conducted primary research on the role of Islamic microfinance in women's empowerment in Bangladesh, though the study focused specifically on women's empowerment, not the economic empowerment of all the people. Furthermore, data were collected from only the women recipients of the Rural Development Scheme (RDS) programme of Islamic Bank Bangladesh PLC. Consequently, this study will emphasise how Bangladesh's Islamic microfinance system affects the financial inclusion and economic empowerment of the country's impoverished population, both men and women, thus filling a research gap.

Previous studies did not elaborate on the particular Islamic microfinance products that could be suitable for customers in Bangladesh. Most importantly, no previous literature has focused on the potential of using technology in different Islamic microfinance products in Bangladesh. Specifically, the use of blockchain and smart contract technology in Islamic microfinance from Bangladeshi perspectives was not highlighted by previous researchers. Hence, an initiative has been taken in this study to discuss these matters and find appropriate solutions so that financial technology can be efficiently integrated in the Islamic microfinance programmes in Bangladesh.

3.10 CONCLUSION

In this chapter, the Shariah principles of the Islamic microfinance system have been explained in detail. Moreover, the concepts of Maqasid-al-Shariah are described, and the ways Islamic microfinance system conforms to these concepts are highlighted. Besides, different aspects of the theories related to microfinance, including the Joint Liability Theory, Self-Help Group Theory, and Financial Inclusion Theory are elaborated. In addition, the need for analysing these theories and finding ways to

appropriately accommodate these in Islamic microfinance programmes are also clarified. The concepts of different Islamic finance instruments and Islamic social finance tools have also been clarified in this chapter. The concepts of fintech and Islamic crowdfunding are also clarified here. Fintech and its use in the Islamic microfinance system have also been explored in this chapter by reviewing the existing literature. Finally, the literature gap has been explained in this chapter and how this study has fulfilled this gap has been explained.



CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 INTRODUCTION

The overall approach to the research, including the procedure by which the research is carried out, is known as a research methodology (Pathirana et al., 2020). As highlighted by Kothari and Garg (2018), the research methodology clarifies the rationale for undertaking a research study, how the research problems have been identified, the particular method that has been chosen to collect data, and which technique has been used to analyse data and why. This research methodology is often influenced by the philosophical attitude, the research process, the research questions, and the quantity of knowledge and resources available (Pathirana et al., 2020).

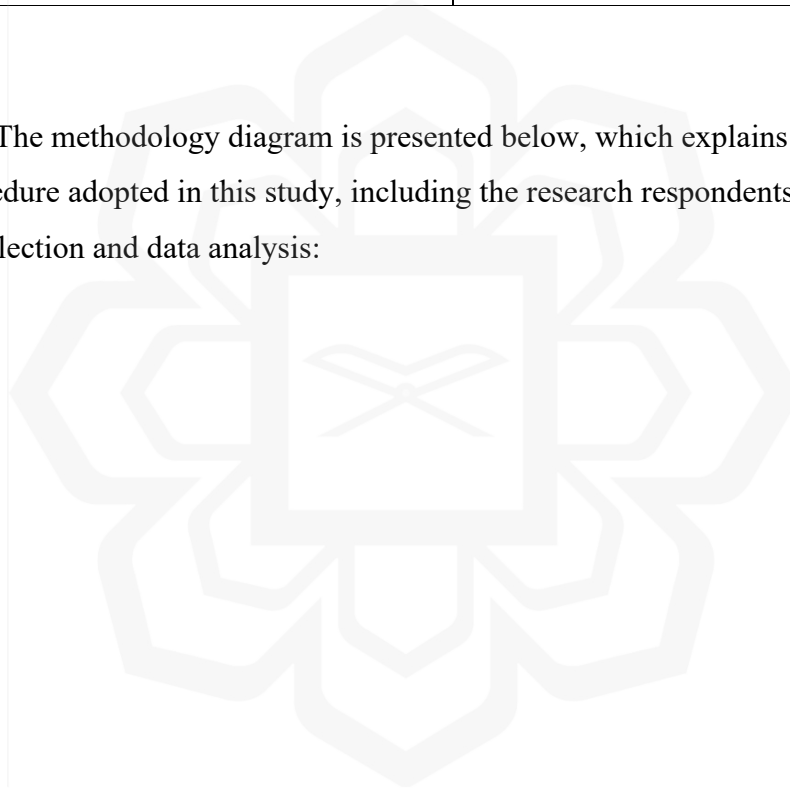
By starting with the introduction, this chapter describes the method used in this study to highlight the research objectives and answer the research questions, as mentioned in Table 4.1:

Table 4.1 Research Objectives and Research Questions

Research Objectives	Research Questions
RO1. To identify the major challenges in implementing the Islamic microfinance system in Bangladesh.	RQ1. What are the major challenges being faced by the current Islamic microfinance organisations in this country?
RO2. To determine the best possible ways to effectively implement the Islamic microfinance system in Bangladesh.	RQ2. What steps should be taken to implement Islamic microfinance programmes effectively in Bangladesh?

Research Objectives	Research Questions
RO3. To propose a new fintech- and partnership-based Islamic microfinance framework (using the concepts of Mudarabah, Musharakah, and Qard-al-Hasan) that will be appropriate for the poor people of Bangladesh, considering their current socio-economic conditions.	RQ3. How can a novel fintech- and partnership-based Islamic microfinance framework be developed that can be effective for the Muslim community in Bangladesh?
RO4. To assess the ways to enhance financial inclusion and economic empowerment through Islamic microfinance in Bangladesh.	RQ4. How to enhance financial inclusion and economic empowerment using Islamic microfinance in Bangladesh effectively?

The methodology diagram is presented below, which explains the methodology or procedure adopted in this study, including the research respondents, and the ways of data collection and data analysis:



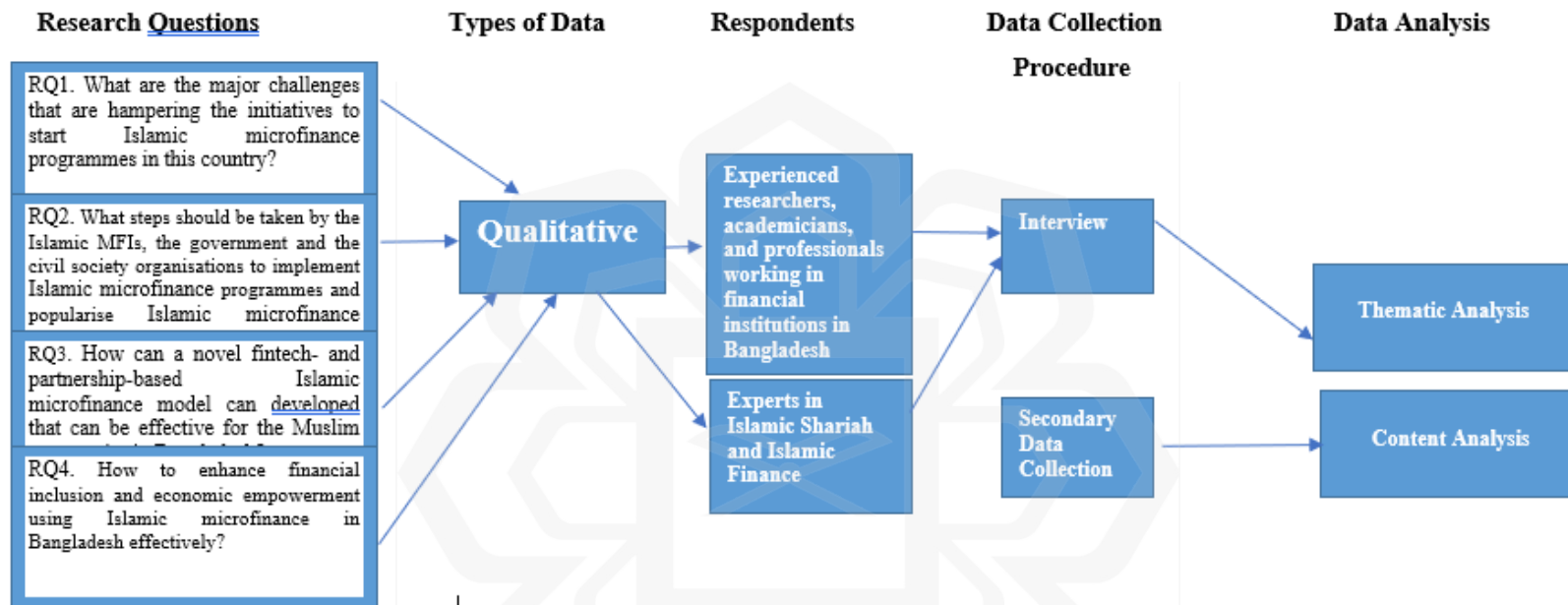


Figure 4.1 The Methodology Diagram of this Study

In addition, this chapter describes the rationale behind choosing the design of qualitative methods, the study's respondents, and the sampling procedure. The process of data collection is described in detail. Explanations are also given regarding the population and ways of sample selection used in this study. Finally, the data analysis process is clearly depicted in this chapter.

4.2 CONCEPTUAL FRAMEWORK

The conceptual framework of this study is presented in Figure 4.2:



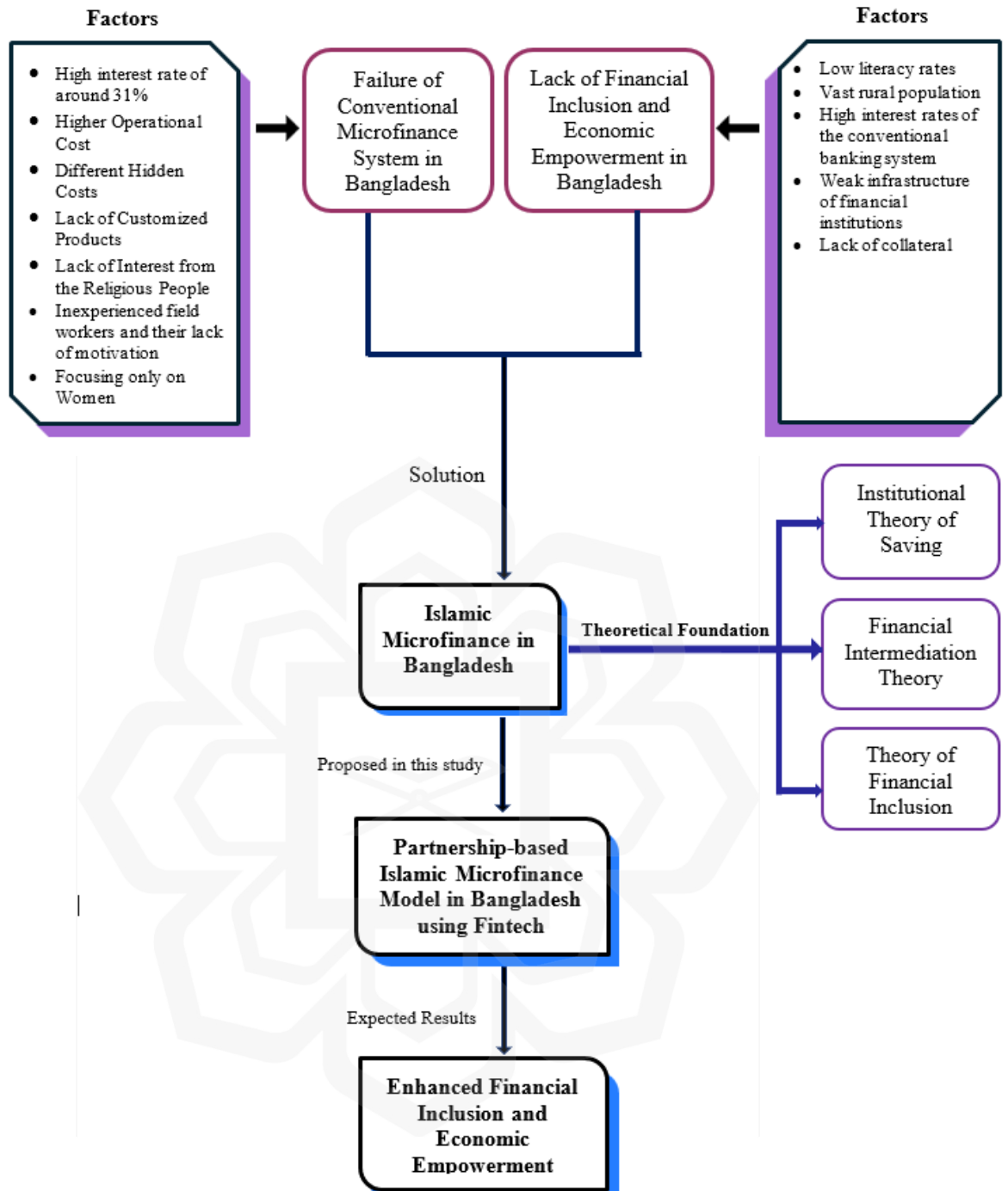


Figure 4.2 Conceptual Framework of the Study

4.3 REASONS FOR NOT ADDING RESEARCH HYPOTHESES

There are certain reasons why there are no research hypotheses included in the current study that has adopted the qualitative research method. As explained by Lareau (2012),

demonstrating the significance and interconnectedness of events is one of the main objectives of qualitative research. To put it another way, qualitative researchers are more interested in how people perceive and comprehend a certain event than they are in how frequently it occurs. Additionally, qualitative researchers seek to place a social process inside a particular social context. Hence, as suggested by Lareau (2012, p. 673),

Rather than asking qualitative researchers to present a hypothesis, I prefer that they elaborate a research question. This general research question should not be tied to specific variables; it should be somewhat open ended. In addition, rather than having variables, I think that qualitative researchers should study social processes in daily life. I believe that researchers, as much as possible, should be systematic.

The hypotheses provide direction for the research, responses, explanations, and expected results, as opined by Barroga and Matanguihan (2022). However, an exploratory nature is inherent to qualitative research. It aims to comprehend the intricacy of social phenomena and human experiences rather than validate established theories or hypotheses. Additionally, qualitative research's flexibility is one of its major advantages. When gathering data, researchers must be receptive to fresh perspectives and shifts in focus. This flexibility is necessary to uncover the hidden subtleties and complexity of the phenomena under study. Adhering to a hypothesis might restrict qualitative research's exploratory and flexible character and impede the development of fresh perspectives.

4.4 RESEARCH DESIGN AND METHODOLOGY

After confirming the research topic, the next formidable task is creating the research project's design, or what is commonly referred to as the "research design." A research design is the result of decisions made on what, when, where, how much, and by what means of an investigation or study. The research design, as stated by Kothari and Garg (2018), is actually the conceptual framework that research is carried out inside; it serves as a guide for data collecting, measurement, etc. Therefore, from formulating the hypothesis and considering its operational ramifications to doing the final data analysis, the design comprises a detailed plan of what the researcher will accomplish.

Furthermore, as defined by Sileyew (2019), the process that researchers must follow when doing their research is known as research methodology. It demonstrates the process by which these researchers define their goal and problem and then offer the findings derived from the data gathered over the study period. In order to answer the research questions, this study adopted a well-thought-out research methodology that helped the collection and interpretation of primary data (Bryman, 2001; Punch, 2014). As mentioned by Noor (2008), the nature of the social phenomena to be explored decides the actual suitability of a research method. In addition to deriving findings from secondary sources, this study also involved empirical research.

4.4.1 The Research Model

Various models or frameworks for research methodology have been devised by earlier academics, such as the research onion model proposed by Saunders et al. (2009). The steps involved in creating a research project are illustrated by the research onion model, as seen in figure 4.3. According to Saunders et al. (2009), the model is divided into six stages: research philosophy, research approaches, strategies, methodological decisions, time horizons, and research procedures pertaining to data collection and analysis. When employing the research onion, one must move from the outer layer to the inner layer, as each layer represents a more specific stage of the research process (Saunders et al., 2009).

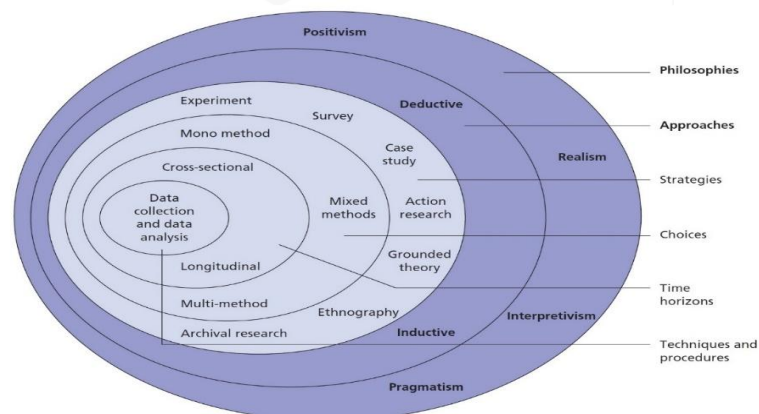


Figure 4.3 Research Onion Model

Source: Saunders et al. (2009)

For this research, the research onion model is chosen as it is a simplified model offering a clear description of the research procedure that is followed in order to fulfil the research objectives. As argued by Bryman (2001), the usefulness of this model lies in the fact that it can be adapted to nearly any type of research methods and can also be used in different contexts. It also shows an effective progression through which it is possible to design the research methodology.

Each of the layers of this research onion model is highlighted in the subsequent sections. In addition, justifications are provided for choosing a particular strategy in the current research.

4.4.2 The Research Philosophy

As discussed by Pathirana et al. (2020), the specific beliefs of the researcher about the world are epitomised through research philosophy, which is expressed in the form of data collection, data analysis, and overall phenomena to be realised and explained. Hence, the researcher needs to recognise and perceive his/her personal philosophical position or paradigm that specifies the direction of the undertaken research.

Saunders et al. (2009) have pointed out that the chosen research philosophy makes significant presumptions about the researchers' worldview. These presumptions will guide their study plan and the methodologies they select for it. The philosophical choices that researchers make when selecting a research strategy must be considered since they have a big influence on the work that they undertake and the subjects of their investigation. Practical issues will play a role in determining the adopted philosophy. Nonetheless, the researcher's specific perspective on the connection between knowledge and its creation process is probably going to have the biggest impact. A researcher focused on facts, like the resources required in a manufacturing process, is probably going to have a very different opinion about how research should be done than a researcher interested in the attitudes and feelings of workers toward their managers in that same manufacturing process. Their approaches and tactics will likely differ greatly,

but so too will their opinions about what matters and—perhaps more importantly—what is helpful (Saunders et al., 2009).

The research philosophy of this study was interpretive (Bryman & Bell, 2015). It enabled the use of qualitative methods for grasping and elaborating on context-specific settings (Punch, 2014).

4.4.3 The Case Study Method Used in the Study

The current study has adopted the case study method, as the particular case of Bangladesh is considered for this study. Bartlett and Vavrus (2016) opined that a case is used by researchers to mean one place, setting, institution, or a person or group of people. In the social science discipline, this case study design is used in an extensive manner. Through the case study approach, it becomes possible to explore complex issues in their real-life settings in an in-depth manner (Crowe et al., 2011). When a comprehensive understanding of an issue, event, or phenomenon of interest in its natural, real-life setting is required, the case study approach is particularly effective (Crowe et al., 2011). Similarly, as mentioned by Yin (2014, p. 16):

A case study is an empirical inquiry that investigates a contemporary phenomenon (the case) in-depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident. In other words, you would want to do case study research because you want to understand a real-world case and assume that such an understanding is likely to involve important contextual conditions pertinent to your case.

The case study research offers some specific benefits. For example, a case study approach gives the researchers the opportunity to collect various types of data about the case through different means, including observations, surveys, interviews, documents, and others (Schoch, 2020). Through this method, they can gain a comprehensive understanding of a bounded unit. The lessons or principles learned through a case study can also be applied to other cases or situations (Schoch, 2020).

4.4.4 Action Research Method Used in the Study

This study is also an action research since it would be used to solve some social problems, like why people cannot get out of the poverty trap through the conventional microfinance system and what role Islamic microfinance can play here (Dane, 2011). Here, the action, as highlighted by Burns (2009), typically involves making interventions or changes deliberately so that the situation can be changed, improved, or developed. Hence, in a nutshell, the main goal of action research is to improve or change the current practice in a specific situation by analysing what is going on and suggesting what needs to be done.

The following explanation of the action research by Carr and Kemmis (1986, p.162) is widely used by researchers in the field of social science: “Action research is simply a form of self-reflective enquiry undertaken by participants in order to improve the rationality and justice of their own practices, their understanding of these practices and the situations in which the practices are carried out.” According to Burns (2009), the action research involves four distinct steps:

1. Identifying a focus area that presents a problem and planning strategies to solve this problem or improving the situation;
2. Collecting information in a systematic manner about this focus area;
3. Analysing or reflecting on the collected information and what it is telling about the situation; and
4. Acting as required to improve or change the situation.

Figure 4.4 illustrates these four steps of the action research:

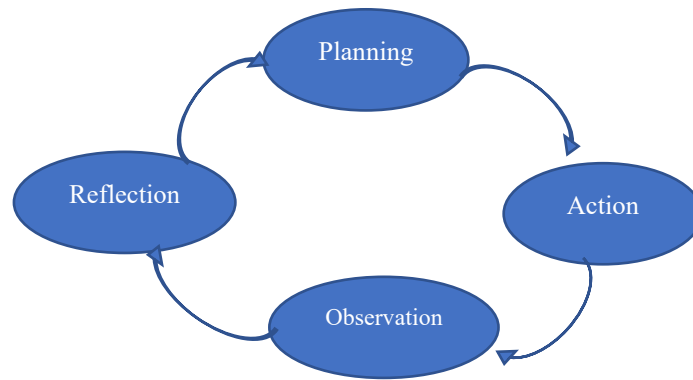


Figure 4.4 Basic Action Research Cycle

4.4.5 Qualitative Research Method Used in the Study

Qualitative data were gathered from the respondents of this study, so it is a research study following Qualitative methods. According to Grey (2018), the qualitative research design is a methodical and rigorous procedure that gives meaning to data. Furthermore, as noted by Grey (2018), various qualitative research designs could result from applying various data collection tools, including surveys, interviews, observations, and document analysis. Because it gathers data in a real-life environment and is highly contextualised, qualitative research is more reliable and valid because it focuses on people's motivations, feelings, and prejudices as well as their interpersonal cooperation and conflicts (Grey, 2018).

As defined by Denzin and Lincoln (2011, p.2):

Qualitative research is multimethod in focus, involving an interpretative, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical materials – case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts – that describe routine and problematic moments and meanings in individuals' lives.

Hamilton and Finley (2019, p. 7) also argued that:

Qualitative methods are invaluable in addressing the hows and whys of implementation and are well-suited to both relatively

straightforward and more complex goals, such as determining how well an intervention is adopted at a particular site, revealing organizational and interpersonal dynamics affecting the intervention, elucidating practice change, discerning barriers and facilitators to uptake of the intervention, and determining what strategies are being used to foster adoption.

The ‘Grounded Theory Approach’ is also adopted as a part of qualitative research in this study. According to Punch (2014, p. 163),

Grounded theory is not a theory at all. It is a method, an approach, a strategy. In my opinion, grounded theory is best defined as a research strategy whose purpose is to generate theory from data. ‘Grounded’ means that the theory will be generated on the basis of data; the theory will therefore be grounded in data. ‘Theory’ means that the objective of collecting and analysing the research data is to generate theory. The essential in grounded theory is that theory will be developed inductively from data.

Qualitative approaches take a comprehensive approach that preserves the complexity of human behaviour. A qualitative technique (interviews, activity observation, and written material interpretation) is most illuminating when the aspects that should be researched most clearly are not evident. The topic could be about a single individual or small group, like the doctor-patient connection, or it could be about a large organization, like a hospital, and how it functions. Qualitative approaches are particularly useful when the subject of the investigation is poorly defined and hard to control (Black, 1994).

As explained by Creswell and Clark (2018), identifying the main phenomenon under investigation, formulating exploratory, meaning-driven research questions, and appreciating participants as the primary information sources are all skills that researchers should possess. Common techniques used by researchers to gather qualitative data include semi-structured or unstructured interviews with open-ended questions and qualitative observations. In order to analyse qualitative text data, researchers need to have a basic understanding of qualitative data analysis tools. This includes knowing how to code text and create themes and descriptions based on these codes. It is imperative that researchers possess a comprehensive understanding of fundamental concerns related to quality in qualitative research, such as reliability, validity, and standardisation techniques.

Again, powerful insights from real-world acts that have occurred in qualitative research can be leveraged to build an understanding of the underlying social processes and meaning in a management/business setting, claim Van Esch & Van Esch (2013). Furthermore, qualitative research can offer powerful examples of significant issues that progress the field. which would be challenging to accomplish from the perspective of quantitative research. The qualitative research approach can be very helpful in comprehending the characteristics, advantages, and interactions of elements. It seeks to produce a "what" response as opposed to a "how frequently" one, in contrast to quantitative research (Black, 1994).

According to Van Esch & Van Esch (2013), a qualitative analysis heavily depends on the analytical and integrative skills of the researcher as well as their firsthand familiarity with the social context in which the data were obtained (such as interview transcript data). Qualitative analysis must prioritise making sense of the data rather than explaining or forecasting it to fully understand the experience. A creative, moral, inquiring, and participant-in-context mindset is necessary for researchers using qualitative analysis (Van Esch & Van Esch, 2013). It makes sense to use a qualitative research method for this study for the reasons mentioned above. The answers of the research questions were obtained through the opinions and viewpoints of the respondents of this study, so using qualitative study is justifiable for this research.

4.5 POPULATION AND SAMPLE

According to Banerjee and Chaudhury (2010, p. 63), "A population is a complete set of people with a specialised set of characteristics, and a sample is a subset of the population". Rather than studying the entire population, different research projects are usually conducted on a sample of participants. It is often difficult for the researcher to select a representative sample from the target population from which the study results can be extrapolated (Banerjee & Chaudhury, 2010).

For the qualitative research, data were collected from 15 experts in the field of Islamic Finance and Islamic Microfinance through semi-structured interviews. As

opined by Gray (2018), by asking the respondents to elaborate on their comments, the researcher can "probe" for more in-depth answers during an interview. Additionally, interviews are a potent tool for assisting people in articulating their tacit thoughts, sentiments, and understandings—things that they have previously kept implicit (Gray, 2018). In situations where individuals are more likely to prefer having a conversation about their work than having to complete surveys, interviews are very helpful. Because people frequently believe the information may be confidential, interviews give individuals the chance to think back on events without having to commit themselves in writing (Gray, 2018).

Furthermore, according to Pandey and Pandey (2021), the interviewer and the interviewee build a rapport during the interview process. The social and cultural barrier is eliminated along with the physical distance between them, allowing for the unrestricted exchange of ideas. Everybody leaves their own mark on the other, and an emotional attachment is established.

It is also explained by Gray (2018) that semi-structured interviews are frequently employed in qualitative analysis due to their non-standard nature. It's possible that the interviewer won't address every topic on the list of topics and questions to cover in every interview. Depending on how the interview goes, the questions may possibly be asked in a different order. As new issues surface, it is possible that more questions will be asked during the interview, including ones that were not planned at the beginning. Reactions are recorded by note-taking or potentially video recording. When conducting a semi-structured interview, it is possible to delve deeper into thoughts and ideas and encourage participants to elaborate on their responses (Saunders et al., 2009; Gray, 2018).

In this study, a semi-structured questionnaire was used to elicit the necessary information from the respondents, and their responses were recorded using the Zoom online platform. Finally, their responses were transcribed verbatim. As defined by Pandey and Pandey (2021, p. 57), "A questionnaire is a systematic compilation of questions that are submitted to a sampling of population from which information is desired."

Experienced researchers and professionals working in reputed financial institutions participated in this study, and all of them are currently based in Bangladesh, so it could be possible for the researcher to get an in-depth understanding of the present situation in Bangladesh. These respondents were emailed the consent form and the study participation instructions. In addition, a purposive sampling strategy was used to identify the respondents of this study for collecting the necessary information. Purposive sampling, also known as judgment sampling, involves selecting respondents specifically based on their attributes. It is a non-random technique that does not require a predetermined number of respondents or underlying hypotheses. In other words, the researcher determines what information is necessary and then searches for sources willing and able to supply it based on their experience or knowledge. Furthermore, apart from expertise and understanding, other crucial factors include being accessible and eager to engage, as well as having the capacity to convey viewpoints in an eloquent, thoughtful, and expressive way (Etikan et al., 2016). In this study, a homogeneous purposive sampling method was chosen, as all the respondents shared specific characteristics or similar traits, like all of them are directly involved in the Islamic finance industry.

As argued by Sharma (2017), purposive samples are extremely vulnerable to researcher bias, regardless of the sort of purposive sampling technique employed. When it comes to mitigating potential researcher biases, the argument that a purposeful sample was created based on the researcher's judgment is not a strong defence, particularly in light of probability sampling procedures that are specifically intended to do so. Nonetheless, this purposive sampling strategy is frequently employed in qualitative research when the investigator prefers to learn in-depth details about a particular phenomenon as opposed to drawing general conclusions from statistics or when the population is extremely tiny and focused (Obilor, 2023).

Initially, five of these respondents were chosen by the researcher who were personally known to him and have vast knowledge and experience in the field of Islamic finance. After that, using the snowball sampling approach, other ten respondents of this study were chosen by the researcher, who were recommended by the five respondents chosen at the outset. In this snowball approach, the existing study respondents recruit future respondents among their acquaintances. According to Naderifar et al. (2017), this

approach, often known as the "chain method," is an economical and effective way to reach individuals who would be very hard to contact otherwise. Using this approach, the researcher asks the first few samples—who are chosen by purposive sampling—if they know of anyone who could participate in the study who has similar expertise. Because the new samples were acquainted with the first samples who were connected to the researcher, the snowball method not only saved time but also gave the researcher the chance to interact with other respondents more effectively. This snowball approach also minimised the selection biases, as these respondents were not directly selected by the researcher.

After collecting data from 15 respondents, the data saturation point was reached, as the same information was being repeated by the respondents and further value-added insights were not coming. Hence, the researcher found that a sufficient amount of data was collected to draw conclusions, and it was not necessary to gather data from more respondents. According to Etikan et al. (2016), the main focus of the purposive sampling technique is saturation, or reaching a thorough understanding by continuing sampling until no new significant information is obtained. As opined by Mwitwa (2022, p. 418), "Reaching data saturation saves researchers' time, money and resources which calls for qualitative researchers to consider all factors which affect data adequacy in qualitative studies."

4.6 DATA COLLECTION PROCEDURE

To gather qualitative data for this study, semi-structured interviews were used to understand the respondents' perceptions regarding Islamic microfinance in Bangladesh. For interview, a standard open-ended questionnaire was developed, which is added in Appendix I. The questionnaire was carefully designed based on the research objectives of this study. The responses of the study participants were recorded, and transcribed verbatim by the researcher.

Depending on the respondent's preferences, in-depth interviews were either performed in person or virtually. Interviews were conducted to obtain data from the respondents during their free time between November 11, 2022, and December 13,

2023. The researcher gave each respondent a thorough explanation of the study's goal after the questionnaire was completed online at least two days before the interview. The respondents agreed to answer questions as long as they knew that any information they shared would be kept completely private and anonymous. Since this was a semi-structured interview, further questions and information were sought during the session depending on the participants' responses.

Secondary data were collected from different books and articles published in reputed journals and conference proceedings. In addition, research reports published by reputed organisations like the UN were extensively used. Primary emphasis was placed on those articles that have been published in the last ten years to ensure that the data collected are relevant and not obsolete in any way. As highlighted by Walliman (2021), the benefit of employing secondary data sets is that they can eliminate the need for labour-intensive fieldwork in certain situations because they were created by groups of knowledgeable researchers, frequently with substantial funding and resources much beyond the reach of a single student. A longitudinal study—which tracks changes over time—can be conducted using data gathered over an extended period of time, which is not feasible with data gathered for brief projects. In order to triangulate the results and place the data in a broader context, secondary data can also be used to compare with obtained primary data. Publicly available data are permanent resources that can be used as the foundation for the research and are also subject to outside inspection (Walliman, 2021).

Likewise, as Saunders et al. (2009) pointed out, it's frequently beneficial to compare the data that the investigators have gathered with secondary data. This implies that they can either triangulate their findings or put their own findings in a broader context. Secondary data, such as the Census, can be used to evaluate the generalizability of findings—that is, how representative the statistics are of the entire population—if they have conducted a sample survey, possibly of future consumers. Furthermore, time constraints in many research initiatives limit the potential of conducting longitudinal investigations to secondary data. Either building a custom data collection or utilising an already-existing multi-source dataset can do this. If comparable data are available, comparative research can also be feasible (Saunders et al., 2009). In addition, secondary data can be the only practical option if the researchers need the information right away.

Furthermore, the quality of the data is probably better than what might be achieved by gathering their own. One more benefit of using secondary data within organizations may be that it offers an inconspicuous metric because it has already been gathered (Saunders et al., 2009).

Systematic literature review process was used in this study while collecting the secondary data. As defined by Okoli and Schabram (2010, p. 1), a systematic literature review (SLR) is a “systematic, explicit, comprehensive, and reproducible method for identifying, evaluating, and synthesizing the existing body of completed and recorded work produced by researchers, scholars, and practitioners.”

As opined by Torres-Carrión et al. (2018), a systematic review of the scientific literature in a particular field is critical for identifying research problems and justifying future research in that field. Torres-Carrión et al. (2018, p. 1362) also added:

In the scientific realm, it is essential for doctoral students who are just starting research in a specific area and who need a systematic approach to learn the work carried out to date, the methods that have been used (population, sample, statistics), the results obtained, the proposals put forth by the authors and, of course, to ascertain who the leading authors are in an area, and what databases and publications they use to present their work, thus enabling them to know how to obtain updated and permanent information on the dynamic results published by various research centres and institutions of higher learning in general.

For searching purposes, different keywords have been used, as shown in Figure 4.5. These included: ‘microfinance’, ‘Islamic microfinance’, ‘microfinance in Bangladesh’, ‘financial inclusion and microfinance’, ‘economic empowerment and microfinance’, and ‘fintech’. These were also considered the main literature review topics. By searching reliable databases, including the IIUM library, Scopus, Mendeley, and Google Scholar, 524 articles were obtained. By reading the titles and abstracts of these articles, 295 articles were eliminated, and the rest of 229 articles were chosen as the source articles for this study. Furthermore, only the papers prepared in the English language were chosen for this research. The researcher also made sincere efforts to collect the full versions of all the source papers used in this study.



Figure 4.5 Keywords Used for Searching Literature Database

4.7 METHOD OF DATA ANALYSIS

The thematic analysis method (Creswell, 2018) was used to assess the qualitative data for this study. The thematic analysis method uses a structured approach for identifying themes from the data collected. As defined by Riger and Sigurvinsdottir (2016, p. 33), “Thematic analysis is a method for analysing qualitative data that involves searching for recurring ideas (referred to as themes) in a data set.”

When doing a thematic analysis, a researcher usually starts with interview data and works inductively to identify themes. A given data collection may have all its themes recognised or concentrate on a single theme, allowing for a more thorough analysis. The concepts that are present in the data collection and can be implicit or explicit are called themes. They typically surface several times both during and between interviews with various subjects. A theme must also encapsulate a significant aspect related to the study issue and something that participants find engaging. The study's goal

and theoretical framework will determine how this is carried out in detail, but it's critical to recognise and develop themes consistently (Riger & Sigurvinsdottir, 2016).

As argued by Braun and Clarke (2006), the huge flexibility that thematic analysis offers while maintaining its rigour sets it apart from other qualitative methods. This flexibility is not just theoretical but also in terms of the research question, sample size and composition, data collection technique, and approaches to meaning development. Thematic analysis, according to Clarke and Braun (2017), can be used to find patterns in data that relate to participants' lived experiences, opinions, behaviours, and practices both within and across data. Large and small datasets, homogeneous and heterogeneous samples, and case studies with one or two participants to extensive interview studies with 60 or more people can all be analysed using thematic analysis. Analyses can be performed on almost any kind of data, from established qualitative methods like focus groups and interviews to more recent ones like story completion and qualitative surveys (Clarke & Braun, 2017).

Additionally, thematic analysis can be utilised to capture both latent (underlying) and manifest (explicit) meanings in both deductive (theory-driven) and inductive (data-driven) investigations (Clarke & Braun, 2017). Thematic analysis is also applicable to a wide range of worldviews and theoretical frameworks. These may change according to the researcher's theoretical perspectives or the topic being posed, but thematic analysis as a technique for analysing qualitative data may be quite helpful in many situations. Thematic analysis is also reasonably simple and easy to understand (Braun & Clarke, 2006).

According to Jones et al. (2020), the thematic analysis method involves six stages:

1. Becoming familiar with the data;
2. Generating initial codes;
3. Searching for themes;
4. Reviewing themes;
5. Defining themes; and
6. Starting to write.

In this study, the interviews were coded to gain an understanding of the perceptions of the interviewees regarding the role of Islamic microfinance in enhancing financial inclusion and economic empowerment, as well as the related challenges and opportunities. Different themes were created after analysing these codes, and based on those themes, necessary discussions were done. For this purpose, the software Atlas.ti was used as an effective data analysis tool. As opined by Ronzani et al. (2020), when managing research projects with huge data sets and collaborative environments, the Atlas.ti software can help save time and streamline the process. It will improve confidence building empirically by increasing transparency and reproducibility of the research processes. Ngalande and Mkwinda (2014, p. 3) also argued that “Atlas.ti helps the researcher to manage, extract, compare and explore the data within the texts which has a meaning for the analysis”.

Nanez-Silva et al. (2024) argued that using ATLAS.ti to analyse qualitative data can be very helpful since it makes it easier to code, organise, and spot developing patterns in in-depth interviews. It works well for qualitative analysis, enhancing data administration, and comprehending participant viewpoints. In addition to enhancing comprehension of the data, data visualisation through Atlas.ti enhances the cognitive experience and encourages more introspective thought.

In this study, the content analysis approach was also selected in addition to the thematic analysis process to analyse the secondary data that were gathered. As defined by Bowen (2009), methodically reviewing or assessing documents, both printed and electronic (computer-based and Internet-transmitted), is known as document analysis. Document analysis necessitates data examination and interpretation in order to extract meaning, gain comprehension, and provide empirical information, just like other analytical techniques in qualitative research. The researcher used content analysis as a "first-pass document review in which meaningful and relevant passages of text or other data are identified" (Bowen, 2009, p. 32).

4.8 RELIABILITY AND VALIDITY OF THIS STUDY

While validity and reliability are crucial criteria for quality in quantitative paradigms, credibility, consistency, confirmability, neutrality, and transferability or applicability are crucial criteria for quality in qualitative paradigms, as Golafshani (2003) discusses. In qualitative research, Golafshani (2003) utilised a phrase called "dependability", which is more precisely equivalent to the concept of "reliability" in quantitative research. As argued by Noble and Smith (2015), qualitative research is sometimes criticised for its lack of scientific rigour, inadequate justification of the methodologies used, opaque analytical procedures, and findings that are essentially a compilation of the researcher's subjective judgments. Therefore, ensuring the reliability and validity of a qualitative study is also crucial.

In the current study, the researcher discussed with five academicians and experts the research methodology in order to confirm the validity and reliability of this study, and based on their suggestions, necessary changes were made to the questionnaire. Furthermore, by using interviews and document analysis methods, data triangulation was ensured. As contended by Onwuegbuzie and Leech (2007), to triangulate results, researchers must use at least two distinct kinds of data collection techniques. Data triangulation adds to and helps confirm the overall integrity of the participants' responses, according to Onwuegbuzie and Leech (2007). Data triangulation also confirms that the bias inherent in using one particular method does not become significant (Doorenbos, 2014). As pointed out by Golafshani (2003) and Carter (2014), this triangulation can also be useful in maximising the reliability and validity of a qualitative study. Researchers can get beyond the biases that arise with using a single observer, method, or theory by using triangulation (Donkoh & Mensah, 2023).

Furthermore, as the conclusions and suggestions made in this study are firmly backed by the information gathered from the study respondents, dependability or reliability is expected regarding this research (Cohen et al. 2011). Additionally, a study is deemed transferable by Bitsch (2005) if its findings may be applied to different situations involving different individuals. The researcher intends to undertake further measures to guarantee the transferability of this research by showcasing the findings' applicability to other groups, settings, contexts, and times. For example, the researcher

in this study will show that the novel fintech-based Islamic microfinance model presented in this study can be successfully implemented in other developing countries as well, with support from the government and entrepreneurs.

The researcher of the current study was also careful about meticulous record keeping and ensuring interpretations of data are transparent and consistent. Furthermore, the researcher's decisions were clear and transparent, and any independent researcher should be able to arrive at similar or comparable findings from the data gathered. All of these ensure the credibility of the current study.

4.9 ETHICAL CONSIDERATIONS

While collecting and interpreting data, all required ethical issues were considered, including ensuring the consent of participants and maintaining anonymity. All respondents were given thorough information about the study and were able to withdraw at any moment without fear of being judged, penalised, or retaliated against. All notices of the disclosure were sent in writing. Everyone who takes part in this study does so voluntarily. The respondents' professions were not harmed in any way as a result of the study. Furthermore, only data relevant to the study were acquired from the respondents; no other information was obtained from them. All collected data were kept by the researcher. The researcher kept all paper and digital data secure and locked to prevent the loss of sensitive material. Before, during, and after the study, all usual privacy and information protection considerations were made.

Besides, respondents were properly briefed about the study arrangement and informed of their right to quit the study, as well as ways that have been used to protect their privacy. There were no questions in the form that might hurt them or invade their privacy. Additionally, the data from the questionnaire were coded in such a way that no respondents could be recognised in the findings or future reports. While analysing the data, a conscientious effort was made to maintain honesty and integrity.

4.10 CONCLUSION

In short, this research methodology chapter clarifies how a qualitative methods design is used in the current study. It also discusses the respondents, sampling, and data collection and analysis procedures in detail. In addition, this chapter proposes a new and innovative model for implementing the Islamic microfinance system in Bangladesh. It is claimed here that if implemented properly, this new model can effectively benefit the poor and helpless people of Bangladesh, as well as enhance the financial inclusion and economic empowerment of the poor. This chapter concludes with the ethical considerations of this study and the explanations about how the reliability and validity of this study were properly ensured. The results of the data collection are highlighted in the next chapter, as well as their overall relevance to the study's outcomes. A brief explanation is also provided regarding how the outcomes of this study have properly addressed the research questions of this study.



CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 INTRODUCTION

This chapter outlines the outcomes of this study and analyses the responses of the participants. It clarifies how these responses have helped the researcher answer the research questions in an effective manner so that the research objectives of this study are fulfilled. A novel fintech- and partnership-based model for implementing Islamic microfinance in Bangladesh has been presented in this chapter. Moreover, this chapter has highlighted the current challenges that are hampering the progress of Islamic microfinance in Bangladesh and the best possible ways to overcome these challenges. In addition, this chapter has also focused on how implementing a new model like this can help enhance the financial inclusion and economic empowerment of indigent people of Bangladesh efficiently.

5.2 DETAILS OF THE RESPONDENTS

15 experts in the field of Islamic finance were interviewed in this study based on a semi-structured questionnaire. A semi-structured open-ended questionnaire, which was distributed to the respondents before the interviews, was used while conducting the interviews. Table 5.1 shows the respondents' details and the organisations they represent:

Table 5.1 Details of the Interviewees as the Experts of Islamic Finance Based in Bangladesh

Respondents	Position	Affiliation	Interview Word Count
Respondent 1 (R1)	Industry Expert	Shariah Advisory Council, Bangladesh Securities and Exchange Commission (BSEC)	1020
Respondent 2 (R2)	Co-Founder & Director	IFA Consultancy (IFAC)	890
Respondent 3 (R3)	First Assistant Vice President (AVP)	RDS Division, Islamic Bank Bangladesh (IBB) PLC, Dhaka.	856
Respondent 4 (R4)	Assistant Vice President	Islamic Bank Bangladesh (IBB) PLC, Barguna Branch	780
Respondent 5 (R5)	Assistant Vice President	Mercantile Bank PLC (MBPLC), Islamic Banking Division, Head Office	947
Respondent 6 (R6)	Senior Executive Officer	NCC Bank, Head Office Branch (Islamic Banking Window)	1084
Respondent 7 (R7)	Founder and Director	IFA Consultancy (IFAC)	924
Respondent 8 (R8)	Member	Central Shariah Board for Islamic Banks of Bangladesh	945
Respondent 9 (R9)	Member	SMEs & Micro Enterprises Working Group at Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI)	1020
Respondent 10 (R10)	Member Secretary, Sharia Supervisory Committee	DBH Finance PLC	881
Respondent 11 (R11)	Country Director	Muslim Aid UK (Bangladesh Country Office)	745
Respondent 12 (R12)	Senior Principal Officer	Islamic Bank Bangladesh (IBB) PLC, Anderkila Branch, Chattogram	822

Respondent 13 (R13)	Director	Finance Division, Islamic Foundation Bangladesh	880
Respondent 14 (R14)	Executive Vice President	Eastern Bank	929
Respondent 15 (R15)	Member	Central Shariah Board for Islamic Banks of Bangladesh	1054

5.3 FIRST RESEARCH OBJECTIVE: IDENTIFYING THE MAJOR CHALLENGES IN IMPLEMENTING ISLAMIC MICROFINANCE PROGRAMMES IN BANGLADESH

The first research question of this study was: “What are the major challenges that are hampering the initiatives to start Islamic microfinance programmes in this country?” Several of the current challenges to successfully implementing the Islamic microfinance system in Bangladesh have emerged from the results of the interviews conducted using a structured open-ended questionnaire. These challenges are presented in Table 5.2:

Table 5.2 Challenges Highlighted by the Respondents (Qualitative Content Analysis)

No.	Identified Challenge	Respondents														
		R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15
Challenges for the IMFIs																
1.	Making sure that Shariah is followed.	√			√				√		√			√	√	
2.	The general public's ignorance about Islamic microfinance	√			√				√			√		√		
3.	Multiple Borrowings		√				√				√		√		√	
4.	A lack of variety in the products offered.	√		√		√					√					√
5.	Lack of resources		√	√			√			√		√	√			
6.	Weak connections with banks and capital markets	√		√	√			√	√						√	
7.	Ineffective promotion of Islamic			√			√				√		√	√		

	microfinance schemes.															
8.	Mission Drift		√				√		√	√		√				
9.	Inadequate government assistance			√			√			√	√			√		
Challenges for Government and Policymakers																
1.	A lack of Islamic microfinance experts	√				√		√			√					
2.	Absence of supportive laws and regulations		√		√			√				√		√		
3.	The dearth of Islamic microfinance organisations in rural regions			√			√			√		√			√	
4.	Lack of accountability of the Islamic microfinance institutions	√	√			√			√		√				√	√
5.	Lack of universities offering classes on Islamic microfinance in Bangladesh		√			√			√				√	√		
Challenges for Microfinance Recipients																
10.	Burdensome Schedule of Repayments		√			√						√	√			
14.	Lack of Motivation from the clients						√		√			√			√	
15.	Inexperienced field workers						√	√		√		√	√			

5.3.1 Internal Challenges

The unpopularity of Bangladesh's Islamic microfinance system is partly due to a number of causes. For example, as the study's respondents pointed out, the acute poverty experienced by residents of various distant places frequently prevents them from

accessing mainstream financial services. Furthermore, due to ignorance, certain people in various societies exhibit apathy and indifference toward Islamic microfinance products. Additionally, people are frequently unaware of the many Islamic microfinance products available in their community due to a lack of effective marketing initiatives, which impedes the expansion of Islamic microfinance throughout the nation.

It has occasionally been discovered that Islamic microfinance contracts require repayments to begin as soon as the money is disbursed. Weekly payment schedules are typical, thus most payments often begin the week after the loan is disbursed. Given that the majority of the projects that beneficiaries of Islamic microfinance undertake require some incubation time, this payment structure has proven to be a difficult position for inexperienced and new recipients. In one instance, the woman's failure to make the weekly instalment payments that were due right away after the loan was released was due to the fact that her chicken-rearing endeavours had not yet produced any revenue (Kassim & Rahman, 2018).

Islamic microfinance organisations face numerous other noteworthy challenges, as argued by Dhaoui (2015). These institutions have to deal with issues like Shariah compliance, a range of organisational structures, inadequate connections to banks and the capital markets, a dearth of product diversification, and so forth on a micro level. At the macro level, they are impeded by the absence of favourable policies and regulatory frameworks. How these issues are resolved will primarily determine the viability of any Islamic microfinance programme. Furthermore, Islamic commercial banks and cooperatives are essential to resolving these challenges (Dhaoui, 2015).

The primary barrier to the expansion of Islamic MFIs, as pointed out by Hai et al. (2021), is the lack of funding. Additionally, Islamic MFIs have particular difficulties when trying to get funding from outside sources. For instance, financing is subject to terms and conditions incompatible with Islam regarding monies provided by government entities. Islamic MFIs are not allowed to use those funds to finance their asset side under those conditions (Hai et al., 2021). The lack of funding also causes other issues in Islamic MFIs. These Islamic MFIs restrict the number of staff members they can hire because of financial constraints, which leaves them with fewer field workers. Because there are fewer field personnel, there is less oversight and monitoring,

which is crucial to the financial success of MFIs. Lack of funding also forces Islamic MFIs to hire low-paid employees, and underpaid employees are, in most cases, inefficient employees. Additionally, recruited workers are encouraged to shift to better-paying positions after gaining experience. This lowers the expected income for Islamic MFIs and raises the likelihood of default (Hai et al., 2021).

Again, as mentioned by R2, “In some cases, Islamic microfinance institutions forget their social objectives and focus more on gaining profits. This commercial motive often acts as a major barrier for these Islamic microfinance institutions to contribute to uplifting the poor's socio-economic conditions.” Similarly, as pointed out by R4, “It creates a big challenge when the microfinance institutions turn to commercialisation.”

Mission drift has also been identified as a major challenge by other respondents. As highlighted by R8, “Giving increasing focus on financial performance might create a variety of problems for Islamic financial organisations, like limiting their capabilities to help the poor.” R9 and R11 also gave similar opinions.

Another major challenge in the Islamic microfinance sector is multiple borrowings. As highlighted by R10, “Multiple borrowings by Islamic microfinance clients create over-indebtedness, resulting in a number of problems. This phenomenon is very common in Bangladesh. People borrow money from company A and pay this loan by borrowing money from company B. As these borrowers are very poor, they are often tempted to get loans from different microfinance institutions at the same time.”

The lack of clients' motivation is another challenge Islamic microfinance institutions face in Bangladesh. As said by R6, “In Bangladesh, I have seen many poor clients of Islamic microfinance institutions not having any sort of motivation to improve themselves and excel in their ventures. Hence, it becomes difficult for the Islamic microfinance institutions to achieve the ultimate success as well.”

Inexperience and inability of the field workers have become another grave issue. As highlighted by R9, “Many field workers lack the necessary training to oversee Islamic microfinance programs and are ill-equipped to collect payments from low-income loan clients. They occasionally attempt to collect repayments from the first

week of loan disbursements, for example. For those low-income loan clients, it thus becomes difficult. As a result, in certain regions of Bangladesh, Islamic microfinance is becoming less popular.”

5.3.2 External Challenges

Hossain and Abdullah (2019) contended that the rise of Islamic microfinance in Bangladesh is not as expected because of several obstacles, including a lack of required resources and regulatory assistance as well as high transaction costs. The study's findings also indicate that a large number of donors are underinformed about Islamic microfinance and, as a result, frequently express little enthusiasm for contributing to the funding of these initiatives. Again, there aren't enough staff members or employees working in rural areas to carry out Islamic microfinance programmes at various Islamic microfinance banks like IBBL. For these Islamic MFIs, this puts up a hurdle to their large-scale operations.

Haque and Yamao (2011) sought to examine the potential and obstacles that Islamic microfinance initiatives face in their efforts to reduce poverty in Bangladesh. The researchers have highlighted a number of obstacles impeding the advancement of Islamic microfinance initiatives in Bangladesh. These include the dominance of conventional MFIs or NGOs, the inconsistent demand for Islamic microfinance products over conventional ones, the lack of funding and assistance, and the accusations made against Islamic MFIs over their alleged occasional support of militant or extremist activities.

Nabi et al. (2017) also emphasised the majority of the aforementioned challenges. Furthermore, the authors have found multiple other obstacles impeding the advancement of Islamic microfinance initiatives in Bangladesh. The conventional MFIs or NGOs' dominance, the lack of funding and assistance, the inconsistent demand for Islamic microfinance products over conventional ones, and the accusations made against Islamic MFIs over their occasional support of extremist or militant activities are a few of these.

Furthermore, there are major obstacles to the growth of Islamic microfinance in Bangladesh, including the predominance of traditional NGOs and MFIs and the absence of Islamic funding sources (Haque & Yamao, 2011). Additionally, there is a dearth of appropriate direction from higher authorities, which puts MFIs operating in this nation in a difficult position. Islamic MFIs are likewise unable to thrive here due to the greater risks and transaction costs (Hossain & Abdullah, 2019).

5.4 SECOND RESEARCH OBJECTIVE: DETERMINING THE EFFECTIVE MEASURES TO IMPLEMENT ISLAMIC MICROFINANCE SYSTEM AND POPULARISE IT IN THE RURAL AREAS OF BANGLADESH

The second research question of this study was: “What steps should be taken by the Islamic MFIs, the government, and the civil society organisations to implement ISMF programmes and popularise ISMF products in the rural areas of Bangladesh?”. For Bangladesh to overcome the aforementioned obstacles, Islamic commercial banks and cooperatives must play essential roles. Specifically, Islamic commercial banks should take the lead in setting up divisions offering Islamic microcredits. Islamic rural banks and cooperatives must simultaneously begin providing Islamic microfinance services that turn out to be appealing to the clients through the use of external supervision, internal controls, and the formation of organisations. Additionally, member equity and savings deposits should be used to properly finance these Islamic MFIs. To properly serve Bangladesh's impoverished population, the government should also step up and offer Islamic MFIs all kinds of financial and legal support (Parvej et al., 2020).

In order to improve their earning potential and ensure hassle-free loan repayment, Islamic microfinance product users should also have access to suitable skill-development training. They may get the investment money in the form of various loans, including home, school, and seasonal loans. In order to increase the activities of Islamic MFIs in Bangladesh, special rules and regulations must be developed by the Palli Karma-Sahayak Foundation (PKSF), which is the authorised entity responsible for overseeing collaboration between the organisation and the government.

It is becoming more challenging for Islamic MFIs to attract a wide audience in Bangladesh due to increased risks and transaction costs. This means that these organisations must be creative enough to lower transaction costs and risks, as Hossain and Abdullah (2019) indicated. To further enable them to exploit their full potential in promoting Islamic microfinance products in the nation's most remote regions, these IMFIs ought to begin hiring additional staff members and giving them the necessary training.

The responses of the study participants were analysed through Atlas.ti, and the following codes were generated:

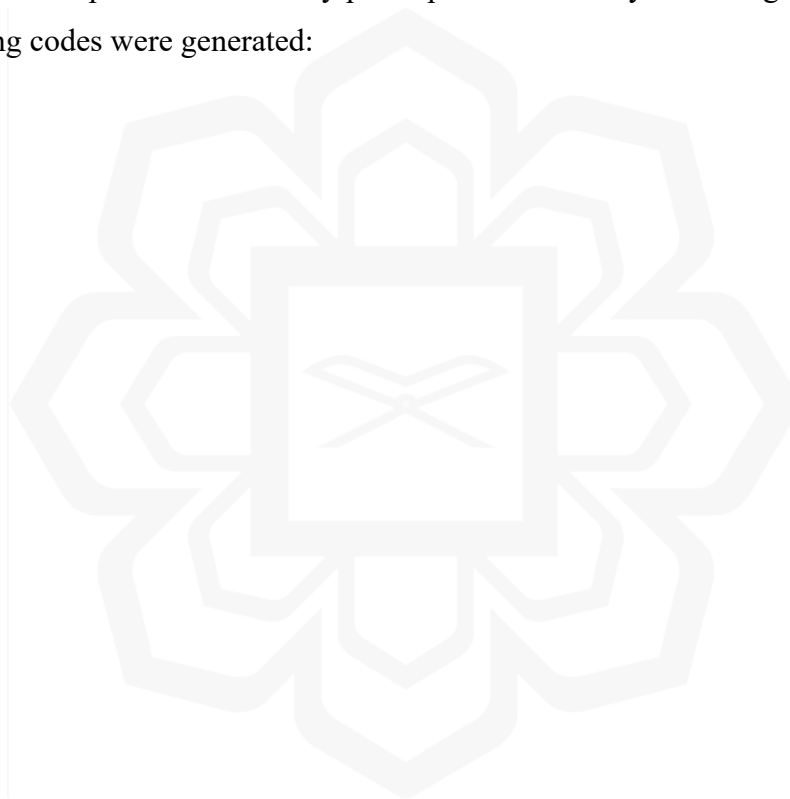




Figure 5.1 Atlas.ti Codes Regarding Interview Responses

R5 discussed the challenges faced by Islamic microfinance institutions regarding the increasing focus on commercialisation, as they constantly face pressure to ensure cost efficiency. As opined by R5, “Islamic microfinance institutions have to consider how they can be sustainable, so commercial issues come automatically. However, they are philanthropic organisations above all, and hence their main focus should be how they can help more people in getting out of the poverty cycle.” R7 said,

“When an Islamic microfinance organisation tries to work as a non-profitable organisation, it might challenge their sustainability. However, the emphasis must be given on social welfare.”

The issue of multiple borrowings has to be tackled efficiently. According to R11, “Bangladeshi people have a tendency to take loans from different microlenders simultaneously. To solve this problem, financial literacy can play the most important role. The clients of Islamic microfinance organisations have to have clear ideas about debt commitment and debt management, and proper training should be given to them regarding these vital issues.”

A significant number of research participants of this study believe that specific efforts should be made to raise public awareness of Islamic microfinance products and the advantages of utilising them. In order to achieve this, the MFIs must host several types of workshops. To further facilitate the popularisation of these products, print and electronic media should concentrate on themes related to Islamic microfinance. The possibility that the entire society would transform and Bangladesh's poverty rate would drop dramatically is enormous if these programmes succeed.

Some other ways for implementing Islamic microfinance system and popularising it in Bangladesh, as highlighted by previous researchers as well as the respondents of this study are discussed here. The responses of the study participants are added in appendix II.

5.4.1 Ensuring Effective Training and Motivational Programmes for both Field Workers and Loan Recipients

A successful business endeavour in an Islamic microfinance program requires a strong foundation in business skills and knowledge. As a result, the recipient's technical assistance is required to supplement the IMFIs' financial support. Due to the requirement for active participation from IMFIs from the project's design phase to the expansion plan, this indirectly provides close supervision of the project at every step of the business venture. For example, pre-disbursement support (for project assessment or

viability and to give the recipients an overview of the specific project of interest); initial stage of fund disbursement (for machine purchases and to guarantee raw material quality); mid-course evaluation (to ensure project progress); and final stage consulting (for produce marketing and an expansion plan that may involve downstream activities) are all necessary for the technical assistance. It is crucial to remember that for the IMFIs' field employees to provide recipients with sound guidance, they must possess all the technical assistance necessary. Therefore, a robust and thorough training programme is also required for field workers (Kassim & Rahman, 2018).

R14 states that "The receivers of microcredits should receive motivational presentations on a regular basis to keep them inspired to perform to the best of their abilities in each business initiative they take on. It is also essential to remind the loan recipients of their responsibility to ensure the success of their business endeavours to be able to repay the IMFIs on time and potentially improve their chances of receiving other loans from the IMFI in the near future. Increasing their self-confidence in this area is essential to giving the underprivileged people hope that they can succeed in life if they work hard for it."

R7 also suggests using motivational camps, which might involve a series of motivational speeches and some training on the fundamental abilities and knowledge required to operate a specific kind of business to enhance the motivation of the impoverished. According to R7, "the motivational camp will strengthen the relationship between the creditor and borrower and motivate the recipients to ensure the success of the business project so that they can repay the creditors as promised."

5.4.2 Enhancing Government Support

As microfinance has become a major anti-poverty tool in many developing countries, microfinance could be used to complement the government's objective to eradicate poverty. As such, IMFIs could get support from the government, which could ensure their successful implementation. As stated by R4, "The government can ensure a conducive environment for Islamic microfinance to grow by providing favourable tax incentives for the parties involved in Islamic microfinance." As opined by R9, "The

collaboration between the government and the IMFIs would hasten the national adoption of microfinance for the purpose of reducing poverty. Even if the IMFIs could offer financial support, the government could also help by encouraging recipients to lead healthy lifestyles and giving the underprivileged access to facilities for schooling. Together, these all contribute to the success of Islamic microfinance initiatives, lowering the likelihood that borrowers will default.”

5.4.3 Enhancing the Monitoring System

It is imperative that the IMFIs closely monitor how the funds are being used by the recipients in order to lessen the moral hazard issue after they are disbursed. A post-disbursement monitoring system would closely track the loan recipient's business ventures and provide technical support to help turn their ideas into successful ventures. This covers guidance for the first phase, making sure that development is consistently assessed in order to guarantee the business's survival.

5.4.4 Initialising Islamic Finance Courses in both Public and Private Universities

There is a serious dearth of Islamic finance experts in Bangladesh who can significantly fill the knowledge gap in the field of Islamic microfinance. However, no private or public universities in this country offer courses on Islamic finance, specifically Islamic microfinance at present, except the Eastern University of Bangladesh. Hence, the Islamic microfinance institutions of this country often find it difficult to hire an expert in the Islamic microfinance system. In order to fill this gap, both the government and private businesses need to come forward and start to introduce Islamic finance courses in public and private universities. They can follow the examples of countries like Malaysia, where Islamic finance courses are offered in a number of prominent private and public universities. As mentioned by R3, “Offering Islamic finance courses is indispensable in order to create experts in this field. So, both public and private universities need to take the necessary steps in this regard without causing any delays.”

5.5 THIRD RESEARCH OBJECTIVE: PROPOSING A NOVEL FINTECH- AND PARTNERSHIP-BASED ISLAMIC MICROFINANCE FRAMEWORK

The third research question of this study was “How can a novel fintech- and partnership-based Islamic microfinance framework be developed that can be effective for the Muslim community in Bangladesh?” Based on the concepts and theories explained in chapters two and three, a new process or framework for implementing the Islamic microfinance system in Bangladesh is proposed in this study that would be suitable for the poor people of Bangladesh and help tackle the relevant challenges. Instead of using the popular Murabahah system, this framework will use innovative and novel Islamic microfinance products based on the concepts of partnerships (Mudarabah, Musharakah, etc.) and Qard-al-Hasan to follow the Shariah principles entirely. Necessary funds will be collected through different Islamic social finance instruments like cash waqf and infaaq, in addition to Sukuk. For this purpose, a blockchain-based Islamic crowdfunding application will be used. The concept of group lending will also be applied in the proposed framework, though priority will be given to family empowerment in lieu of women empowerment.

For managing the disbursement of funds, as well as for making the process of loan repayment smoother, mobile banking technologies will be used in the system. In addition, another accounting software, developed in-house, will be used to manage all transactions and expenditures efficiently. In short, fintech and innovation will be used in managing all types of microfinance products, including Islamic microcredit, microinsurance, micro-equity, micro-savings, etc. The weekly meetings will be held every Friday, after the Jum’ah prayer, so that some of the ethical values are dominated. All people in the same locality will receive the money simultaneously, and their responsibility will be to inform in advance if any receiver of microcredits faces any sort of difficulties that may prevent them from making delays in repayment. No sort of interest or Gharar will be involved with the system. The investments will be made only on Halal projects. Furthermore, the credit recipients will also be encouraged to save more money, in addition to focusing on loan repayment. For this purpose, they can start opening accounts in Islamic MFIs or other banking institutions, which will have a direct impact on the financial inclusion rate and economic empowerment of the poor people

in Bangladesh. The loan officers of the Islamic MFIs will collect the savings amount from the poor customers directly, which will minimise the hassle for them. This factor also proves the theory of institutional savings, financial intermediation theory, and the theory of financial inclusion, as explained in chapter three.

This study will analyse and explain how this novel Islamic microfinance model can dynamically improve the overall socio-economic conditions of the poor people of Bangladesh, in addition to enhancing financial inclusion and economic empowerment, when implemented in an appropriate manner. The proposed framework of Islamic microfinance is presented in Figure 5.2:



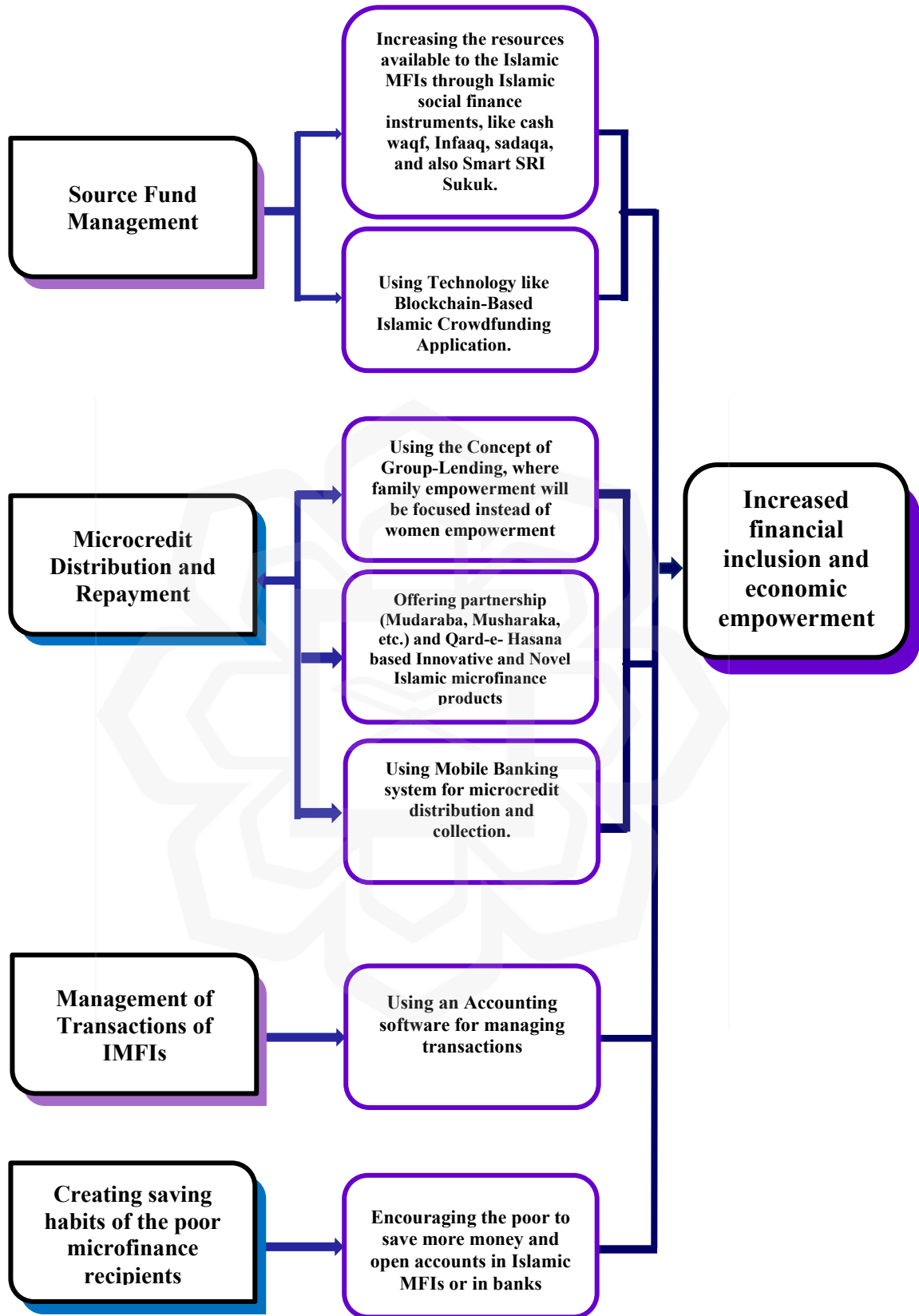


Figure 5.2 Proposed Fintech- and Partnership-Based Framework for Islamic Microfinance

5.6 USING CASH WAQF, INFAAQ, AND SUKUK FOR ISLAMIC MFIS

In the proposed Islamic microfinance framework, Islamic crowdfunding will be used as the source of funds that will eventually be distributed to the poor loan recipients residing in remote areas in Bangladesh.

5.6.1 Use of Islamic Social Finance Instruments in Islamic Microfinance

As stated by Islam et al. (2023), Islam promotes social activism because it maintains the belief that individuals ought to be a part of their community. For this reason, resolving societal issues is seen as a shared and individual responsibility in the Islamic social value system. To solve societal concerns and enhance social well-being, the Islamic financial system has established specific financial products. The Islamic economic system is built upon a comprehensive financial framework that incorporates some special financial tools, such as social funds, which include Waqf (endowments), Qard-al-Hasan (interest-free charitable loans), and Sadaqah (charity) (Kooli et al., 2022). This framework ensures the equitable distribution of wealth. Only enhancing social welfare is the goal of these financial instruments (Yazdi et al., 2021). These instruments are believed to be more advantageous when used in socially conscious businesses, including Islamic microfinance organisations (Andriyani et al., 2020). However, as argued by Islam et al. (2023), they haven't yet been sufficiently institutionalised to back Islamic social enterprises and microfinance projects.

Islam et al. (2023) came to the conclusion—through a concept paper based on literature reviews—that Islamic social funds (ISFs) can lead to higher levels of social well-being when they are used in Islamic microfinance programmes and various social companies as opposed to when they are freely donated to charities. This is so that both business models, while remaining technically autonomous and financially sustainable, can employ entrepreneurial means to work toward social development. To increase social firms' openness to philanthropic donations, ISFs should also fortify their investing strategy. Infaaq, waqf, and zakat could be combined to address business risks and pay for a portion of the operational expenses of Islamic microfinance organizations.

Islamic microfinance organisations may also be able to obtain their initial funding via zakat or waqf. The reasons put forth by Islam et al. (2023) were, however, undermined by the use of secondary data exclusively.

A model for integrating waqf and zakat with microfinance institutions in the Nigerian state of Kano was put forth by Haruna et al. (2015). The study's findings indicate that Islamic microfinance institutions (IMFIs) worldwide face challenges in maintaining an adequate level of capital and working capital due to the low-income levels of their clientele, who seldom save for investments. They also struggle with a lack of product variety because credit is now their only offering. These hinder their ability to be competitive and meet the diverse financial needs of their clientele. Combining the Waqf and Zakat with the IMFI will lessen the problems associated with not having enough money to run the loan company. As a result, given that IMFI offers a range of financial products, these institutions' competitive position may improve.

Kahf (2004) proposed the establishment of Waqf and Sadaqah-based Islamic microfinance institutions. It was suggested that the productive sectors of the economy be financed with the profits from the Waqf and Sadaqah funds through the provision of interest-free microloans, Islamic debt and non-debt financing, and other means. These tactics may support both population development and long-term, sustainable economic expansion. Again, through a literature review, Ali (2014) discovered that Islamic social finance instruments, such as the waqf mechanism, are appropriate for Islamic microfinance because of their Shariah-compliant frameworks and unique Islamic concepts of aiding the underprivileged and those in need. When utilised in conjunction with the microfinance idea, waqf is thought to be the most effective tool for helping the destitute who require funding and may ultimately be successful in eradicating poverty.

According to Dusuki (2008), microfinance has gained a lot of attention as a stand-in for helping rural communities grow their economies and is crucial to lowering poverty. It is meant to assist disadvantaged groups in society who are economically and socially marginalised and unbankable, usually due to a lack of assets, land, or guarantors, as well as a lack of literacy or collateral. On the other hand, the development of microfinance organisations holds out hope for lessening the typical person's suffering and poverty. Dusuki (2008) went on to say that although MFIs are not as adept at

generating capital as Islamic banks are, there are still alternative funding sources to consider. Islamic microfinance institutions (IMFIs) can raise money through contributions, waqf funds, and government subsidies in addition to traditional deposits and shares.

5.6.1.1 Use of Cash Waqf for Islamic Microfinance

As presented in the proposed Islamic microfinance framework, cash waqf will be extensively used as the source of funds. The tenet that resources are contributed as waqf and should only be utilised responsibly to assist those in need is the basis of the Islamic microfinance concept based on waqf, as underlined by Ali (2014). Waqf-based Islamic MFIs are therefore supported by the Waqf Endowment Fund and have far lower overhead than conventional MFIs. Moreover, no returns are expected because they are donations. Islamic MFIs do pay returns on cash from deposits and beneficiary savings, even though Waqf money will reduce financial expenses and boost the MFIs' economic sustainability.

Waqf-based Islamic microfinance institutions (MFIs) can provide low-cost capital to poor business owners because cash waqf donors do not pursue financial gain, according to Abdullahi et al. (2022)'s analysis using the content analysis method. Moreover, to ensure the waqf's longevity, it is advised that the microfinance fund's only source of funding be waqf property profits. Abdullahi et al. (2022) stated that cash waqf-based Islamic microfinance will help microentrepreneurs get cheap capital without requiring collateral. Additionally, individuals are free to contribute any amount of money to the waqf.

Similar to what Saad and Anuar (2009) said, monetary waqfs can be provided by potential donors who would like to provide funds to assist the destitute in engaging in revenue-generating activities. The fund may be sourced by an Islamic microfinance institution (IMFI) acting as trustee for the fund. The IMFI will then decide who qualifies to receive the financial waqf, which will be awarded to the micro-entrepreneurs who are poor or in need. Loans can be given to these micro-entrepreneurs on a profit-sharing (Mudarabah) basis. This allows the money that the micro-entrepreneurs earn from their

loans to be reinvested in the cash waqf pool, which in turn provides finance for more micro-entrepreneurs.

As argued by Samrat and Nabi (2025), a number of urgent issues that IMFIs in Bangladesh face, such as high operating expenses, restricted access to capital, and the financial marginalisation of rural populations, can be resolved by the combination of cash waqf and microfinance. Cash waqf is a stable, affordable, and Shariah-compliant form of capital that supports income-generating endeavours, particularly in small businesses and agriculture, and makes it easier to offer interest-free loans. The incorporation of cash waqf into Islamic microfinance is especially pertinent given the state of the economy, where reliance on high-interest loans and outside funding sources may jeopardise the long-term viability and expansion of microfinance programmes.

Gustani and Ernawan (2016) discussed how cash waqf is incorporated into Islamic Microfinance Institutions (IMIs) as a creative way to address Indonesia's financial difficulties. The endowment of funds through cash waqf preserves the principal and uses the earnings for economic and social advantages. The study focusses on two primary models: permanent cash waqf, which is integrated into IMI capital, and temporary cash waqf, which is invested in short- or long-term financial goods. These strategies provide low-cost microfinance, poverty alleviation, and economic empowerment by offering a durable, Shariah-compliant funding source. To guarantee openness and efficient administration, the authors stress the necessity of strong governance and regulatory structures. The study highlights the potential of cash waqf in promoting sustainable development by bringing Islamic financial concepts into line with real-world applications.

According to the Islamic microfinance framework presented in this study, through the Mudarabah (trust finance contract) funding system, cash waqf will be distributed as an investment to the generally poorer population, and the borrowers of this credit will repay the instalment with a certain amount of agreed-upon deposit. This will be followed by the reinvestment of this money.

As opined by R13, "It is possible to use cash waqf in Islamic microfinance initiatives. If it is used as the source of funds, then it will be cost-effective for the poor

borrowers in Bangladesh. Eventually, it will have a big impact on alleviating their poverty and bringing smiles to their faces.” Both R2 and R9 gave similar opinions.

5.6.1.2 Use of Infaaq as the Source of Islamic Microfinance

This infaaq or sadaqah can also be an important source of funds for Islamic microfinance institutions. As commented by R4, “The goal of giving sadaqah is always to help the poor people, and consequently, sadaqah money can be used for Islamic microfinance initiatives as well. This will certainly be one of the best uses of sadaqah.”

The Mudarabah or Musharakah model of funding will distribute the funds earned from the infaaq or sadaqah to the underprivileged, according to the framework presented in this study. Along with the deposit agreed upon by the lender and borrower, the impoverished people would use the invested cash and return the instalment. After that, the money will be reinvested to help more people.

5.6.1.3 Use of Qard-al-Hasan for Islamic Microfinance

Qard-al-Hasan, or charitable loans, for which a repayment of the capital is not expected, should be used to distribute the funds to individuals living in extreme poverty. This Qard-al-Hasan principle can also be used to provide loans to the impoverished in order to help them meet their most basic needs while they live in extreme poverty. This type of loan is offered to the underprivileged for a predetermined amount of time without requiring them to pay back any profit or interest. Only the initial loan amount must be returned by the Qard-al-Hasan borrower (Saad & Anuar, 2009).

Regarding the use of Qard-al-Hasan in Islamic microfinance, Aderemi and Ishak (2023) conducted semi-structured interviews with a number of crowdfunding experts. The results show that, despite the frequent argument that Qard al-Hasan is essentially not a business-oriented instrument, a closer examination of the framework reveals the instrument's uniqueness and flexibility to be adopted as a workable financial instrument for crowdfunding in Malaysian SMEs or microenterprises. The researchers also argued

that FinTech mechanisms, like blockchain, can be utilised to control and mitigate various risks associated with it, such as default risk and the danger of drawing large finances. These risks can be managed by ensuring repayment in instalments, monitoring the project, and conducting due diligence.

As opined by R5, “Although Islamic microfinance has discovered that Qard-al-Hasan is a useful tool for funding the impoverished, the mainstream of Islamic finance does not give this mechanism much attention. Qard al-Hasan is a highly successful fundraising and financing technique that is the only model for many Islamic microfinance programmes.”

5.6.1.4 Opportunities and Challenges of Utilising Islamic Social Finance Resources to Empower Islamic Microfinance Beneficiaries

According to Islam et al. (2023), the COVID-19 pandemic, which was devastating recently, caused a variety of problems for human society. These and many other developmental initiatives could be used to revitalise the socioeconomic body destroyed by the pandemic, since Islamic microfinance programmes and other social businesses are committed to addressing social issues in entrepreneurial ways while remaining operationally self-reliant and sustainable. Therefore, it makes sense that combining Islamic social finance tools with social businesses and Islamic microfinance institutions will enhance economic revival and enhance the functioning of these organisations. It goes without saying that this will help the underprivileged people who receive Islamic microcredits feel more empowered. As contended by Haruna et al. (2015), integrating Islamic microfinance with zakat and waqf—the traditional methods of aiding the impoverished—can further encourage long-term, steady economic growth and development.

As mentioned by Haneef et al. (2014), Muslim countries and societies are struggling to grow due to poverty. This is a result of low household incomes brought on by the high unemployment rate. Lack of income leads to poverty, which immobilises civilisations and prevents them from advancing any agenda for development. Mobilising resources is necessary to address poverty in Muslim communities and

nations. Training human resources and allocating funding to business initiatives that will help individuals escape poverty is made possible by the recently acknowledged success of microfinance as a technique for decreasing poverty. There is a good chance that waqf/sadaqah resources can be used to counteract the threat of poverty, according to Haneef et al. (2014). The entrepreneurial energy of the underprivileged customers, along with these resources, will help drastically reduce the number of the impoverished in OIC member nations (Haneef et al., 2014).

IMFIs offer banking and financial services to people who have problems utilising the banking system. Unbankable factors include things like the absence of collateral, a lack of financial literacy, or the unethical character of financial products like interest rates (Haruna et al., 2015). These IMFIs can get a consistent cash flow for various initiatives to enhance the destitute's terrible socioeconomic conditions, thanks to Islamic social finance instruments like waqf and infaaq.

In order to meet the funding needs of Islamic MFIs, Islamic social finance instruments such as waqf and infaaq can be combined into a single structure. This will give the underprivileged members of society access to investment opportunities and encourage them to engage in investment activities that will spur economic growth and help end poverty. However, under the suggested framework, Islamic MFIs will receive funds through Islamic social finance instruments from NGOs, wealthy Muslims, and individuals who are highly motivated to engage in charitable and voluntary projects. The funds will then be invested in specific projects by the Islamic MFIs, and the investment return will be used to support a larger segment of the unbankable population through the use of Shariah contracts and principles. Therefore, the suggested strategy may be able to address the liability issue that Islamic MFIs are now facing. By offering a reliable source of funding, which is a significant obstacle for all Islamic MFIs, it will help improve the economic viability of Islamic MFIs.

Nonetheless, there are certain difficulties when it comes to Islamic microfinance institutions using social finance instruments. For example, Muhammad (2014) asserted that waqf organisations also deal with problems, making it difficult for them to collaborate with Islamic microfinance institutions. For instance:

- Divergent opinions about the implications of waqf laws;

- Inaccurate record-keeping of waqf funds;
- Inadequate modernization of waqf institutions to meet the challenges of globalisation;
- Donor mistrust of waqf custodians; and
- Low credibility of waqf properties or funds managers.

5.6.2 Use of Sukuk for Islamic Microfinance in Bangladesh

As highlighted by Khouildi and Kassim (2018), Sukuk is the most popular Islamic capital market instrument, and microfinance is at the core of socially responsible investing (SRI). There is currently a chance to issue Sukuk, with the proceeds going to a microfinance organisation to support microprojects. Through a partnership, a respectable and well-run microfinance institution that is in charge of financing microprojects may use the money raised by the SRI Sukuk issuance. However, the microfinance organisation will also be responsible for other tasks, including overseeing and keeping an eye on the projects it finances. Additionally, it will launch campaigns to enhance entrepreneurs' management abilities. Furthermore, Khouildi and Kassim (2018) contended that this kind of funding would encourage risk-sharing in financial transactions as opposed to relying solely on debt-based financing.

In order to improve the sustainability of Islamic MFIs and to advance financial inclusion in Muslim nations, Kassim (2024) investigated the feasibility of SRI Sukuk as a fundraising tool. It also sought to determine the problems and obstacles related to applying SRI Sukuk for microfinance. Through a comprehensive analysis of the body of research on SRI Sukuk, microfinance, and related topics, as well as archives and library research, the work employed a qualitative research methodology. Based on Malaysia's experience issuing SRI Sukuk to support socially conscious projects and the European Bank for Reconstruction and Development's successful experience issuing the first microfinance bonds, the study concludes that the SRI Sukuk has a high potential to be developed as an innovative Shariah-compliant mechanism for funding Islamic microfinance programmes (Kassim, 2024).

Musari (2016) described how Indonesia's Association of Farmer Groups cooperative has used Sukuk to finance farmers' working capital. Sukuk has served as a microfinancing tool for their community in this regard. The cooperative of the Association of Farmer Groups offers an investment certificate in order to get around the challenges with banking financing, mainly to avoid the high interest-based loan. This certificate, which is based on a profit-sharing agreement, is an ownership document used to finance cocoa enterprises. In terms of Islamic finance and economics, the investment certificate that the cooperative has issued is a Sukuk (Musari, 2016). While the majority of Sukuk that are now in use in Indonesia and around the world use ijarah contracts, this Sukuk uses a profit-sharing Mudarabah contract. Profits are allocated according to a certain percentage. Additionally, the Association of Farmer Groups in Indonesia has demonstrated that farmers can obtain money through sources other than bank financing. Through this process, the Association of Farmer Groups has improved the distribution of wealth through network building, rigorous coaching, and cooperative investment with some individuals, as argued by Musari (2016).

Regarding the potential of using Sukuk in Islamic microfinance initiatives, R9 opined that “Quite certainly, Sukuk money can be used for Islamic microfinance projects. However, Shariah advisers should be involved in the entire process who will check the Shariah compliance of all the activities related to managing Sukuk and Islamic microfinance projects.” R11 and R13 presented similar opinions.

In this study, the Sukuk mechanism that will be used by the IMFIs will be the “Smart SRI Sukuk”, which will use technologies like blockchain and smart contracts, and the ultimate target will be to improve the socio-economic conditions of the poor people living in various remote areas in Bangladesh.

The framework developed in this study to use smart SRI Sukuk in Islamic microfinance projects is illustrated in Figure 5.3:

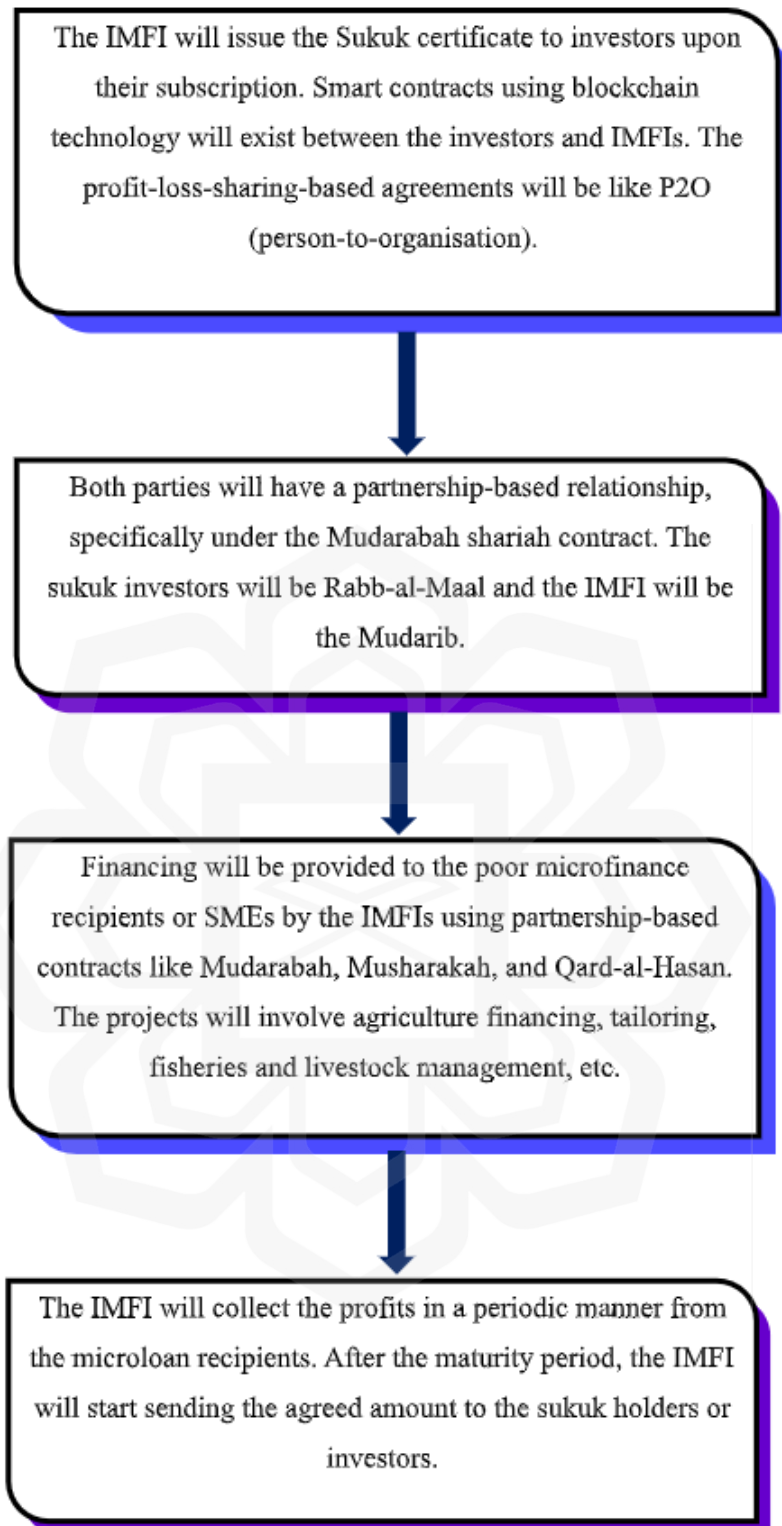


Figure 5.3 Proposed framework for Using Smart Sukuk in Islamic Microfinance Programmes

The ‘Smart SRI Sukuk’ mechanism used in this study will have a number of advantages. For example, the contracts will be fully secured, as no third party (like trustees, payment agents, account agents, etc.) will be involved in the transactions. This will improve regulatory oversight, simplify the process of Sukuk issuance, and eventually boost transparency, efficiency, and cost-effectiveness of the overall system. Unlike the traditional Sukuk, no minimum investment will be involved in this process. In addition, there will be no geographical barrier, so investors from other countries can be easily involved in the system.

The smart Sukuk system also has some challenges. For instance, with smart Sukuk, there is no way to change or terminate a contract once it has started. This undoubtedly causes problems in the case of a Mudarabah contract, which grants both parties the freedom to end it whenever they see fit, barring the inclusion of any additional terms at the outset, such as a time limit.

In addition, as opined by R11, “The Sukuk instrument is not popular in a country like Bangladesh for a variety of reasons, including the absence of government support, lack of financial education, and financial instability as a whole. In order to solve these problems, the government and civil society organisations must take the necessary steps.” R13 and R14 also opined in a similar manner.

5.7 USING AN ISLAMIC CROWDFUNDING PLATFORM FOR COLLECTING THE SOURCE FUNDS

Islamic crowdfunding platforms can be effectively used as the source of funds for Islamic microfinance projects. As one of the Islamic Fintech, Islamic crowdfunding allows society to equitably distribute the liabilities and rewards of all parties involved in any financial transaction, as highlighted by Razak et al. (2021). It is an alternative financing option for disruptive sectors, particularly for small and medium-sized enterprises (SMEs). Islamic crowdfunding employs the ideas of justice and fairness that are acceptable since it complies with Shariah standards. Investments are therefore made in socially conscious and halal initiatives, sharing investment risks without requiring

interest. Furthermore, equity and justice will guarantee a fair distribution of profit sharing.

Islamic microfinance institutions continue to face the problem of accessing affordable financing. Thaker et al. (2021) opined that most Islamic MFIs experience financial difficulties, particularly while starting, growing, and maintaining their businesses. Subsidised financing is necessary to enhance the early operations of IMFIs. IMFIs will most likely have a very difficult time obtaining money from donors or other commercial sources, even with increased outreach and scale-up. Hence, according to Thaker et al. (2021), integrating the Islamic crowdfunding process with Islamic microfinance initiatives can offer a viable and sustainable alternative source of financing for the IMFIs. Hendratmi et al. (2021) also concluded in a similar manner.

Sulaeman (2020) made the observation that Islamic crowdfunding can provide organisations, communities, and groups with a new source of finances. Regardless of location, it has the power to attract donors' emotional interest in making a donation and offers Islamic microfinance institutions an inexpensive means of obtaining funds. Islamic crowdfunding also gives contributors, investors, and business owners a chance to work with Islamic microfinance organisations in Islamic nations to contribute to the socioeconomic growth of the nation (Sulaeman, 2020).

In this study, the majority of the respondents (80%) believe that Islamic crowdfunding can be used as a mode of financing in Islamic microfinance programmes in Bangladesh. According to R7, "Initiatives like Islamic crowdfunding and Islamic microfinance share the same types of goals, and can be combined easily."

Islamic crowdfunding platforms can be immensely useful for Islamic MFIs. As mentioned by R9, "Islamic microfinance institutions often find it difficult to arrange a regular source of funding that will be ultimately used to help the poor people. Islamic crowdfunding system can help these institutions to solve this problem quite significantly."

The Islamic crowdfunding system that will be used in this novel Islamic microfinance framework is presented in Figure 5.4:

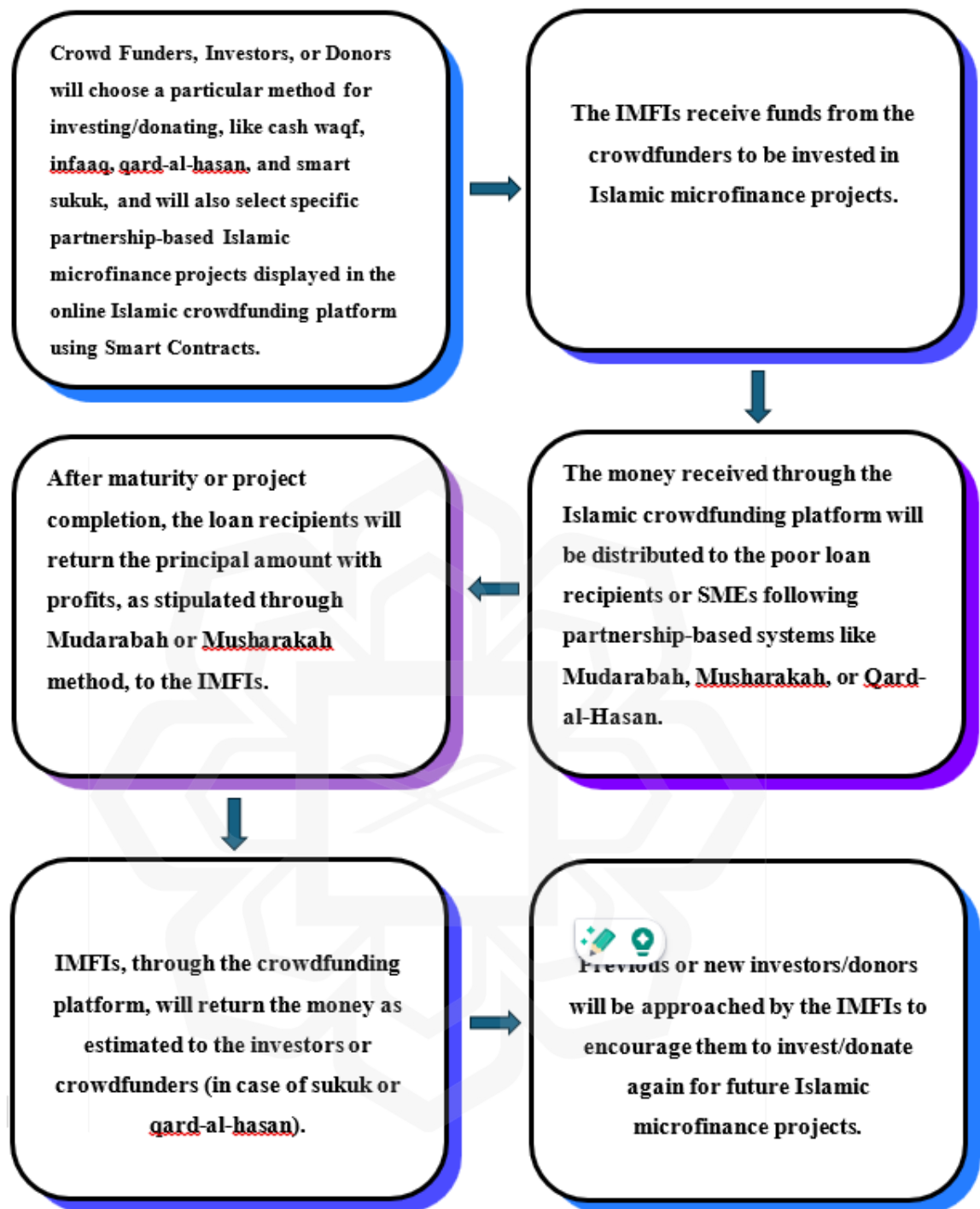


Figure 5.4 The Use of Islamic Crowdfunding Platform for Implementing Islamic Microfinance Programmes

However, using an Islamic crowdfunding platform for collecting the source funds of Islamic microfinance projects involves some challenges. The most important one will be the regulatory issues. As opined by R5, “The specific regulatory authorities

establish regulatory principles regarding investor's financial background, crowdfund limit, eligibility of investment, etc. It is the role of the IMFI to make sure that these regulatory principles are diligently followed." However, according to R8, "In Bangladesh, there exists no regulatory framework for managing crowdfunding initiatives. So, it will not be easy to conduct Islamic crowdfunding activities here. To solve this problem, the Bangladesh Securities and Exchange Commission (BSEC) need to come forward and take the necessary steps so that the IMFIs of this country can start projects based on Islamic crowdfunding."

The issue of credit risks was emphasised by R3 and R13. According to R3, "The MFI, as the crowdfunding operator, will have to be concerned about credit guarantee or credit insurance. This will be a big challenge."

Implementing Shariah principles is always a vital issue while managing Islamic crowdfunding projects. As opined by R14, "Crowdfunding campaigns have to go through Shariah screening, without which these campaigns will not be able to guarantee Shariah compliance entirely". R7 and R9 expressed similar opinions. As mentioned by R7, "IMFIs must include Shariah experts to oversee every aspect of the crowdfunding activities."

5.8 REASONS FOR USING THE GROUP-LENDING CONCEPT

Group lending will be a feature of the Islamic microfinance framework that this study proposes at the operational level. As opined by Rathore (2017), Grameen Bank used peer selection, peer pressure, and peer monitoring in the right ways to implement their shared liability model, which helped them achieve great success. Even while loans are made to particular individuals, the group as a whole is also accountable for any difficulties arising from repayment. Due to these, the joint liability model has been able to overcome the informational and enforcement gaps that exist in the credit markets for the underprivileged. It is very challenging for MFIs to comprehend the borrower characteristics when there is an information asymmetry issue. Because of this, they are unable to prevent the issues associated with adverse selection, which have an impact on the single repayment rate and raise transaction costs. Rathore (2017) further stated that

the economic, social, and cultural contexts all have a role in the joint liability model's effectiveness. Due to easy access to information, Grameen Bank has successfully overcome the following issues using the joint liability model (Rathore, 2017):

1. Making investments in risky projects by the borrowers;
2. Making differentiation between bad and good risks;
3. Preventing borrowers' unwillingness to repay; and
4. Stopping borrowers from purposefully claiming they can't make their payments on time.

As a result, default risk—the possibility that borrowers won't be able to pay their debts on time or that lenders won't be able to collect loans properly—has been effectively addressed by Grameen Bank. According to Kassim and Rahman's (2018) research, Grameen Bank's loan recovery percentage in 2016 was 99.05%. Therefore, the Grameen Bank has found that the joint liability model is a useful tool for reducing moral hazard and default risk. Furthermore, Grameen Bank has implemented other measures to enhance the contentment of both its staff and borrowers. For example, in order to better serve its customers and borrowers, Grameen Bank periodically offers training programmes for its employees. Regular skill-development training programmes are also organised by the organisation for the benefit of the borrowers. In several instances, Grameen Bank has been able to draw in additional customers by lowering interest rates. Grameen Bank (GB) is leading the charge in reversing traditional banking by doing away with the requirement for collateral. Consequently, a new financial system that ensures collaboration, involvement, responsibility, and innovation has been put in place. GB extends credit to underprivileged rural Bangladeshis without requiring any collateral. With multiple sites around the country, this bank provides microcredits to the poorest people so they can flourish and enhance their quality of life. Because of all of these, Grameen Bank in Bangladesh has become a major institution that has mobilised rural funds and promised the financial stability of impoverished rural residents (Saki et al., 2021).

Furthermore, IMFIs can guarantee peer monitoring, peer lending, credit risk sharing among group members, and homogeneity matching by adhering to the joint liability model. Through these, IMFIs can successfully manage the related risks, monitor the debtors, and eventually minimise the issues related to moral hazard (Alaro

& Alalubosa, 2019). Under this system, the loan officer meets with all group members each week to review progress, pay the weekly instalment, and get the necessary training. These meetings also include an explanation of the MFIs' policies and procedures. These sessions are 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. Islamic microfinance institutions should use this type of approach since it is thought to be the most successful model in the world (Banu et al., 2021).

By following the joint liability and group lending approach, Islamic MFIs can successfully overcome the problems related to information asymmetry and the separation of the good risks from the bad risks. In other words, Islamic MFIs can effectively improve the loan repayment rate and successfully avoid the problems associated with adverse selection by using this strategy. These MFIs will eventually be able to handle the high transaction costs associated with informational issues and enforcement (Rathore, 2017).

Furthermore, in order to draw customers to Islamic microfinance products, MFIs must engage in a variety of successful marketing initiatives, much like Grameen Bank (Parvej et al., 2020). Furthermore, particular steps need to be taken to raise public awareness of Islamic microfinance programmes and their advantages. To do this, MFIs need to take part in a range of workshops. In order for these products to become more well-known, Islamic microfinance issues must receive attention from both print and internet media. If these programmes are successful, there's a good chance that society as a whole will transform and Bangladesh's poverty rate will sharply decline. Furthermore, it has been suggested in the reviewed articles that individuals utilising Islamic microfinance products should receive suitable skill-development training, such as that provided by MFIs like Grameen Bank, in order to boost their earning potential and guarantee timely loan repayment. These low-income borrowers can obtain investment funds by applying for a range of loans, such as home, school, and long-term loans (Nabi et al., 2017). Islamic MFIs in Bangladesh are also facing difficulties in reaching a significant portion of the population because of increased risks and transaction costs. As a result, according to Hossain and Abdullah (2019), these businesses must use their creativity to lower transaction costs and risks. In order for

these IMFIs to effectively utilise all of their resources to market Islamic microfinance products throughout the nation, they should also begin hiring more employees and providing them with the training they need. At the same time, these Islamic MFIs should be adequately financed through the members' equity and savings deposits (Parvej et al., 2020).

5.9 PROPOSED CHANGES IN THE GROUP LENDING CONCEPT FOR THE CURRENT ISLAMIC MICROFINANCE FRAMEWORK

In this new framework, there will be no gender disparities. Instead of prioritising only women, both men and women will receive equal opportunities as microfinance recipients in the proposed framework. Family empowerment will be emphasised in this system, not just women empowerment. They will receive the credit money on Fridays, after the Juma Prayer, so that there are some ethical values being dominated. The loan repayments will also be done after Jum'ah every week. The weekly meetings will start with the salawat, dua, and zikr so that the blessings of Allah SWT can be achieved. These are important specifically as partnership-based products like Mudarabah and Musharakah are chosen in the proposed system, which often requires the clients or customers to exercise ethics and morality while dealing with the IMFIs.

In this Islamic microfinance framework, the people in the same locality will form small groups of 5-10 persons, and they will receive the money simultaneously. It will be their responsibility to inform in advance if any receiver of microcredits from their specific group faces any sort of difficulties that may prevent them from making delays in repayment. Furthermore, the groups of male and female receivers and the field officers will be separate, so there will be no free mixing between men and women (Ikhtilat). No sort of interest or gharar will be involved with the system. The investments will be made only on Halal projects.

5.10 THE USE OF PARTNERSHIP-BASED ISLAMIC MICROFINANCE FRAMEWORK IN BANGLADESH

Except for Murabahah, no other Islamic microfinance products are effectively being applied by the Islamic microfinance institutions (IMFIs) in Bangladesh at present. Consequently, this study analyses the prospects of using a partnership-based Islamic microfinance framework in this country. The challenges of implementing a partnership-based Islamic microfinance model in Bangladesh are also discussed here.

5.10.1 Prospects for Implementing Mudarabah and Musharakah-based Islamic Microfinance Framework in Bangladesh

Çokgezen and Kuran (2015) have brought attention to the criticism levelled at Murabahah contracts for failing to consider profit-sharing goals and charging implicit rates of profit, even in the face of rising rates of financial penetration among Muslim communities. Because of this, a lot of Muslims are reluctant or unable to sign Murabahah contracts (Cameron et al., 2021). Furthermore, Islamic microfinance is disproportionately dependent on this one product type, as asserted by Cameron et al. (2021), and greater diversity is needed from the Bangladeshi IMFIs. This presents a golden opportunity for these IMFIs to begin implementing Islamic microfinance programmes based on Mudarabah or Musharakah in this nation.

According to Yustiardhi et al. (2020), among other contemporary Islamic economic academics, another aspect that promotes the employment of profit and loss sharing (PLS), or Mudarabah and Musharakah instruments, is the absence of Riba and Gharar in the operation of the Islamic financial system to sustain the economy. This may also have an impact on the adoption of Mudarabah and Musharakah-based microfinance schemes by IMFIs in Bangladesh.

The Mudarabah and Musharakah are two significant instruments with well-defined PLS criteria that were developed to meet the risk-sharing need required for the promotion of entrepreneurship and the establishment of SMEs, according to Jais et al. (2020). Furthermore, Islamic financial operations that utilise the tools of Mudarabah

and Musharakah promote Islamic entrepreneurship, which is the fusion of human and financial resources to create new economic organisations. Islamic financial institutions (IMFIs) are able to provide current and prospective entrepreneurs with the halal (lawful) funding they need to start and/or expand their businesses. Furthermore, it shields them from risk and uncertainty by dividing the risk through partnership agreements between the investor and the business owner. The knowledge and skills of the IMFI team under Mudarabah and Musharakah will encourage entrepreneurs to embark on more innovative and creative commercial endeavours. Good entrepreneurship would be promoted as business owners vie for the limited financial resources (Muhammad et al., 2024).

The results of this study showed that religiosity was the main factor influencing the respondents' positive views toward the use of microfinance products based on Mudarabah and Musharakah. A person's level of religiosity can be determined by their level of dedication to and fervour for their religion, as well as by how much of it comes through in their actions and attitudes (Abd Rahman et al., 2015). Numerous studies have found a strong association between religion, attitudes, and behaviours. Abd Rahman et al. (2015), for example, discovered that religiosity has a major role in determining customers' opinions toward halal cosmetics. Due to the factors related to religiosity, according to the respondents, the poor and religious microfinance recipients of Bangladesh would certainly welcome Islamic microfinance products following the principles of Mudarabah and Musharakah.

As highlighted by Kassim and Rahman (2018), the best way to handle the majority of issues pertaining to the implementation of this Islamic microfinance system is through adopting profit-sharing principles. Specifically, it is possible to use any or both of Mudarabah and Musharakah, or a mix of the two, to guarantee that both sides will actively contribute to a commercial endeavour's success. Because the MFIs may offer capital and the beneficiaries can provide their labour effort and be paid correspondingly, this risk-sharing approach works well for microfinance. It is, therefore, in the best interest of the IMFIs to ensure strict oversight of the project being performed, as the fundamental idea of Mudarabah is that the owner of the capital (Rabbul Mal) will bear the loss in the event of financial loss.

Wijaya et al. (2020) focused on Islamic microfinance institutions (Baitul Maal wat Tamwil (BMT)) in Sukoharjo and Surakarta, Indonesia, in order to examine the relationship between religiosity degree and explanations for saving money. The authors looked at the level of religiosity and the reasons underlying transactions in both BMTs and conventional banking. The results of this study showed that consumers pick Shariah microfinance products because they follow Shariah principles in their operations. Similar results were found in a survey conducted by Jaffar and Musa (2014), which revealed that 58% of those who used Islamic microfinance-based financing cited their confidence that Islamic finance will advance society and be more effective than conventional financing as their driving force. As a result, a strong sense of religion can affect how people feel about Islamic microfinance, and this can also influence them to adopt microfinance systems based on Mudarabah and Musharakah.

The respondents of this study have unanimously agreed that a fintech- and partnership-based Islamic microfinance framework can be effectively implemented in Bangladesh. Considering the socio-economic conditions of this country's poor people, this framework can successfully reduce poverty and bring smiles to millions of people in this country. R4, R9, and R13 said that considering the importance of product diversification, this novel fintech- and partnership-based Islamic microfinance framework can be attractive to the microfinance recipients of this country, and they might feel encouraged to participate in this new Islamic microfinance scheme. As stated by R4, “An Islamic microfinance model based on partnership-based products and fintech can be a milestone in Bangladesh for improving the overall conditions of the poor people here.”

5.10.2 Challenges in Implementing the Proposed Partnership-based Islamic Microfinance Framework in Bangladesh

The Mudarabah partnership is a real profit-and-loss-sharing structure that was initially employed by the Prophet. The problem with this arrangement, though, was that historically, it was usually carried out by two partners: a Rab al-Mal and a Mudarib. Consequently, the agent received a comparatively small amount of capital. There existed no structure in early Islamic history that would have allowed thousands of

people's savings to be entrusted to a powerful individual. Currently, Islamic financial institutions are funding successful initiatives with the savings of tens of thousands of Muslims and non-Muslims; however, in certain cases, they find it difficult to guarantee profits and minimise risks through this Mudarabah system (Iqbal & Mirakhor, 2013).

The main reason Islamic financial institutions, such as the IMFIs, choose to use the Murabahah is that they are concerned about their obligations to reimburse their depositors. Mudarabah is a long-term, high-risk product, therefore the mismatch of funds raises major problems. In contrast, Murabahah offers set profits that depositors can easily repay (Iqbal & Mirakhor, 2013).

Yustiardi et al. (2020) employed the library research method to gather and examine data from publications pertaining to the goods and concerns surrounding Mudarabah and Musharakah as an equity financing mechanism. They discovered that the primary deterrents for Islamic financial institutions from providing financing products with profit and loss sharing contracts include high risk, asymmetric information issues, moral hazard, and challenging financing evaluation procedures. Because of the scheme's high risk, authorities also demand improved risk mitigation (D'Souza & Sai Sundar, 2023).

Moreover, financial institutions frequently find Mudarabah and Musharakah-based contracts less desirable due to a number of obstacles, including legal constraints and issues with moral hazard (Mazuin, 2016). Additionally, the clients lack the courage to assume the risk associated with this type of financing (Yustiardi et al., 2020). Another challenge might come from the fact that due to a lack of awareness about Islamic microfinance, impoverished borrowers typically take out loans from conventional microcredit because it is more established than Islamic microfinance in Bangladesh. This might present a major challenge in popularising this novel Islamic microfinance framework in Bangladesh.

5.11 TECHNOLOGY USED IN THE PROPOSED FRAMEWORK

5.11.1 The Blockchain Technology Used in the Islamic Crowdfunding Platform and Smart Contract Agreements

A growing area in finance called crowdfunding helps many small businesses and entrepreneurs become more economically competitive. The platform facilitates the collection of tiny amounts of money from a large number of users, which may then be used for various business purposes. In the proposed framework, a blockchain-based crowdfunding platform will be created to manage the source of funds, including cash waqf, Sadaqah, Qard-al-Hasan, Sukuk, etc. With the aid of blockchain technology, a decentralised user network is established, and transactions are documented in a publicly accessible distributed ledger (Salleh et al., 2023). These characteristics of blockchain provide an open and reasonably priced platform for managing the source of funds for implementing microfinance initiatives.

With the advancement of technology such as blockchain, there are several potential benefits that can be achieved concerning the management of source funds for Islamic microfinance programmes. Blockchain technology is designed to ensure trust, transparency, security, and the traceability of data shared across a network via a shared and immutable ledger that can only be accessed by verified members (Kunhibava et al., 2024). Along with faster settlement and lower counterparty risks, blockchain's unique features also include the near-impossibility of modifying past data and encryption and decryption for security purposes. These attributes are advantageous for financial transactions. Immutability makes records unchangeable, but decentralization permits the distribution of the same record in an unchangeable state. This helps to establish and preserve users' trust in the system. In order to reduce personnel and transaction costs for businesses and increase trade accuracy and security, decentralization eliminates some intermediaries while maintaining service delivery, changing the role of stakeholders in financial markets and expediting the settlement process (Kunhibava et al., 2024). Hence, blockchain technology is undoubtedly the missing impetus to the growth and efficiency of the Islamic microfinance sector, ensuring a high degree of accuracy, accountability and reliability.

Shariah law, which forbids the giving or receiving of interest, forms the foundation of Islamic microfinance. Asset-based loans and profit-sharing are the mainstays of Islamic microfinance. It is feasible to develop a system that complies with the rules of Islamic finance and offers transparent, safe, and effective financial transactions by utilising blockchain technology. The creation of a transparent and impenetrable ledger is a significant benefit of utilising blockchain technology in Islamic banking. A decentralised ledger that is available to all network users can be created with blockchain technology. This implies that every transaction may be monitored and validated, guaranteeing that all participants are following the rules of Islamic financing.

5.11.2 Mobile Banking-based System for Loan Distribution and Repayment

As part of implementing the framework, mobile banking applications popular in Bangladesh, like Bkash, Rocket, Nagad, etc., will be extensively used to disburse loan amounts to poor recipients and receive weekly repayment amounts from them. As these mobile banking platforms are extremely popular in Bangladesh, destitute microfinance recipients will not hesitate to use these applications. The high penetration of mobile phones in Bangladesh, even amongst the poor, will make the task easy for us.

Over the past twenty years, there has been a swift progress in technology and innovation, completely changing the way businesses operate in terms of managing payments. Electronic payments are in high demand due to the pressing need to generate cost savings and economic efficiency in order to improve sustainability and long-term competitiveness. Through mobile banking applications, electronic payments facilitate the automation of payables and receivables, which lowers and eliminates the high cost of labour and paper and the possibility of processing errors. Additionally, it facilitates more efficient resource allocation and enhances cash flow forecasting, which enhances cash flow and boosts a company's profitability, output, and flexibility.

5.11.3 Accounting Software for Managing Transactions

As a component of implementing this novel framework, an efficient accounting software will be developed through the in-house programmers. Using this software, it will be possible to track all the transactions using mobile banking applications. In addition, this software will also keep a record of all the regular expenditures and net profits. Eventually, this software will also generate reports as and when required.

Even though accounting software is frequently thought of as the instrument by default for accounting automation, its capacity to combine interrelated elements—data, information, human resources, IT tools, accounting models, and procedures—has made it easier to achieve accounting's main goal, which is to collect, classify, elaborate, record, and store accounting data. It follows that the accounting system is an indisputable strategic tool that helps with decision-making.

5.11.4 Benefits and Challenges of Using Technology in Islamic Microfinance Programmes

In general, smart contracts using Blockchain technology with its digital ledger have many advantages. Technology can make smart contracts incorruptible, more transparent, robust, decentralised, efficient, unalterable, cost-effective, etc. All of these advantages could facilitate transactions in a convenient way and hence would contribute to well-being. This can help to achieve the Maslaha. Again, the digital ledger in smart contracts is designed to protect against fraud, and this is one of the five pillars of the Maqasid Al-shariah, which protects Al-Mal (property). However, smart contracts of smart Sukuk should be guided by the broad principles of Shariah and should avoid the prohibited elements in transactions (Hamza, 2020).

As argued by Khan et al. (2021), smart contacts and the blockchain increase the transparency of every process. The blockchain's increased openness boosts investor and issuer trust, which naturally reduces the possibility of fraud and speculation in Sukuk transactions. Additionally, a decentralised, unchangeable record guarantees that all parties involved have equal access to information, which promotes confidence. P6

opined that “Blockchain can ensure transparency and traceability of all the transactions, which helps to reduce risk. This is specifically important in Islamic finance.” P13 also iterated that “To enhance transparency, blockchain can play a vital role.”

According to R1, “Using blockchain technology in smart contracts and Islamic crowdfunding can enhance the speed and ease of all the transactions, which will be very much beneficial.” R5 also echoed in the same way. Moreover, as highlighted by R4, “Through adopting a decentralised network and encryption techniques, blockchain can enhance the overall security of the entire system.” The benefits of using this technology to minimise fraud and reduce costs were also emphasised by R6.

The potential of using blockchain technology to reach a higher number of clients was highlighted by R8 and R15. As mentioned by R8, “Blockchain technology can be used for attracting a large number of people, specifically through Islamic crowdfunding.” Again, according to R14, “Blockchain technology and smart contracts can help to comply properly with Islamic Shariah rules.”

In some cases, smart contracts face problems related to legal recognition, as these are contracts that are not currently legally binding (Mounira, 2020; Khan et al., 2021). The parties involved in the contract depend on the interpretation of the programmers, but this blind dependence on the programmer is not wise for either party. Furthermore, the ways of managing the issues of disputes between the parties are often not clarified in the agreement (Mounira, 2020). These problems related to smart contracts must be addressed properly in order to apply this technology in the Islamic microfinance system.

As mentioned by R7, “In Bangladesh, you will not find any legal binding while implementing smart contracts using blockchain technology. This might create some legal issues in some cases.” R9 and R11 also focused on this issue.

The legal constraints regarding the use of a blockchain-based Islamic crowdfunding platform were also highlighted by R1 and R5. As stated by R1, “There is a lack of law and regulatory support that might create problems while implanting a blockchain-based Islamic crowdfunding system in Bangladesh.” However, according

to R13, “Islamic microfinance institutes must come forward and collaborate with the government agencies to solve the regulatory issues.”

It is another big challenge to make the blockchain-based system cost-effective. As opined by R9, “The cost of developing and implementing a blockchain-based system has to be less than the benefits obtained from this system.”

5.12 FOURTH RESEARCH OBJECTIVE: ASSESSING THE WAYS TO ENHANCE FINANCIAL INCLUSION AND ECONOMIC EMPOWERMENT THROUGH ISLAMIC MICROFINANCE IN BANGLADESH

The fourth and final research question of this study was: “How to enhance financial inclusion and economic empowerment using Islamic microfinance in Bangladesh effectively?” According to Kassim and Rahman (2018), microfinance has been shown to be an effective way to increase financial inclusion. This is because it makes loans more accessible to specific demographic groups who are typically left out of mainstream banking, like the impoverished and women microentrepreneurs. Furthermore, there has always been a link between financial inclusion and microfinance. The study concludes that microfinance has a positive, albeit short-term, but statistically significant impact on financial inclusion and a positive, long-term impact on the degree of financial inclusion. Currently, the underprivileged usually have to turn to microfinance banks because traditional financial institutions are hesitant to lend to those with low incomes or without collateral. Kassim and Rahman (2018) demonstrated the significance of microfinance in advancing financial inclusion in Bangladesh.

As discussed by Milana and Ashta (2020), the ultimate purpose of microfinance programmes is to lift the poor and destitute out of poverty through social and financial inclusion. Due to their lack of access to official financial services, these impoverished people, microbusiness owners, or small businesses rely on relationship-based banking and group-based models, which are essential components of microfinance programmes. But the hefty interest rates charged by MFIs sometimes deter the impoverished from taking out loans from them. Ultimately, this impacts a country's financial inclusion rate

(Bharti and Malik 2022). This problem can be efficiently resolved by Islamic microfinance programmes, which can increase Bangladesh's rate of financial inclusion. Islamic microfinance provides an inclusive financial system that can lessen extreme poverty and raise shared wealth, as stated in (Abdullahi et al. 2021). By promoting saving behaviours and halting the growth of predatory informal lending sources, it also enhances people's well-being, increases productivity, and promotes the efficient use of resources. Access to a variety of financial services, including money transfers, microsavings, microcredit, and microinsurance, or Takaful, can also be facilitated using the Islamic microfinance (ISMF) system. In the end, financial inclusion can be improved through all of these.

According to Nabi et al. (2017), the social safety nets established by traditional microfinance institutions and other strategies for eradicating poverty, along with the trickle-down benefits of GDP growth, have not been adequate to break the cycle of poverty for everyone living in it. Because of this, specific IMF models can encourage financial inclusion among the poor, which can help alleviate poverty and inequality in Bangladesh. These models contain distributive and risk-sharing features that are absent from traditional microfinance models. Financial inclusion in this nation can be effectively achieved by risk-sharing instruments like microtakaful and profit-based microfinance models (Mudarabah and Musharakah) as well as redistribution tools like sadaqah, Sukuk, waqf, and other charity-based microfinance models.

RDS microfinance has improved rural financial inclusion in Bangladesh, as found by Uddin et al. (2024). Rural communities benefit from banking services that offer low interest rates and flexible loan terms, which increase their financial independence. The RDS has additionally provided its members with accident and natural disaster protection through savings programmes and microinsurance.

Table 5.3 highlights a structured approach to enhancing financial inclusion in Bangladesh (Ali et al. 2020).

Table 5.3 A structured approach to enhancing financial inclusion

Level of Income	Re-Distributive Pillar	Risk Sharing Pillar
Low income	Hybrid Solutions (applications with market-based solutions)	Micro-Small-Medium Enterprises (MSME)
Poverty (above poverty line)	Qard-al-Hasan, Zakah and Waqf	Microfinance (Murabaha, Musharakah), Micro-Takaful
Extreme poverty (below poverty line)	Zakah, Sadaqah, and Waqf	Collective risk sharing through collective support during crisis

According to Shinkafi et al. (2019), there exist prospects for enhancing the socioeconomic status of impoverished Muslim communities through innovative financial inclusion tactics. It may be feasible to develop and provide Islamic microfinance solutions that are acceptable for the poor by applying the Islamic solidarity principle. They further argued that this service would help the impoverished by allowing them to increase their savings to levels that are adequate to support a range of requirements, such as those of small businesses, clients, and the community at large.

Additionally, IMFIs can readily draw in the unbanked population by creating digital Islamic financial products, such as innovative and successful mobile phone applications, as stated by Shinkafi et al. (2019). Using experts, professionals, and the dynamic, competitive climate of the Islamic microfinance sector will surely contribute to improving financial inclusion in a nation such as Bangladesh. Additionally, IMFIs can help marginalised people become more financially literate, which will motivate them to participate in various ISMF programmes and make better decisions about which ISMF goods are best for them. Ultimately, this will lead to an improvement in Bangladesh's financial inclusion rate (Muhammad et al., 2023).

IMFIs can give quick attention to skill development and raise the workforce level in order to attain financial inclusion. Islamic social tools like Zakat, Waqaf, and Sadaqah, which openly assist the impoverished in meeting their basic needs before providing them with microcredit, distinguish Islamic microfinance from its conventional cousin. According to Shinkafi et al. (2019), the Islamic Monetary Fund

(ISMF) provides an opportunity to assist Muslim communities facing extreme poverty and is beneficial for low-income households to engage in financial activities. Based on the preceding discussion, it can be concluded that Islamic microfinance has a higher chance of attaining financial inclusion due to the utilisation of interest-free loans and cost-effective financial services and products.

The respondents of this study were asked how Islamic microfinance can be used to enhance finance inclusion in a country like Bangladesh. Their responses are aligned with the outcomes of the previous studies, and are listed in Table 5.4:

Table 5.4 Responses of the Respondents Regarding the Contribution of Islamic Microfinance Towards Enhancing Financial Inclusion in Bangladesh

Respondents	Responses
R1	Through Islamic microfinance, more poor people, specifically women, can be included in the formal financial system, which will improve the rate of financial inclusion.
R2	Poor people can develop a tendency to save by regularly depositing money in their accounts, in banks, or in Islamic microfinance institutions. This can enhance financial inclusion.
R3	The trained and experienced field officers can easily convince the clients to develop a savings habit by saving a certain amount of money in their respective accounts in the Islamic microfinance institutions. This can certainly boost financial inclusion, which is necessary to help them when they are in trouble due to various reasons.
R4	People living in remote areas in Bangladesh often find it difficult to open accounts in banks, due to distance issues and stringent requirements set by the banks. In this case, Islamic microfinance institutions can help them to open accounts easily and save money.
R5	Islamic microfinance institutions can attract more clients by using technology like mobile banking for distributing or recollecting the loan money. This might result in enhancing the rate of Islamic microfinance recipients and eventually the rate of financial inclusion.
R6	Field officers of Islamic microfinance institutions have very close relationships with the poor microfinance recipients. When these field officers try to convince them about the benefits of creating a savings habit, they might feel encouraged to create accounts and start savings in these microfinance institutions or banks. Thus, enhancing financial literacy can have a positive impact on the rate of financial inclusion through IMFIs.

Respondents	Responses
R7	Microfinance recipients have easy access to the Islamic microfinance institutions where they can start saving money. This can be useful for financial inclusion. They might find the process of making savings in banks complicated.
R8	Field officers of Islamic microfinance institutions can inform the poor microfinance clients about the harms of taking money from dishonest moneylenders who charge very high interest rates. This might encourage them to save money for their rainy days in formal financial institutions.
R9	IMFIs can start public campaigns to motivate the microfinance clients about the importance of savings.
R10	It is not easy to open bank accounts in traditional banks, so Islamic microfinance institutions can help the distressed people in creating saving habits.
R11	The benefits of having bank accounts can be clarified by the IMFIs, and this might encourage the poor microfinance recipients to open accounts. Furthermore, in Bangladesh, the rate of financial inclusion is much lower in remote village areas. As the IMFIs have connection with these people living in remote areas, they can easily work towards enhancing financial inclusion.
R12	Recipients of microfinance can easily get started saving money by visiting Islamic microfinance institutions. These institutions can also inform them about the value of having interest-free accounts. Regarding financial inclusion, this may be beneficial.
R13	IMFIs can facilitate and make all the necessary arrangements so that the microfinance clients can start opening accounts there and make savings.
R14	Poor microfinance receivers of Bangladesh can associate themselves with the formal financial system by opening accounts in the IMFIs.
R15	Microfinance clients can get the idea about the importance of savings from the field officers of IMFIs. This works to enhance the rate of financial inclusion.

Following codes were generated using Atlas.ti:

From the interview responses and the corresponding Atlas.ti codes, it becomes evident that Islamic microfinance can contribute towards enhancing the financial inclusion rate in a country like Bangladesh in the following manner:

1. Islamic microfinance offers easy access and flexibility in opening accounts in the IMFIs, which makes it possible for the poor microfinance clients to open accounts formally. This also proves the theory of institutional savings and financial inclusion theory.
2. The role of trained and experienced field officers can be vital in influencing the loan recipients to open accounts. This also shows the importance of Islamic microfinance institutions as financial intermediaries, and proves the financial intermediation theory.
3. Islamic microfinance can enhance the opportunity for reaching the people living in remote areas and enhance financial literacy.
4. The field officers of IMFIs can motivate the poor about the value of having interest-free accounts in IMFIs.
5. The prospects of using technology and mobile banking facilities by the Islamic microfinance institutions can also contribute to enhancing the rate of financial inclusion.
6. Using Islamic microfinance, it is possible to reach people suffering from extreme levels of poverty, who can be bankable eventually.
7. Islamic microfinance institutions can also start public campaigns about the importance of maintaining bank accounts.

From the responses of the participants, it becomes clear that all of them agreed about the important role Islamic microfinance can play in enhancing the rate of financial inclusion in a developing country like Bangladesh. From these responses, we can conclude that the respondents emphasised the easy access and flexibility in opening accounts in the IMFIs, the role of trained and experienced field officers in influencing the loan recipients to open accounts, the opportunity for reaching the people living in remote areas and enhance financial literacy, the prospects of using mobile banking facilities by the Islamic microfinance institutions, motivating the poor about the value of having interest-free accounts in IMFIs, opportunity to reach people living in remote

areas, starting public campaigns, etc. All of these factors can help increase the financial inclusion rate here in this country.

Furthermore, when a fintech and partnership-based Islamic microfinance model can be successfully implemented in a country like Bangladesh, then the opportunities of reaching more indigent people living in remote areas can be significantly enhanced, as more people will be attracted to the new products offered and the benefits of technology. This will also allow the Islamic microfinance companies to influence more people to open savings accounts in those institutions. This will enhance the rate of financial inclusion and economic empowerment in Bangladesh in the end.

5.13 BEST WAYS TO ENHANCE ECONOMIC EMPOWERMENT THROUGH ISLAMIC MICROFINANCE IN BANGLADESH

Realising the independence of the people or groups is the aim of economic empowerment. Independence of thinking, action, and control over one's actions are all included in this. Usman and Tasmin (2016) demonstrated the role of Islamic microfinance in flourishing poor people's capabilities from the perspective of skills and knowledge to make them financially independent, which results in more empowerment. They claimed that Islamic microfinance has long been seen as a crucial instrument for empowering the underprivileged, particularly women, in Muslim societies. Islamic microfinance has the capacity to advance human potential in the areas of empowerment, self-reliance, social cohesiveness, knowledge and skills. The clients may now successfully manage their financial lives and experience less stress, thanks to this empowerment.

Zitouni and Zedidia (2022) conducted a study in Tunisia with the objective of evaluating the efficacy of Islamic microfinance in attaining economic empowerment. According to the report, entrepreneurship, financial inclusion, and skill development are all necessary for economic empowerment. The survey's findings show that the majority of the recipients of Islamic microfinance have benefited from some degree of economic empowerment. Furthermore, the research emphasised the necessity of

addressing operational, legal, and marketing obstacles as well as other structural hurdles to entrepreneurship in a pragmatic manner.

As discussed by Hotman et al. (2024), Islamic microfinance promotes financial inclusion, entrepreneurship support, and skill development, all of which lead to economic empowerment. It has been demonstrated to help beneficiaries become more economically empowered, improving their financial situation and fostering the growth of entrepreneurship as a whole. It has also been discovered by Hotman et al. (2024) that Islamic microfinance has a favourable effect on the creation of job prospects, especially for women. It makes money more accessible, offers financial products, and encourages entrepreneurship training, all of which contribute to the growth of the self-employment sector and the improvement of economic well-being.

The Rural Development Scheme (RDS), Bangladesh's primary microfinance initiative, encourages investment in agriculture and rural areas in an effort to combat poverty and advance economic independence. Since 1995, RDS financial services have primarily benefited and employed rural people in the agricultural and non-agricultural sectors (Uddin et al., 2024). The programme's objectives of reducing poverty and promoting economic empowerment are exemplified by rural employment, justice, and equality. Local economies have been boosted by the RDS's group-based funding and repayment structure, which has assisted rural enterprises in obtaining agricultural and microenterprise loans (Uddin et al., 2024).

The findings of this study show that Islamic microfinance can be an effective instrument in strengthening the economic base of underprivileged communities, especially through the integration of Islamic principles into the financial system. According to the respondents of this study, through Islamic microfinance, the economic empowerment of the poor can be boosted in a variety of ways. These are presented in Table 5.5:

Table 5.5 Ways to Enhance Economic Empowerment through Islamic Microfinance in Bangladesh (Qualitative Content Analysis)

No.	How can economic empowerment be boosted through Islamic microfinance?	Respondents														
		R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15
1.	Through positive impact on household income, savings and expenditure	√			√				√		√			√	√	
2.	Improving the standard of living and human capital formation			√			√	√				√	√			
3.	By offering them more freedom of choice			√		√	√		√	√						
4.	By getting the opportunity to develop microenterprises	√			√				√			√		√		
5.	To thrive in case of natural disasters		√		√				√			√		√		√
6.	By enhancing the relevant skills						√			√		√	√		√	

As mentioned by R6, “By participating in Islamic microfinance programmes, poor people can improve their economic conditions, which gives them more freedom of choice. This also makes them economically empowered.” R3, R8, and R9 also opined in a similar manner.

R8 stated that “Bangladesh is a country of natural disasters, like floods, cyclones, etc. Through Islamic microfinance programmes, poor people of this country can become self-reliant economically, which can also help them sustain during these disastrous situations in a successful way.”

According to R11, “Islamic microfinance helps poor people develop micro-enterprises, through which they can improve their economic conditions. This eventually leads to economic empowerment.” Similarly, as R12 highlighted, “Islamic

microfinance institutions are always keen to offer entrepreneurial education and training to the microfinance recipients, which make them self-reliant by enhancing their relevant skills. In the end, this makes them economically empowered. This empowerment can also help them make independent decisions and engage in the community with increased self-esteem.”

5.14 CONCLUSION

In this chapter, sincere efforts have been made to answer the research questions by analysing the viewpoints of experts who participated in this study. A novel partnership-based Islamic microfinance framework using fintech has also been presented, and it is argued that if this framework is properly implemented, it can play a very important role in enhancing financial inclusion and economic empowerment in Bangladesh. The technologies used in the framework, like smart contracts, blockchain, and mobile banking have also been explained in this chapter, and how these technologies can be efficiently implemented in the Islamic microfinance system have also been clarified. In addition, the challenges to be faced by IMFIs while implementing these technologies have also been discussed, and necessary recommendations have been provided to overcome these challenges. Some effective suggestions have also been given in this study so that Islamic microfinance products can be popular in the rural areas of Bangladesh so that the poor and marginalised people of this country can benefit from the Islamic microfinance products and get out of the vicious cycle of poverty.

CHAPTER SIX

CONCLUSION

6.1 INTRODUCTION

The results of this study demonstrate that Islamic microfinance can assist Bangladesh's poor in improving their general socioeconomic circumstances and enabling them to live in society with respect and dignity. There is a great possibility that Bangladesh's unproductive population will no longer be a burden on society and will instead be able to make meaningful contributions for themselves, the society, and the nation at large if the challenges outlined in this study can be successfully addressed by putting the suggested framework into practice.

6.2 SUMMARY OF RESEARCH FINDINGS

From the outcomes of this study, it becomes obvious that a partnership- and fintech-based Islamic microfinance framework has immense potential in a developing country like Bangladesh. If implemented properly, this novel Islamic microfinance system can significantly enhance the financial inclusion rate and economic empowerment of poor people in this country. Eventually, this system can bring smiles to the faces of millions of poverty-stricken people in Bangladesh. All the respondents of this study have unanimously agreed that if this novel Islamic microfinance framework is implemented in this country, it can effectively improve the socio-economic conditions of the poor people here. Furthermore, as risk-sharing principles are at the core of the Islamic finance concept, this partnership-based framework can have a bright future not only in Bangladesh but also in other countries as well. It is high time that we move from our conventional microfinance system towards a more efficient and sustainable Islamic microfinance system and improve the economic conditions of more poor and distressed people in a successful manner.

In this age of information and communication technology, people have greatly benefited from new and innovative tools and technologies. However, the microfinance sector in Bangladesh is seriously lagging behind in terms of using technology at any stage. Hence, this study proposes a new fintech-based Islamic microfinance framework using blockchain technology. If implemented properly, this can make the entire system cost-effective and transparent, secured and fast, and eventually it can bring dramatic improvements in the overall Islamic microfinance system in Bangladesh.

The respondents of this study have identified a number of challenges that are hampering the desired level of progress of Islamic microfinance in Bangladesh. These include the following:

1. The general public's ignorance about Islamic microfinance.
2. Making sure that Shariah is followed.
3. Absence of supportive laws and regulations.
4. Multiple borrowings.
5. A lack of product diversification.
6. Lack of resources or sources of funding.
7. Weak connections with banks and capital markets.
8. Ineffective promotion of Islamic microfinance schemes.
9. A lack of Islamic microfinance experts.
10. Burdensome Schedule of Repayments.
11. Dearth of Islamic microfinance organisations in rural regions.
12. Inadequate government assistance.
13. Mission Drift.
14. Lack of Motivation from the clients.
15. Inexperienced field workers.
16. Lack of accountability of the Islamic microfinance institutions.
17. No university offering classes on Islamic microfinance in Bangladesh.

Due to all of these challenges, only 5% of microfinance recipients in Bangladesh are currently using Islamic Shariah-based microfinance products. These factors are also inhibiting the Islamic microfinance institutions of this country from reaching more

clients and creating a further impact on the lives of the people living in remote areas in Bangladesh.

In order to successfully tackle the above-mentioned challenges and implement a fintech- and partnership-based Islamic microfinance framework in this country, a number of steps have been suggested by the respondents of this study. These include increasing government support, ensuring effective training and motivational programmes for field workers and loan recipients, strengthening the monitoring system, and initiating Islamic finance courses in public and private universities. Some other measures suggested by this study respondents include enhancing the cooperation between IMFIs and Islamic commercial banks, offering proper training to the field officers of IMFIs as well as to the microfinance recipients, enhancing the financial and legal support by the government of Bangladesh, and ensuring that the IMFIs focus more on their philanthropic motives and do not focus only on their commercial objectives.

It is also evident from the respondents' comments that they are all in agreement regarding the critical role Islamic microfinance may play in raising the rate of financial inclusion in underdeveloped nations like Bangladesh. From these responses, it can also be inferred that the respondents stressed the ease of use and flexibility of opening accounts at IMFIs, the importance of field officers with training and experience in persuading loan recipients to open accounts, the possibility of reaching out to people in remote areas and improving financial literacy, the potential for utilising mobile banking services offered by Islamic microfinance institutions, etc. Each of these elements can potentially raise the nation's financial inclusion rate.

The results of this study also demonstrate that, particularly when Islamic principles are included in the financial system, Islamic microfinance can be a useful tool for bolstering the economic foundation of poor communities. The study's respondents stated that there are several ways in which Islamic microfinance might support the poor's economic empowerment. These include creating a positive impact on household income, savings and expenditure, improving standard of living and human capital formation, offering them more freedom of choice, giving them the opportunity to develop microenterprises or SMEs, helping them to survive in case of natural disasters, enhancing their relevant skills, etc. Through all these means, Islamic

microfinance can play an essential role in ensuring the economic empowerment of Bangladesh's poor and helpless people. The outcomes of this study are summarised in Table 6.1:



Table 6.1 Summary of Research Findings

Research Objectives	Results	Implications
<p>RO1. To identify the major challenges in implementing the Islamic microfinance system in Bangladesh.</p>	<p>This study identifies the following challenges based on the outcomes of interviews:</p> <p>A. Challenges for IMFIs</p> <ol style="list-style-type: none"> 1. Low awareness and lack of understanding of the general public about Islamic microfinance. 2. Making sure that Shariah is followed. 3. Multiple borrowings. 4. Lack of resources or sources of funding. 5. Weak connections with banks and capital markets. 6. A lack of product diversification. 7. Ineffective promotion of Islamic microfinance schemes. 8. Mission Drift. <p>B. Challenges for Government and Policymakers</p> <ol style="list-style-type: none"> 1. Absence of supportive laws and regulations. 2. Lack of Islamic microfinance experts. 3. Dearth of Islamic microfinance organisations in rural regions. 4. Managing funds and expertise to help the IMFIs. 5. Lack of accountability of the Islamic microfinance institutions. <p>C. Challenges for Microfinance Recipients</p> <ol style="list-style-type: none"> 1. Lack of Motivation from the clients. 2. Lack of proper training. 3. Burdensome Schedule of Repayments. 4. Inexperienced field workers. 	<p>From these outcomes, present and future Islamic microfinance institutions in Bangladesh can get a clear picture of what challenges they can face while making Islamic microfinance programmes successful in this country.</p> <p>The government and policymakers can also get valuable insights on the challenges in implementing Islamic microfinance programmes here in Bangladesh.</p> <p>Furthermore, the knowledge of these challenges can be helpful for poor microfinance recipients to avoid the consequences of receiving loans from the IMFIs and becoming successful in implementing various projects.</p>

Research Objectives	Results	Implications
<p>RO2. To determine the best possible ways to effectively implement the Islamic microfinance system in Bangladesh.</p>	<p>A. Recommendations for the MFIs:</p> <ol style="list-style-type: none"> 1. Using member equity and savings deposits properly by the Islamic MFIs, in addition to the Islamic social finance sources. 2. Offering suitable skill-development training. 3. Making a good balance between the commercial and philanthropic goals of MFIs. 4. Solving the issues related to multiple borrowing and putting focus on debt management. 5. Hiring additional staff members and giving them the necessary training in order to promote Islamic microfinance products in the nation's most remote regions. 6. Raising public awareness of Islamic microfinance products and the advantages of utilising them by ensuring the active role of media. 7. Strengthening the monitoring system. 8. Ensuring Effective Training and Motivational Programmes for both field workers and loan recipients. <p>B. Recommendations for the Government and Policymakers:</p> <ol style="list-style-type: none"> 1. Ensuring the active contribution of Islamic commercial banks and cooperatives related to offering Islamic microfinance services. 2. To properly serve Bangladesh's impoverished population, the government should also step up and offer Islamic MFIs all kinds of financial and legal support 3. Initialising Islamic Finance Courses in both Public and Private Universities. 	<p>These recommendations can guide the MFIs, government, and policymakers to make important contributions towards alleviating poverty and improving the socio-economic conditions of the poor through Islamic microfinance programmes, specifically in Bangladesh.</p>

Research Objectives	Results	Implications
<p>RO3. To propose a new fintech- and partnership-based Islamic microfinance framework (using the concepts of Mudarabah, Musharakah, and Qard-al-Hasan) that will be appropriate for the poor people of Bangladesh, considering their current socio-economic conditions.</p>	<p>Chapter five presents the novel Islamic microfinance framework. This model is based on utilising technology in every step of source fund management, microcredit distribution and repayments, and transaction management to be useful for IMFIs. Blockchain technology will be extensively used in Islamic crowdfunding management and in implementing the Smart SRI sukuk for managing the source funds. In addition, mobile banking technology and an accounts management system will also be used for managing all the transactions efficiently.</p> <p>Furthermore, this new framework proposes extensive use of the Mudarabah, Musharakah, and Qard-al-Hasan contracts instead of the Murabahah contract to ensure product diversification and respect the religiosity of the microfinance recipients.</p>	<p>Proper implementation of the suggested fintech-based framework for Islamic microfinance can enable Islamic microfinance institutions in various regions fulfil their goals and enhance their performance. Currently, no microfinance organisation in Bangladesh is collecting and disbursing funds for microfinance initiatives through technology. Thus, the Islamic microfinance framework that this study presents may be considered a milestone in this field.</p> <p>Implementing this approach is also anticipated to revolutionise the Islamic microfinance industry as a whole and help more impoverished individuals in a poverty-ridden country like Bangladesh.</p>
<p>RO4. To assess the ways to enhance financial inclusion and economic empowerment through Islamic microfinance in Bangladesh.</p>	<p>A. Enhancing Financial Inclusion through Islamic Microfinance:</p> <ol style="list-style-type: none"> 1. Islamic microfinance offers easy access and flexibility in opening accounts in the IMFIs, which allows poor microfinance clients to open accounts formally. 2. The role of trained and experienced field officers can be vital in influencing loan recipients to open accounts. 3. Islamic microfinance can enhance the opportunity for reaching the people living in remote areas and enhance financial literacy. 4. IMFIs' field officers can motivate the poor to consider the value of having interest-free accounts in IMFIs. 5. The prospects of Islamic microfinance institutions using technology and mobile banking facilities can also contribute to enhancing the rate of financial inclusion. 6. Using Islamic microfinance, it is possible to reach people living in remote areas and suffering from extreme poverty who can eventually be bankable. 	<p>Considering the very poor rate of financial inclusion in Bangladesh and the economic vulnerability of the distressed people in this country, Islamic microfinance as a whole, or the novel framework presented in this study, can play a very effective role, as confirmed through the participants of this study.</p> <p>This will also assist the low-income consumers of Islamic microfinance programs in overcoming any vulnerabilities and handling any challenging circumstances with improved abilities.</p>

Research Objectives	Results	Implications
	<p>7. Islamic microfinance institutions can also start public campaigns about the importance of maintaining bank accounts.</p> <p><i>B. Enhancing Economic Empowerment through Islamic Microfinance:</i></p> <ol style="list-style-type: none"> 1. Through positive impact on household income, savings and expenditure. 2. By improving the standard of living and human capital formation. 3. By offering people more freedom of choice. 4. By ensuring the opportunity to develop microenterprises. 5. By enhancing the capacity to thrive in case of natural disasters. 6. By enhancing the relevant skills. 	

6.3 RECOMMENDATIONS

According to this study, all parties involved in Bangladesh's financial system ought to step up and begin implementing educational programmes to alter public opinion about the contribution that Islamic microfinance institutions may make to the advancement of financial inclusion in this nation. Islamic microfinance institutions in Bangladesh should combine their commercial offerings with Islamic social finance products such as benevolent loans, cash waqf, and sadaqah, as is customary in nations where Islamic finance is institutionalised.

In order for these organisations to be more successful in aiding the nation's disenfranchised citizens, both the national and local governments of this nation should step up and support the establishment of IMFIs. In order for the IMFIs to readily access potential customers, the government should also ensure the supply of fundamental infrastructures like road networks, dependable and sustainable power supplies, and other amenities. The government, civil society organisations, policymakers, practitioners, and the general public must work together in order for IMFIs to fulfil their intended role of raising the financial inclusion rate in Bangladesh and thereby improving the socioeconomic standing of the impoverished population. In the end, this will support the creation of a compassionate, just, and equitable society.

It is also recommended in this study that Islamic microfinance institutions should play a more effective role in making the microfinance recipients self-reliant and economically empowered. This will eventually enhance their image in society and help them get out of the vicious cycle of poverty. In case of any vulnerabilities, this will also help the poor clients of Islamic microfinance programmes stand strong and manage any adverse situations with enhanced skills.

In the wake of the COVID-19 pandemic, there is growing interest in ISF to revive the economy. Nonetheless, there is a policy vacuum in handling Shariah and the legal risks associated with ISF transactions, as well as a regulatory gap in the appropriate legal framework needed to promote blockchain-related developments in

ISF. Consequently, policymakers and relevant stakeholders need to take proper steps to develop the necessary legal frameworks for ensuring the smooth integration of blockchain technology in the crowdfunding platform as the source of the Islamic microfinance system proposed in this study. Setting Shariah-compliant guidelines for the use of blockchain technology is also a major task for standard-setting organisations like the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). By establishing rules supported by the international Islamic finance community, authorities may give market players clarity and trust, promoting innovation while ensuring adherence to Islamic principles.

More outreach initiatives should be created in order to promote Islamic microfinance in Bangladesh. To help people make better financial decisions, the governments must therefore pay close attention to enhancing education. It is also necessary for Islamic financial procedures and methods to be transparent in order to disclose a profit-loss sharing strategy and other fees. It is also possible to send financial educators and consultants to educate potential clients about Islamic microfinance services so they are well-informed about them.

The issuance of smart Sukuk without being overseen and managed by financial authorities presents certain difficulties. This study suggests developing a regulatory framework specifically for Sukuk, which includes smart Sukuk, as well as the necessary infrastructure and regulatory environment for the issuance of smart Sukuk in Bangladesh's capital market to support micro-borrowers and small and medium-sized businesses. This study also suggests educating and providing the required training to financial technology specialists who are prepared to oversee the use of blockchain-based digital platforms in implementing Islamic microfinance programmes.

Furthermore, in Bangladesh, only the government and big organisations like the Basundhara Group are able to issue Sukuk due to its high cost and complicated legal structure. The study recommends the introduction of new Sukuk contracts and structures based on blockchain technology in response to the sudden surge in global Sukuk issuances. The aim is to boost efficiency and expand into previously unexplored market segments, like Islamic microfinance.

In addition, as the world is making rapid progress, technology is now being used to further the goals of Islamic Shariah, allowing Islamic economic actors to transact in a safer and more effective manner. This is because using physical documents results in delays, inefficiencies, and a higher risk of errors and fraud; using financial intermediaries adds needless expenses; and using smart contracts increases productivity and efficiency in the financial and business sectors. As a result, Islamic organisations need to build strategic alliances with digital firms and specialists to overcome the obstacles presented by innovation and smart contracts. It's also critical that Islamic microfinance organisations deepen their knowledge of smart contracts and technology. The best results are likely to arise from collaborative initiatives between the Islamic microfinance institutions, tech companies, and Shariah scholars to implement a new fintech and partnership-based Islamic microfinance framework in Bangladesh, as presented in this study.

Blockchain has the potential to accelerate the development of Islamic microfinance institutions in Bangladesh. Therefore, regulatory organisations need to keep pace with these developments to ensure that innovation occurs in tandem with the appropriate laws. Blockchain's unique features require a phased-in legal framework and governance to support financial access and increased inclusiveness.

6.4 CONTRIBUTIONS OF THE STUDY

This study has highlighted the main reasons why Bangladesh is still lagging behind in terms of successfully applying Islamic microfinance products and services. It is expected that the researchers, academicians, and policymakers of Bangladesh can have a clear scenario about the opportunities regarding the implementation of Islamic microfinance in Bangladesh through this study. Using the study results, the policymakers of this country can have some clear guidelines regarding the necessary steps to be taken to popularise this novel system here. Moreover, this study has clarified the issues of making the microfinance initiatives fully Shariah-compliant in this country. Some necessary recommendations have been offered to the educational leaders of Bangladesh so that they can start courses relevant to Islamic microfinance in different universities in this country. Eventually, this study will be a milestone in this particular

field of research, and future researchers will be able to gain a lot of valuable ideas before conducting research on Islamic microfinance. Moreover, it is also expected that if the recommendations offered in this study are properly implemented, these will significantly contribute to this country's socio-economic development and poverty alleviation, as well as enhance the financial inclusion and economic empowerment of the destitute.

In addition, if the proposed fintech-based framework of Islamic microfinance is implemented properly, it can help the Islamic microfinance institutions of different regions improve their performance and achieve their ultimate target. So far, no microfinance company in Bangladesh is currently using technology to collect and distribute funds for microfinance initiatives. This makes our concept entirely innovative and groundbreaking. Thus, it can also be expected that by implementing this framework, the entire Islamic microfinance sector can be revolutionised, and more people suffering from poverty will benefit. Eventually, all of these measures can help achieve the SDGs, particularly No Poverty, Zero Hunger, Decent Work and Economic Growth, and Reduced Inequalities.

On a theoretical and practical level, this study significantly adds to the body of literature. The outcomes of this study clearly support the existing concepts of the institutional theory of saving, financial intermediation theory, and the theories of financial inclusion. At the same time, the results of this study also show that these theories are fully applicable considering the Islamic microfinance system in Bangladesh. For example, this study reveals how Islamic microfinance institutions can influence poor microfinance recipients to make a savings habit and open financial accounts in IMFIs or in banks. This supports the concepts of the institutional theory of saving. This study also highlights how Islamic microfinance institutions can efficiently play the role of financial intermediaries, bridging the gap between the donors and microcredit recipients. Furthermore, the outcomes of this study have clarified how more poor people can be reached through Islamic microfinance system, and how the rate of financial inclusion can be increased as a consequence.

In addition, the study's findings offer empirically supported information about the feasibility of using Islamic microfinance based on fintech for underprivileged

individuals and SMEs in Bangladesh's outlying regions. By emphasising the creation of an Islamic microfinance framework as a novel and cutting-edge method of funding SMEs in this area, this study also adds to the greater field of economic and Islamic finance ideas. Specifically, the new and existing Islamic microfinance institutions will understand the importance of using Islamic social finance tools like cash waqf and infaaq to manage the problems they are currently facing regarding the collection of source funds. These IMFIs can solve the problems of defaults from these ISF instruments, which often do not focus on profit-making, rather only focus on improving the socio-economic conditions of the poor and resource sharing. Furthermore, when tools like cash waqf, infaaq, and SRI sukuk are integrated with Islamic microfinance, this will allow the IMFIs to have more money to be distributed. As a result, they will also be able to reach more poor people living in remote areas and contribute towards improving their overall socio-economic conditions. Eventually, this will enhance the rate of financial inclusion in Bangladesh and also improve the economic empowerment of the poor in this country.

Practically speaking, this research may also help policymakers assess the efficacy of Islamic microfinance systems based on fintech and enhance corporate governance and management procedures. In summary, this study will have implications for enhancing Islamic microfinance practices and could serve as a roadmap for improving the administration and effectiveness of Islamic microfinance institutions.

6.5 DIRECTIONS FOR FUTURE RESEARCH

In fact, the use of qualitative analysis by the researchers to investigate the causal relationship among the variables in this study presents opportunities for future research. Additionally, a review of the current Islamic microfinance models could be conducted by analysing the effects of various products offered by microfinance organisations. Furthermore, there is still more to be discovered about how Islamic microfinance instruments can be readily available to large numbers of the underprivileged in society to guarantee poverty reduction faster in Bangladesh, which can be studied in other countries as well. Future academics can investigate this.

To enable blockchain technology acceptance for Islamic microfinance, more study is recommended on the specifics of Shariah governance, legal framework, and policy papers. The research findings are expected to aid policymakers and stakeholders in Islamic microfinance in realising how quickly blockchain technology is being adopted in this region and how important it is to be ready to accept such innovations without endangering their future growth and without undermining the favourable conditions that will allow them to develop sustainably.

Future researchers can also focus on particular blockchain technology, like public or private, that can be efficiently used for smart contracts and Islamic crowdfunding platforms. In Bangladesh, public blockchain is not allowed due to stringent regulatory requirements. Hence, future researchers can analyse the suitability of implementing both public and private blockchain technology, not only in Bangladesh, but also in other countries. They can also do relevant research on how smart contracts can be made smarter and more efficient in implementing the Smart Sukuk agreements, particularly while collecting the source funds for implementing Islamic microfinance programmes. In short, this research can show a variety of paths for future researchers if they want to do advanced research in the field of using technology in Islamic microfinance.

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APPENDIX I: Open-Ended Questionnaire for Semi-Structured Interview



Investigator: Niaz Makhdum Muhammad (Researcher and Doctoral Candidate, IIUM Institute of Islamic Banking and Finance (IiBF))

Study Title: Fintech and Partnership-Based Islamic Microfinance Framework for Financial Inclusion and Economic Empowerment in Bangladesh: A Practitioner's Perspective

Study Purpose

This study aims to accomplish the following research objectives:

- RO1. To identify the major challenges in implementing the Islamic microfinance system in Bangladesh.
- RO2. To determine the best possible ways to effectively implement the Islamic microfinance system in Bangladesh.
- RO3. To propose a new fintech- and partnership-based Islamic microfinance framework (using the concepts of Mudarabah, Musharakah, and Qard-al-Hasan) that will be appropriate for the poor people of Bangladesh, considering their current socio-economic conditions.
- RO4. To assess the ways to enhance financial inclusion and economic empowerment through Islamic microfinance in Bangladesh.

Confidentiality

During this study, information collected from you will be exclusively used for this research. As the researcher, only I will have access to the data recorded, or the responses to the questions. However, I will keep general digital research files, without identifiable information, in a private Google Drive folder. After the study is completed, research reports and data will be shared with my thesis committee and respondents who requested a report copy, without any identifiable information. Please note, it is possible that there would be a loss of confidentiality if my computer is hacked, and encrypted files were decrypted.

Questions/Concerns

If you have questions about the procedures described in this questionnaire, please contact me: Niaz Makhdum Muhammad, niaz.m@live.iium.edu.my. If you have questions about the research or research respondents, you may also contact my supervisor, Professor Dr. Salina Kassim, ksalina@iium.edu.my.

Before participating in the study, a written consent form was provided to you, like the following (using GoogleForm platform), and after getting your confirmation, I approached you for data collection. This is to confirm that you voluntarily participated in the research, and there was no sort of compulsion in any way. However, if you feel uncomfortable, then you can withdraw yourself from participating in this study at any time.

First Name *

Short answer text

Last Name *

Short answer text

Email Address (one to be used throughout study) *

Short answer text

I have read the above information and have received satisfactory answers to my questions. I understand the research project, and the procedures involved have been explained to me. I agree to participate in this study. My participation is voluntary, and I do not have to consent to this form if I do not want to be part of this research project. I will receive a copy of this consent form for my records. By typing my name below, I consent to agree to participate. (PLEASE TYPE FULL NAME (FIRST & LAST)) *

Short answer text

Questions for Semi-Structured Interview

1. Why do you think Islamic Microfinance is important for the people of Bangladesh?
2. Why do you think Bangladesh is lagging behind in terms of implementing Islamic Microfinance programmes in Bangladesh?
3. What measures can be taken to implement the Islamic microfinance system and popularise it in the rural areas of Bangladesh?
4. In addition to Murabahah, which Islamic finance products can be effective for the rural people of this country?
5. Do you think that the Islamic microfinance institutions currently operating in Bangladesh are able to properly follow the Shariah principles? If not, how? And why?
6. Do you think Islamic microfinance institutions in Bangladesh are currently facing challenges regarding the collection and management of source funds? If so, why?
7. What do you think can be the best source of resources used for Islamic microfinance programmes: cash waqf, infaaq, Sukuk, qard-al-hasan, or anything else? Please explain.

8. What is the perception of Islamic crowdfunding in Bangladesh? Is it possible to create a crowdfunding platform compliant with Sharia in this country?
9. What are the requirements and challenges for developing an Islamic crowdfunding model for Islamic microfinance programmes?
10. How do you think technology, particularly blockchain, can help implement Islamic microfinance programmes here?
11. What are the challenges in using Islamic social finance instruments and smart Sukuk in Islamic microfinance programmes?
12. Do you think a novel fintech- and partnership-based Islamic microfinance model can be effective in Bangladesh? If so, why?
13. How do you think Islamic Microfinance can play a role directly and indirectly to enhance financial inclusion in this country?
14. How can Islamic microfinance play a positive role in boosting the economic empowerment of the distressed people of this country?
15. What more suggestions do you want to offer about implementing Shariah-compliant microfinance programmes in Bangladesh?

APPENDIX II: Survey Responses (Sample)

Question: What measures can be taken to implement the Islamic microfinance system and popularise it in the rural areas of Bangladesh?

Respondents	Responses
R1	In order to implement Islamic microfinance programmes, both Islamic as well as conventional banks need to come forward and take necessary initiatives.
R2	Islamic microfinance institutions need to focus more on elevating the socio-economic conditions of the poor instead of profit-making. They also need to focus on raising awareness among people about Islamic microfinance.
R3	There are some cooperative societies and rural banks working in remote areas in Bangladesh. These organisations can promote Islamic microfinance. Offering Islamic finance courses is also indispensable in order to create experts in this field. So, both public and private universities need to take the necessary steps in this regard without causing any delays.”
R4	Islamic microfinance institutions should arrange training programmes so that poor microfinance recipients can understand the best ways to invest money. The government can ensure a conducive environment for Islamic microfinance to grow by providing favourable tax incentives for the parties involved in Islamic microfinance
R5	Islamic microfinance institutions have to consider how they can be sustainable, so commercial issues come automatically. However, they are philanthropic organisations above all, and hence their main focus should be how they can help more people in getting out of the

Respondents	Responses
	poverty cycle. These institutes need to raise awareness about the harms of interest-based microfinance and multiple borrowings.
R6	Special rules and regulations for conducting Islamic microfinance programmes must be developed by the Palli Karma-Sahayak Foundation (PKSF), which is the regulatory body for NGOs in Bangladesh. They also need to conduct training programmes about debt management and the importance of Islamic microfinance.
R7	When an Islamic microfinance organisation tries to work as a non-profitable organisation, it might challenge their sustainability. However, the emphasis must be given on social welfare. The government must also take the necessary initiatives to promote Islamic microfinance in rural areas in Bangladesh.
R8	The main goal of Islamic microfinance organizations should be to increase public awareness of the concept. They can appoint additional staff for this purpose.
R9	The collaboration between the government and the IMFIs would hasten the national adoption of microfinance for the purpose of reducing poverty. Even if the IMFIs could offer financial support, the government could also help by encouraging recipients to lead healthy lifestyles and giving the underprivileged access to facilities for schooling. Together, these all contribute to the success of Islamic microfinance initiatives, lowering the likelihood that borrowers will default.
R10	Through government bodies and PKSF, monitoring of Islamic microfinance institutions need to be increased. In addition,
R11	Bangladeshi people have a tendency to take loans from different microlenders simultaneously. To solve this problem, financial literacy can play the most important role. The clients of Islamic microfinance organisations have to have clear ideas about debt

Respondents	Responses
	commitment and debt management, and proper training should be given to them regarding these vital issues.
R12	Awareness about Islamic microfinance has to be increased. Both public and private universities should start courses on Islamic finance and Islamic microfinance.
R13	Government must take the necessary steps.
R14	The receivers of microcredits should receive motivational presentations on a regular basis to keep them inspired to perform to the best of their abilities in each business initiative they take on. It is also essential to remind the loan recipients of their responsibility to ensure the success of their business endeavours in order for them to be able to repay the IMFIs on time and potentially improve their chances of receiving other loans from the IMFIs in the near future. Increasing their self-confidence in this area is essential to giving the underprivileged people hope that they can succeed in life if they work hard for it.
R15	Banks need to open more branches in remote areas to start Islamic microfinance programmes.