

Islamic Microcredit: The Case of Bangladesh

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The contribution of microfinance to boost economy through poverty alleviation and employment generation is now arguably established all over the world. But based on the societal context of many countries, a new form of microfinance instrument called Islamic microcredit has emerged in the market. This research tries to explore the role of Islamic microcredit in Bangladesh in increasing the borrowers' income. For that, a total of 87 Islamic microcredit borrowers under the Rural Development Scheme of Islamic Bank Ltd. were interviewed with a structured questionnaire in the third quarter of 2015 to collect data. Expectedly, the research finds that Islamic microfinance helps the poor people get out of poverty through the rise of their income.

Keywords: Microfinance Institutions, Islamic Microcredit, Poverty Alleviation, Bangladesh
Field of Research: Finance

1. Introduction

It is estimated now that about four billion people in the world live on less than \$2 a day (Prahalad 2014, p. 4). So it has become very urgent to develop strategies that focus on reducing poverty of the people who lay at the bottom of pyramid (Collier 2012). Among the measures that have been adopted to improve the bottom billion, the financial inclusion of the poor is a crucial one. Prahalad (2014) and Hart (2005) have called this as 'inclusive capitalism.' In essence, financial inclusion or 'inclusive capitalism' refers to a method where customers have the access to a range of formal financial services, from simple credit and savings to more complex ones like insurance and pensions (Ramji 2009, p.6). However, one of the barriers to financial inclusion is that the formal financial system is very much reluctant to finance those small borrowers who are poor and possess no significant collateral to insure against their borrowing (Rajan & Gingles 2004).

By realizing this collateral problem, Professor Muhammad Yunus invented a new mode of financial inclusion which started providing financial support in the form of microcredit to the "poorest of the poor" and established the "Grameen Bank" in 1982 (Armendáriz & Morduch 2010). Initially, the primary objective of microcredit or microfinance institutions (MFIs) was to provide financial support to reduce poverty existing in the society (Baru & Woller 2004). Nowadays, however, most of the MFIs offer a variety of services like deposits taking, insurance, education

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and training, organizational help and consultancy. Because of the inclusiveness, some observers even called the development of microfinance as one of the leading innovations in the past 25 years (Servin, Lensink & Berg 2012).

Indeed, microfinance can be viewed as an important vehicle to reduce rural poverty; poor people do not have a full flag but a limited access to the financial institute (Islam, Nguyen & Smyth 2014). According to Microcredit Summit 2013, microfinance reached more than 175 million families with a total loan amount of US\$78 billion. There are mainly two direct channels which provide microcredit services to the borrowers: (i) MFIs, the main providers of direct credit, and non-government organizations (NGOs), and (ii) the apex lenders, including bank and non-bank financial institutions (Suzuki & Miah 2015). This may, however, differ in different countries. Nonetheless, the Grameen Bank (GB) model of microcredit is widely recognized and adopted by many countries without any modification (Suzuki, et al., 2011). Interestingly, the microcredit lenders are able to achieve higher loan recovery rates and returns than the formal banks, even though the borrowers are poor and not subject to any collateral (Suzuki, Barai & Uddin 2013).

Despite its widespread success, microcredit as a poverty alleviation tool is facing a sort of a new polarization in the Muslim populated countries. Like many other conventional financial products, regular microfinance is offered with a rate of interest to the borrowers. However, Islam bars any engagement with the financial products that accept or offer interest. In fact, interest is prohibited not only in Islam but also in the Abrahamic religions like Judaism and Christianity (Looft 2014) because of the belief that money cannot give birth more money (Piketty, 2014).

It is estimated that currently there are about 650 million Muslims living on less than \$2 per day and majority of them prefer the Islamic finance than others. A study by the International Finance Corporation (IFC) commissioned in Afghanistan, Indonesia, Syria and Yemen finds that there is a high demand for Islamic microfinance products in those countries. In fact, a group of Muslim clients presently practicing conventional product is ready to switch to Islamic finance if it is made reachable (Karim, Tarazi & Reille 2008). Another survey referred to by the UNDP (2012) indicates that 80 percent of the Muslim respondents claimed a preference for Islamic products over conventional products. Not only that, 45 percent of them showed their preference even if the products come at a higher price. The survey further shows that 85 percent of the current borrowers from traditional MFIs expressed their willingness to switch to Islamic products if available. Apparently, the Muslim clients have concern to fulfill the socio-economic objectives of social justice in accordance with the principles of Shari'ah (Suzuki & Miah 2015). Thus, Islamic Microfinance has an existing demand in many of the countries in the world.

By realizing the tremendous demand for Islamic microcredit, different MIFs, NGOs, Islamic and conventional banks have been offering different kinds of Islamic microfinance products. Presently, an estimated 255 financial service providers offer Shari'ah-compliant microfinance products to approximately 1.28 million clients worldwide. However, about 82 percent of the clients reside in three countries, viz. Bangladesh, Indonesia and Sudan. Interestingly, out of the total Islamic MIFs, Indonesia houses 105 of them while Afghanistan has 4, Sudan and Syria have 3 each and Bangladesh has 2 (Table 2). Seemingly, Islamic microcredit does have limited outreach so far. According to Karim (2008, p.7), Bangladesh has the largest Islamic microcredit outreach, with over 100,000 customers. Though Indonesia has the largest number of Islamic MFIs, the customer-base of those intuitions looks to be small in count.

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At this point, however, some pertinent questions arise: how does Islamic microfinance differ from the conventional mode of microfinance? Does the Islamic microfinance increase income of the borrowers? If so, to what extent? Perceiving the relevance of these questions, this paper has devoted to address them. For that Bangladesh has been adopted as the case country to explore evidence. In doing so, the paper aims to attain the following objectives: (i) Compare and contrast the model of Islamic microfinance with the conventional mode of microfinance, (ii) Find the current level of penetration of Islamic microfinance in Bangladesh as a poverty alleviation tool, and (iii) Investigate the effect of Islamic microcredit on the rise in income of the customers. Through their accomplishments, the paper is expected to contribute to the field as well as open avenues for further debate. Consequently, the paper will add value to the mainstream literature by assessing the role of Islamic finance in poverty reduction through the rise of income of the participants. This should also add knowledge on Islamic microfinance as no mentionable studies seem to exist in this field in the context of Bangladesh.

There are five more sections to achieve the objectives of the paper. Section two briefly deals with the literature on conventional and Islamic microcredit. Understanding the extent of Islamic finance and Islamic microcredit in practice becomes important in the framework of our discussion. So, an overview on these two issues has been given in section three. The methodology of the research has been delineated in section four. Section five discusses and analyzes the results of the investigation. The paper is concluded in section six.

2. Literature Review

2.1 Literature

There exists an array of literature that analyzes the conventional microfinance from various perspectives. Sarma & Borbora (2011) examine the outreach and sustainability of microfinance institutions in the district of Assam, India and find that although the MFIs have reached a large number of clients, the MFIs are still to be financially self-sufficient. Sharma, Singh and Porwal (2014) conduct a research to see the impact of microcredit on living standard, poverty alleviation and employment in Delhi by taking 50 samples using simple regression analysis and find that there is a positive effect on the living standards, poverty reduction and the empowerment of women. Hermes, Lensink and Meesters (2009) investigates the impact of MFIs' operations on the country-level financial environment by using stochastic frontier analysis (SFA) and find a positive relationship between MFI efficiency and domestic financial development. Mazumder and Wencong (2015) examine the impact of microfinance of the Bangladesh Rural Development Board (BRDB) and AID-Comilla on rural livelihood using a semi-structured interview from Comilla district of Bangladesh with a sample of 300 respondents. They use descriptive statistics, factor analysis, multiple regression, propensity score matching, and treatment effect models to analyze the effects. Their study concludes that Microfinance has a positive effect to improving the rural livelihood. Imai et al. (2012), Deloach and Lamanna (2011), Pitt and Khandker (1996) and Annim (2012) conclude the same in their studies.

On the other hand, Maldonado and González-Vega (2008) examine the relationship between microfinance and child schooling using two sets of data from the households who borrow from microfinance institutions in Bolivia. They summarize that there is a negative impact of microcredit loan on children schooling because microcredit increases child labor in the society. By taking 291

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random samples, Garikipati (2008) conducts a research to see the effects of lending to women on household vulnerability and women's empowerment in two villages, Vepur and Gudimalakapura, under the Mahabubnagar district in the southern state of Andhra Pradesh in India. They, however, conclude that although microcredit helps the poor women to improve household income, the poorest ones do not see any improvement in the household status. Adams and Von Pischke (1992) take a number of lessons from the experience of microcredit from the small farmers and conclude that small loans are not an effective tool to improve their household conditions.

On the other hand, Ganle, Afriyie and Segbefia (2015) find mixed results while exploring the effect of microcredit on women employment. Their study takes 150 in-depth interviews with rural women of Ghana using the Attride-Stirling's (2001) thematic network qualitative data analysis framework. Though there is an increase in employment due to microcredit, the study also finds harassment and worse off economic condition when poor women are unable to repay the loan on time.

So far our references are on conventional microfinance. However, a very few studies is found in the context of Islamic microfinance and the socio-economic impacts of the product on the borrowers. Abdelkader and Ben (2013) conduct a research to analyze the performance of both conventional and Islamic microfinance in Middle East and North African (MENA) countries and conclude that the religion or use of Shari'ah-compliant products does not affect the efficiency of MFI in the MENA region. Alamgir, Hassan and Dewan (2011) investigate the operating efficiency of Islamic microcredit of Rural Development Scheme (RDS) and conventional microfinance of BURU of Bangladesh. They conclude that the RDS is more efficient than BURU with its operation. Though the paper covers the efficiency part, it does not address the impact of Islamic microfinance on the rise of income and poverty alleviation of the clients.

Parveen (2009) critically evaluates the sustainability issues of interest-free MFIs, particularly the RDS, by taking a sample of three rural areas under Hathazari Thana in Greater Chittagong District of Bangladesh. The study covers a period from 1997 to 2006 and concludes that RDS could be treated as a sustainable MFI in the rural development of Bangladesh. Once again, this study fails to address the concerns this study wants to achieve.

The above survey of literature reveals that most of the studies are focusing on conventional microfinance and very few of them have dealt with the role of Islamic microfinance. This has motivated us to make an attempt to investigate the issue and fill the research gap.

2.2 Hypothesis

The effort to find literature that may reveal whether Islamic microfinance increases the household income of the poor people or works as a tool for poverty alleviation in Bangladesh has not met success. In addition, the existing literature does not provide any practical answers to these queries. Moreover, Zeller (2001, p. 217) identifies, "Access to financial services can have two principal effects on household outcomes. First, it can raise the expected value of income and, therefore, of consumption and future investment and asset accumulation." This study precisely wants to prove this theoretical understanding by accepting the following null hypothesis:

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H₀#1: Islamic Microfinance does not increase income of the borrowers.

H₁#1: Islamic Microfinance does increase income of the borrowers.

3. Islamic Finance and Islamic Microcredit – An Understanding

To understand the importance and potentials of Islamic microcredit, one needs to have a clear perspective on the operational extent of this mode of financial product in different countries including Bangladesh. At the same time, we should have a clear view on the differences between Islamic and conventional microfinance.

In essence, the fundamental premise of operations of Islamic microcredit and in the larger canvass Islamic finance lies in the non-use of interest as well as offering ownership to the participants of this financing mechanism. This is a significant departure from the conventional mode of finance where equilibrium between demand and supply is established by the rate of interest. That means, in the financial intermediation process, interest has a central role to play for its functioning and survival. On the other hand, Islamic finance and Islamic microcredit have done away with the use of interest in their operations and intermediary mechanism.

3.1 Islamic Finance

Allah has permitted trade and has forbidden interest (Al-Quran 2: 275).

Over the past few decades, the Islamic Finance is becoming an important part of the international financial system. Thus, it could be a standard query - what is Islamic finance? In simple term, Islamic finance is associated with the followers of Islam, who believe that all the power to make decision rests on "GOD" who has created the universe and all in-between. He has the super power and is the owner of all wealth and human beings are merely its trustees. Moreover, God has provided the rules and regulations through different prophets to manage this wealth for the welfare of the society, and every Muslim has to follow those rules. When the financial institutes follow those divine rules to manage their financing activities, then it becomes Islamic Finance. Nazim (2013) mentions that Islam is not only a religion, but it provides a complete way of life from individual to social, material to moral, economic to political, legal and cultural, national and international. According to him, Islam is an economic system and commercial norm; it is a policy and a method of governance; it is a society and a family conduct; it prescribes for inheritance and divorce, dress and etiquette, food and personal hygiene. It is a spiritual and human totality; thus worldly and other world (Nazim 2013). Similarly, Gait and Worthington (2007) describes that Islamic finance is a financial service principally implemented to comply with the central tenets of Shari'ah (or Islamic law). In turn, the primary sources of Shari'ah are the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad.

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Table 1: Difference between Islamic and Conventional MFIs

Grounds	Conventional MFIs	Islamic MFIs
Source of Funds	Donation from-foreign, MNC, Bank and Govt. Savings of clients	Islamic Charitable source (Zakat and Waqf) and Savings of Clients
Mode of Finance	Interest Based	Non-Interest bearing financial Instrument.
Method of funds transfer	Cash	Noncash (Goods)
Deduction at Inception of contract	Part of the funds deducted as inception	No deduction at Inception
Target group	Mainly women	Family
Dealing with Default	Group/Center pressure and threat	Group center, Spouse Guarantee and Islamic Ethic
Social Development Program	Secular, Behavioral, Ethical and Social development	Religious (Include Social, Ethical and Behavioral)

Source: Compiled. Based on Ahmed (2002); and Rahman, & Rahim, (2007).

3.2 Islamic Microcredit

Interestingly, getting a concrete definition for Islamic microcredit could still be a difficult task. A survey on the literature helps us get the view that Islamic microcredit is the small loan offered by the microcredit institutes under *Shari'ah* compliance. So *Shari'ah* compliance becomes a central element in the operational efficacy of this financial product. Taking a cue from here, we can try to find some differences between Islamic and conventional microfinance. In fact, the two could be separated on a number of grounds including the sources of fund, mode of finance, method of fund transfer, target group and so on. But the principal separators lie here – conventional microfinance deals with interest which is strictly prohibited in Islamic finance. On the other hand, Islamic finance follows Islamic principle in the management and ownership structure in handling them. Table 1 has been constructed to show the differences between the two modes of financing. It should be added that in the beginning, the Islamic MFIs offered only one financial instrument, viz. profit and loss sharing Mudarabah. But now they provide a variety of services including Amanah/Wadia (Saving account), Ijara (lease), Takaful (insurance) and Bai salam (Advance Sale).

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Table 2: Outreach of Islamic Microfinance, by Country, 2008

Region	No. of Included Institutions	% Female (Avg.)	Total No. of Clients	Total Outstanding Loan Portfolio (US \$)	Avg. Loan Balance (US \$)
Afghanistan	4	22	53,011	10,347,29	162
Bahrain	1	n/a	323	96,565	299
Bangladesh	2	90	111,837	34,490,490	280
Indonesia	105	60	74,698	122,480,000	1,640
Jordan	1	80	1,481	1,619,909	1,094
Lebanon	1	50	26,000	22,500,000	865
Mali	1	12	2,812	273,298	97
Pakistan	1	40	6,069	746,904	123
West Bank & Gaza	1	100	132	145,485	1,102
Saudi Arabia	1	86	7,000	586,667	84
Somalia	1	n/a	50	35,200	704
Sudan	3	65	9,561	1,891,819	171
Syria	1	45	2,298	1,838,047	800
Yemen	3	58	7,031	840,240	146
TOTAL	126	59	302,303	197,891,882	541

Source: Karim, Tarazi, and Reille (2008).

Table 2 highlights the level of penetration of Islamic finance in some of the Muslim-majority countries in the world. Interestingly, the home ground of conventional microfinance Bangladesh leads the list in terms of the number of clients while Indonesia tops the countries in terms of the amount of total outstanding loans. Afghanistan and Lebanon are the other two countries which have seen a level of activities related to Islamic microfinance.

In addition, two important issues that appear from Table 2 are the number of clients served by the institutions and the percentage of women in those clients. It seems that the member of borrowers per institution is the highest in Bangladesh while Indonesia has 105 MFIs to serve a fewer number of customers. Interestingly, the organization in the West Bank and Gaza seems to have only female members to borrow Islamic microcredit while female borrowers constitute 90 percent of the total customers of the two MFIs in Bangladesh. So the aggregate number of women borrowers is large for each of Islamic MFIs in Bangladeshi.

4. Methodology

The argument in the paper has followed both qualitative and quantitative approaches to achieve the identified objectives. The following discussion of this section lays out the data, variables, and model through which the paper wants to accept or reject our accepted hypotheses.

4.1 Data and Variables

According to Bateman (2010, p. 25), “poverty is not simply a lack of income; it is also a lack of income at the time it is needed”. That is why we have included a number of variables in the investigation to analyze the effect of Islamic microcredit on the rise of income. That is, any increase in income after taking Islamic microcredit becomes the dependent variable to see the improvement of livelihood of poor household while total loan amount remains one of the independent variables. In the model, variables such as age, family size, education level of the participant and value of income from other have been accepted as control variables. It is already mentioned that Zeller (2001) views that access to financial services can raise of income. Therefore, we can sense that there would be a positive relationship between increased income and Islamic MFIs loan. Thus, this research is going to provide a new evidence of Islamic microfinance which in the words of Glatthorn and Joyner (2005, p.19) may be termed as an extension of the existing knowledge.

Selection of the Rural Development Scheme of Islamic Bank Bangladesh Limited (IBBL) for the proposed the study is based on the fact that almost 80 percent of Islamic microcredit in Bangladesh is disbursed under this scheme. So assessing any income impact of Islamic microcredit could be best served by taking the samples from the participants of the scheme. In that effort, this study covers 10 RDS centers from three unions (Sundalpur; Baro Para; Gouripur) in Daudkandi Upazila under Comilla, Bangladesh. Data was collected during August-September, 2015 via face-to-face interview by using a structured questionnaire survey of 87 randomly selected respondents. All the respondents are directly engaged with the RDS. To analyze the data *SPSS 17.0* and *STATA SE12.0* statistical tools have been used.

4.2 Model Specification

Any impacts of a credit program may be assessed by comparing the pre- and post-position of economic well-being of the beneficiaries of any program. In case of Islamic microcredit, changes in a number of factors or variables may be taken into consideration. They could be like income, real and financial assets building, standard of living and poverty status before and after engagement with credit program and so on. Here any improvement in the living standard is reflected in terms of change in sources of drinking water, hygienic and sanitation practices, medicare, annual expenditure on clothing, electricity consumption, etc. (Mazumder & Wencong, 2013). With the rise of their income, the beneficiaries of credit generally enjoy a better access to all these types of services which ultimately should reduce their poverty situation.

For the purpose of developing a model, our study tried to locate any research that has used any model to test the poverty impact of Islamic microcredit in Bangladesh. Unfortunately that has not met with success. That is why the literature review section of the paper does not get any reference of such studies. However, we find that there are similarities in objectives and operational mechanism of both Islamic microcredit with that of the conventional microcredit. So we wanted to design a model based on one that has been used to assess the impact of microcredit for our study. However, the adopted model of this paper is not a replica of any of such studies.

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The closest one we find is by Mazumder and Wencong (2013) who used a regression equation that has total income of the respondents as the dependent variable against the loan amount received, income through utilization, number of earning members, year(s) of schooling and household size of the respondents as control variables. Similar regression framework have been used by Coleman (1999); Montgomery (2005); and Kondo (2007) to evaluate the impact of microcredit, though they differ in picking up of the independent variable.

So, to assess the income-effect of Islamic microcredit, we have used the following multiple regression equation to identify the relationship between dependent and independent variable.

$$y_i = \alpha_i + \sum_{i=0}^n \beta_i X_i + \varepsilon_i \dots \dots \dots (1)$$

Where,

- y_i* = Dependent Variable
- α_i* = Intercept of the Equation
- β_i* = coefficient of *X_i* variables
- X_i* = Different Independent variables
- ε_i* = error terms

Calibration of our variables into the model yields the following equation:

$$INCOME_i = \alpha_i + \beta_1 LOAN_i + \beta_2 SIZE_i + \beta_3 AGE_i + \beta_4 EDUCATION_i + \beta_5 WEALTH_i + \varepsilon_i$$

Where,

- INCOME*=Total Income Earned
- LOAN*= Size of Islamic Microcredit
- SIZE*=Family Size
- AGE*= Age of the Member
- EDUCATION*= Highest Educational level Child of the Member
- WEALTH*=Other Income generating Sources

As we know, to be a unique estimation model, independent variables should be independent among themselves as a high correlation between the independent variable causes multicollinearity (Kroll, & Song, 2013). This should lead to invalid results. So to avoid multicollinearity among the independent variables, the researchers have prepared the correlation matrix and found no high correlation among them (Table 3).

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Table 3: Correlation Matrix

	LOAN	AGE	SIZE	EDUCATION	WEALTH
LOAN	1.0000				
AGE	0.0542	1.0000			
SIZE	-0.1299	-0.1061	1.0000		
EDUCATION	0.2309	0.4420	-0.1797	1.0000	
WEALTH	0.4926	0.0287	-0.0602	0.1270	1.0000

Source: Calculated. Data based on Field Survey, 2015

Thus, the regression equation used in the study is similar to that one employed by Mazumder and Wencong (2013) for their research. But the two differ in two areas – the context and the type of control variables. Mazumder and Wencong (2013) have used their model to assess the income effect of conventional microcredit while we have used our model for assessing the income effect of Islamic microcredit. Moreover, our study has accepted Size of Islamic Microcredit, Family Size of the Respondent, Age of the Member, Highest Educational Level of Child of the Member and Other Income Generating Sources as control variables on the consideration that they have significant bearing on the total income of the borrowers. Explicitly, they do not form the same set of dependent variables accepted in the equation of Mazumder and Wencong (2013).

5. Findings and Discussion

This section covers explanation on the results of the study including the profiles of respondents, the amount/size of Islamic microcredit they borrow from the MFIs and impact of that credit and some other variables have on the total income of the participants.

The gender profile of the total respondents of 87 shows that 16.1 percent (n=14) of them are male, and the rest 83.9 percent (n=73) are female (Table 4). In terms of occupation among the men, 43.75 percent (n=7) are small business owners, 56.25 percent (n=9) are daily laborer while 33.8 percent (n=24) of the female respondents are producing handicrafts and 66.2 percent (n=47) are housewives (Table 5). In addition, the distributions of family size of the respondents are as follows: 28.7 percent (n=25) with 3 members, 20.7 percent (n=18) with 4 members, 26.4 percent (n=23) with 5 members and the rest 24.1 percent (n=21) have a family size of more than 5 members (Table 6).

Table 4: Gender Distribution

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	14	16.1	16.1	16.1
Female	73	83.9	83.9	100.0
Total	87	100.0	100.0	

Source: Field Survey, 2015

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Table 5: Occupation

Items	Frequency	Percent	Valid Percent	Cumulative Percent
Business	7	8.0	8.0	8.0
Handicrafts	24	27.6	27.6	35.6
Housewife	47	54.0	54.0	89.7
Labor	9	10.3	10.3	100.0
Total	87	100.0	100.0	

Source: Field Survey, 2015

Table 6: No. of Dependents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	25	28.7	28.7	28.7
	4	18	20.7	20.7	49.4
	5	23	26.4	26.4	75.9
	5+	21	24.1	24.1	100.0
	Total	87	100.0	100.0	

Source: Field Survey, 2015

Table 7: AGE of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
20–25	14	16.1	16.1	16.1
25–30	17	19.5	19.5	35.6
30–35	19	21.8	21.8	57.5
35–40	15	17.2	17.2	74.7
40–45	13	14.9	14.9	89.7
45–50	9	10.3	10.3	100.0
Total	87	100.0	100.0	

Source: Field Survey, 2015

Table 8: Size of Borrowings of Islamic Microcredit (Loan)

Bangladeshi Taka (BDT)	Frequency	Percent	Cumulative Percent
Up to 50,000	29	33.3	33.3
50,001-1000,00	12	13.8	47.1
100,001-150,000	12	13.8	60.9
150,001-200,000	21	24.1	85.1
Over 200,000	13	14.9	100.0
Total	87	100.0	

Source: Field Survey, 2015

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A scale of below 20 to more than 60 years have been used to record the age group of the respondents though the actual respondents have an age distribution between 20 and 50 (Table 7). Based on age, 16.1 percent (n=14) of them are in the range of 20-25 years, 19.5 percent (n=17) of 25-30 years, 21.8 percent (n=19) of 30-35 years, 17.2 percent (n=15) of 35-40 years, 14.9 percent (n=13) of 40-45 years and 10.3 percent (n=9) are in the range of 45-50 years (Table 7). Similarly, the distribution of borrowings of Islamic microcredit shows that almost half of them borrow less than BDT100, 000 (Table 8). Interestingly, the number of people who borrow more than BDT150, 000 constitutes to be significantly higher – 40 percent of the total. This creates the possibility of higher income effect of the because of the higher positive correlation between total income and the size of the amount borrowed.

The analysis (Table 9) of the findings give the R-squared value of the regression as 0.8516, meaning thereby that 85.1 percent of variation in the dependent variable are explained by the independent variables accepted in the model. In regards to the relationship between income and Islamic microcredit, the results indicate a significant positive association between them. Moreover, having $p > 0.00$ value means that the loan amount is able to affect the income of the borrowers significantly. This outcome is also supported by the findings of Idris and Agbim (2015); Nelson and Nelson (2010) Pitt and Khandker (1998); Khandker (2005); Shil (2009) and Mazumder and Wencong (2013). In our regression, total income of the respondents is significantly correlated with borrowing or loan size and. Though the size of the family income has positive relation, the relationship is not that significant. On the other hand, age of the interviewees is positively and significantly related with income ($p > 0.01$). In other words, aged borrowers may be more capable in investing their loan in higher income generating areas than the younger. However, the negative association between children's education and income of the respondents may be explained by the fact that the borrowers might be diverting and spending some of their borrowed money for the education of their children instead of using them for further income generating causes. However, the value of the coefficient is not significant. Though we expected a positive correlation between wealth and income generation, the results turned out to be negative but insignificant.

Table 9: Regression Analysis

INCOME	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
LOAN	.0301108*	.0029128	10.34	0.000	.0243153	.0359064
AGE	196.0395*	74.03492	2.65	0.010	48.73324	343.3458
SIZE	99.14994	93.49536	1.06	0.292	-86.87651	285.1764
EDUCATION	-67.98201	92.89144	-0.73	0.466	-252.8068	116.8428
WEALTH	-.0022061	.0017861	-1.24	0.220	-.0057599	.0013478
_cons	-172.3334	586.3982	-0.29	0.770	-1339.082	994.4151

Note: * value significant at 1 percent level.

Source: Field Survey, 2015/STATA (Version SE12.0 for Windows) Output

Overall, the findings of the study reject the null hypothesis and accept the alternative or maintained hypothesis.

Though the result of this paper is similar to that of the study of Mazumder and Wencong, (2013), there is significant difference between them when it comes to the ability to explain the changes in total income by the independent variables as indicated by the R^2 value. The study of Mazumder

and Wencong (2013) has a relatively low R^2 value. There could be a number of factors behind this value including the size of borrowing which is significantly lower in case of the traditional microcredit. This research also shows that the relation between income increase and children education is negative while income and the family size are positively related but not significant. But this finding may still be a cause of concern. For example, if a bigger-size family earns extra income that means the family members are more engaged in income generating activities. Implicitly, even Islamic microcredit may be invested in areas that may require the children of the family to work. Instead of being a solution, this could be a cause of many other problems.

6. Conclusion

The contribution of conventional microfinance to help economy is widely accepted now. This is felt especially in poverty alleviation, employment creation and the improvement of socio-economic condition of poor people. But literature shows that sometimes microcredit is infeasible to operate mainly in the Muslim-majority countries. As a result, the Islamic microfinance has emerged as the substitute and viable financial tool. However, the impact or effect of Islamic microcredit on those variables has so far remained a less investigated upon issue. This paper has put an effort to examine the income effect of Islamic microcredit on borrowers in a particular area of Bangladesh. Our assumption was that if, due to Islamic microcredit, the income of the borrower's increases then that should also play a role in their poverty alleviation. The paper finds that Islamic microcredit has been able to enhance the income of the respondents. This positive association between Islamic microcredit and increase of income of the borrowers should help lift them out of poverty as well. For the academia, this study provides a new evidence of the effect of Islamic microfinance, particularly in the rise of income of the participants.

The findings of the study may encourage the policymakers to assist the process to channel credit to the poor people who are averse to borrow from the conventional microcredit sources. But an area of concern is the possible use of child labor due to the effort by the borrowers to earn extra money by the borrowed fund through the employment of their children in income generating activities. The findings of this paper are, however, based on a field survey on a small area of Bangladesh, and it does not deal with the sustainability issue of Islamic microcredit. These limitations may be addressed by further research.

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