

Effectiveness of Islamic Microfinance in Alleviating Poverty: Empirical Evidence from Bangladesh

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Abstract:

Islamic Micro - finance (IMFc) is an evolving technique to empower the deprived and needy population. The present study was intended to investigate the effect of the IMFc on the resources of individuals borrowing from an Islamic microfinance institution and their poverty status. The prime intention of this paper is to justify the effect of IFMc for poverty alleviation. The study reveals that IMFc programs have introduced a positive result on significant numbers of poor. Islamic microfinance has significant impacts on income, savings and expenditure levels of the household. The analysis shows that in general, the Islamic micro finance is an instrument that can help to accumulate savings and income and finally assist to alleviate their poverty. But still it is not only the instrument that can alleviate poverty but it is the vital component that can help to the poor people for standard living levels. Our analysis shows that after taking Islamic finance there is a significant change in the respondents' income savings and expenditures.



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Introduction

Poverty is a complex issue that is reflected in lack of food, physical disability and basic needs. By widening Islamic Microfinance in contemporary age, financial institutions are playing pivotal roles to ease the poverty, but a collateral effort is needed to perform this duty. Different projects by international development organizations have been undertaken in this respect. Among them initiatives one is Grameen Bank that initiated in 1976 for microfinance in Bangladesh. In many countries Grameen Model has repeated since its introduction where MFIs serves their services under a social collateral umbrella. Though the microfinance industries are rapidly broadening globally and plays an important part on poverty alleviation (Mosley,1999; Khandker,2003; Morduch and Aghion,2005; World Bank,2013). Its effectiveness has challenged because of high interest feature. Mannan,2007 claimed that Grameen Bank charged at least of 54.95% if we included hidden costs. Therefore, as participation in Islam is strictly prohibited, most practicing Muslims attempt to escape traditional microfinance. It has been noted that 72% of Muslims reject financial services in most countries (CGAP, 2008). Due to its interest-free feature, IMFcs is becoming popular alternative of traditional microfinances both in Muslim and non-Muslim societies. In addition, there are several different sub-modes, such as zakat, sadaqat, Murabaha, waqf, Qarz e Hassan, Bai-Salam, Bai-Mudaraba, Bai-Musharakah, etc (IFAD 2013; Bano,2012; ADB 2009). For the poor Muslims Islamic Microfinance (IMFs) is an extra attraction who can improve their living status by reducing poverty in a greater context (Ihsan; Gustina, 2010).

Objectives of the Study

The basic focus of this analysis is to analyze the effect of Islamic Microfinance (IMFc) on respondents' welfare. For that the specific objectives are: To justify the effect of IMFc programs on poverty alleviation, to specify the factors affecting to respondents' poverty situation and finally to evaluate the whether the Islamic microfinance programs are effective in ensuring welfare of the IMFc borrower.

Data Collection and Methodology

This study is based on primary data that have been gathered by the researcher from Lakshmipur district of Bangladesh through questionnaire during January 2020. A well-organized questionnaire was prepared for collecting data. Our study picks the data sample and information from Islami Bank Bangladesh Limited (IBBL). The survey covers different specific information of 250 microcredit borrower. The collection of participants was rendered by using a multi-phase simple random sampling technique. In first phase, two (Ramganj and Raipur) out of five upazilas under Lakshmipur district are randomly selected. There are 10 unions under each of Ramganj and Raipur Upazilas. In second phase, from each upazila two unions have chosen randomly. These are Kanchanpur, Lamchar of Ramganj upazila and Char Pata and Char Mohana of Raipur upazila. In third phase, two villages from each union are selected randomly. Finally, the specific respondents of selected villages were listed from the zila IBBL branch officer.

The sample size of the respondents was determined using the formula:
$$N = \frac{Z^2 pq}{d^2}$$

Where, N = Minimum sample size, Z = 1.96 which corresponds to the 95% confidence level, p = Prevalence of 2% (0.02), q = 1-P = 0.98, d = precision level 2% (0.02) and

$$N = \frac{1.96^2 \times 0.02 \times 0.98}{0.02^2} = 188$$

When adjusted for a non-responder's rate of 20%, N is 420. Hence, a sample of 420 respondents separately from the above mentioned institution was selected. Therefore 420 questionnaires were prepared of which 400 filled-in questionnaires were collected. Finally,

the total sample size was 200. Independent samples test has been done to compare respondent's savings level before and after taking Islamic microfinance. On the other hand, researchers have analyzed frequency distribution of the respondents according to age, education, gender, number and earners in the household, occupation, size and residential status was presented in Tables and discussed in the paper. Computer software mainly SPSS version 20 are applied to analyze the data.

The Model

The specific model is

$$Welfare = \alpha + \beta_1(RA) + \beta_2(DR) + \beta_3(TYR) + \beta_4(OR) + \beta_5(RE) + \varepsilon \dots \dots \dots i$$

Where the independent variables are: RA = Respondent's Age, RE= Respondent's Education, DR =Dependency ratio, TYR= Total income of respondent, RO= respondent's Occupation, ε = Error terms and dependent variable is respondents' welfare.

Analysis of Findings

Sample Characteristics

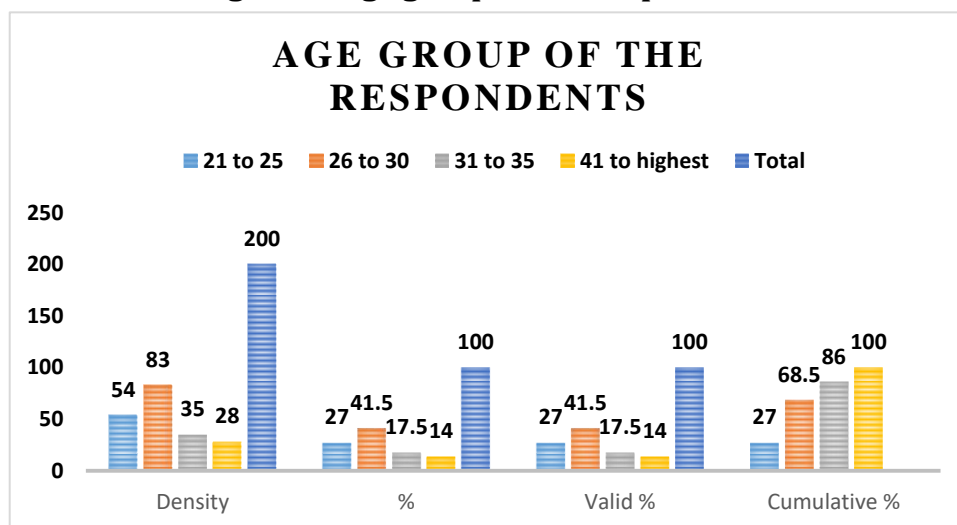
Table- 1,2,3,4 summarizes the respondent's socio-economic and demographic characteristics according to their age, gender, and educational background, number of earners and dependents of households, occupation, residential status and family size. A number of researches in the region have found that those factors had significant impact on the respondents borrowing and standard living levels. The respondents' profile is discussed in the following sub sections.

Table-1: Age group of the Respondents

Age in Years		Density	%	Valid %	Cumulative %
Valid	20 to 30	264	66.0	66.0	66.0
	31 to 40	69	17.3	17.3	83.3
	41 to 50	44	11.0	11.0	94.3
	51 to highest	23	5.8	5.8	100.0
	Total	400	100.0	100.0	

Source: Analysis of Field-work by SPSS

Figure-1: Age group of the Respondents



Source: Analysis of Field-work

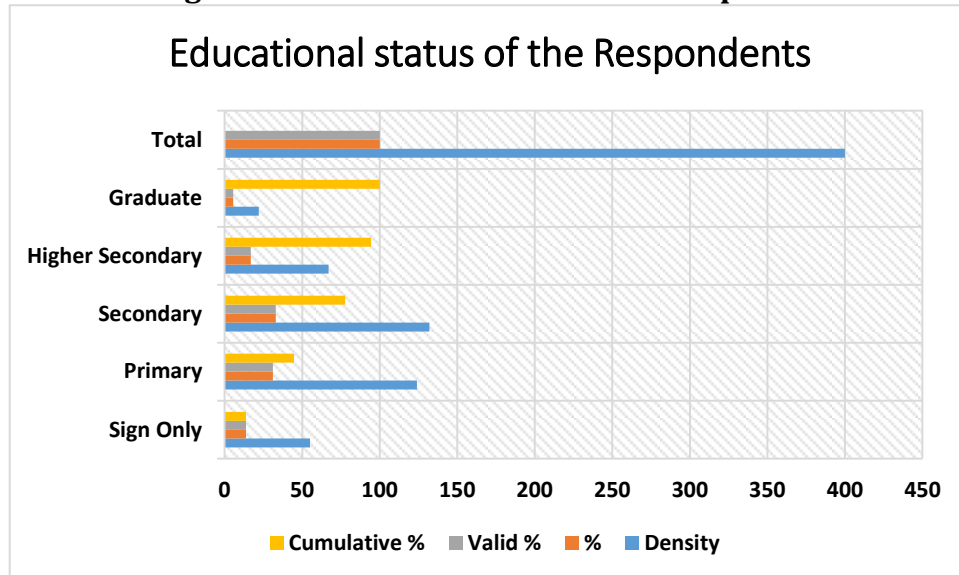
Figure-1 shows that the most of the respondents belong to the mid-age group (20-30 years) which is 66%. Age of respondent is average 30.84 years where maximum is 52 and minimum is 21 years. By increasing in respondent's age, the probability will decline where savings of respondent increases.

Table-2: Educational status of the Respondents

Educational Status		Density	%	Valid %	Cumulative %
Valid	Sign Only	55	13.8	13.8	13.8
	Primary	124	31.0	31.0	44.8
	Secondary	132	33.0	33.0	77.8
	Higher Secondary	67	16.8	16.8	94.5
	Graduate	22	5.5	5.5	100.0
	Total	400	100.0	100.0	

Source: Analysis of Field-work by SPSS

Figure-2: Educational status of the Respondents



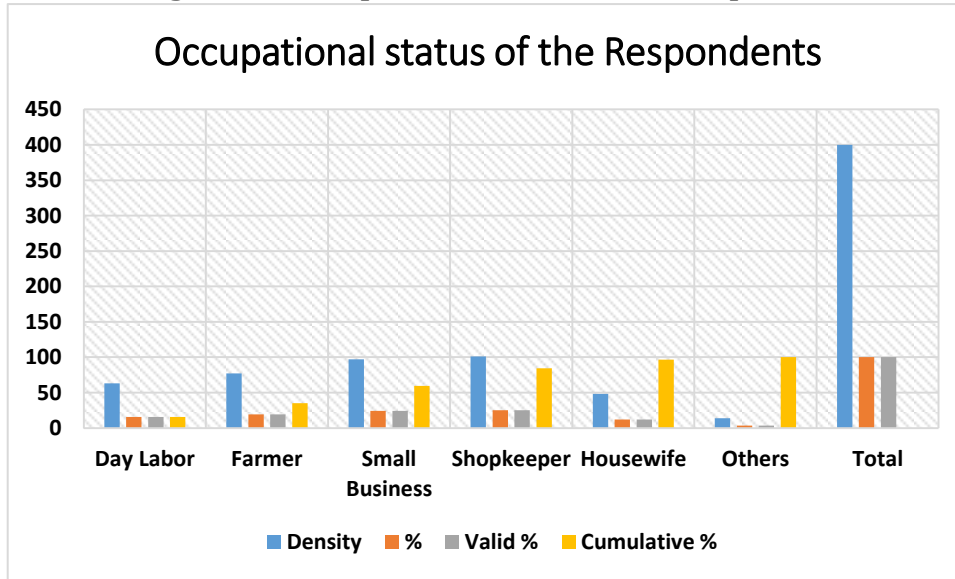
Source: Analysis of Field-work

Table-2 & Figure 2 shows that most of the respondents are educated and among them 33.0 % are completed secondary school certificate (SSC) where 5.5 % are graduate and 13.8% are capable to sign only.

Table-3: Occupational status of the Respondents

Occupation		Density	%	Valid %	Cumulative %
Valid	Day Labor	63	15.8	15.8	15.8
	Farmer	77	19.3	19.3	35.0
	Small Business	97	24.3	24.3	59.3
	Shopkeeper	101	25.3	25.3	84.5
	Housewife	48	12.0	12.0	96.5
	Others	14	3.5	3.5	100.0
	Total	400	100.0	100.0	

Source: Analysis of Field-work by SPSS

Figure-3: Occupational status of the Respondents

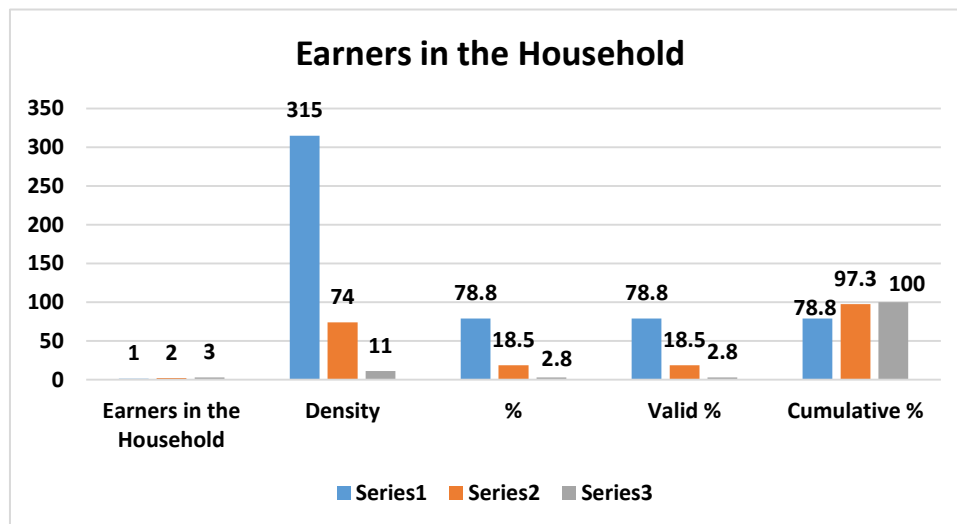
Source: Analysis of Field-work by SPSS

In this table-3 & figure-3 we see that 25.35 are shopkeeper that means small traders and small businessman are 24.3%. Since Bangladesh is an agricultural country so farmers are 19.3%. Only housewife whose have no specific job they do for self-reliance.

Table-4: Earners in the Household

Earners in the Household		Density	%	Valid %	Cumulative %
Valid	1.00	315	78.8	78.8	78.8
	2.00	74	18.5	18.5	97.3
	3.00	11	2.8	2.8	100.0
	Total	400	100.0	100.0	

Source: Analysis of Field-work by SPSS

Figure-4: Earners in the Household

Source: Analysis of Field-work

Table-4 & figure 4 shows that most of the households' earners are single which 78.8% are and rests of them are dependents. In indicates a large number of people are not self-employed or employed.

Table 05: Regression results of welfare and independent variables

Model Summary					
Model	R	R ²	Adjusted R ²	Std. Error of the Estimate	Durbin-Watson
1	.951 ^a	.948	.935	.024751	1.977

Coefficients		Std. Error	Beta	T	Sig.
Valid	(Constant)	.245		.530	.597
	Respondents' age	.044	-.018	.600	.049
	Respondent' education	.019	.026	-.844	.099
	Occupation of Respondent	.064	-.059	1.912	.057
	Respondent's Income	.024	.117	5.139	.000
	Dependency ratio	.022	-.010	-.270	.087

Source: Analysis of Field-work by SPSS

The value of the coefficient RA (Respondent's Age) is negative, which means that the welfare declines due to the inexperience and unemployment of youth. This is mean that, the probability will fall with the increase of respondent's where the welfare of respondent will increase. That means there is a negative effect of coefficient of RE (Respondent's Education) on poverty and income. This assumes that, more educated individual has greater ability to exploit capital and technologies and escape poverty. The coefficient.026 means that, 1% increases in respondent's education will cause an increase the welfare by 2.6. On the other hand, the coefficient of respondent's occupation is -0.059 means that, occupational status does ensure the variation on welfare of the respondent when other elements remaining constant. Total income of the respondent (TYR) plays a vital role to maintain welfare of the respondents. Our survey evident that, coefficient of TYR (Total Income of the Respondent) effect negatively on respondent's poverty. Coefficient of respondent's savings is .117 refers that by condition of other elements remaining fixed, 1 unit raising in respondent's income will cause to raise the respondent's welfare in 1.7.

There is a positive effects of coefficient of NDR (Dependency ratio) has on poverty, greater of NDR cause lowers in income. Coefficient of NDR is -.010 indicates that 1 unit increases in NDR of household will decline the welfare of household by 1.0 if all other elements are same. Survey data proved that the degree of poverty raise by raising of NDR.

Table 06: Regression results of welfare and independent variables

Group Statistics						
Does Islamic microfinance help to ensure respondent's welfare			N	Mean	Std. Deviation	Std. Error Mean
Welfare level after taking credit (WLATC)	Yes		271	4317.42	1897.93	115.29
	No		129	3357.36	1831.00	161.21
Welfare before taking credit (WLBTC)	Yes		271	1594.10	1234.31	74.98
	No		129	1480.62	1672.86	147.29

Source: Field survey

Table 07: Regression results of welfare and independent variables

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2tailed)	Mean Difference	Std. Err.	95% confidence level	
									Lower	Upper
WLATIMFs	Equal variances assumed	.11	.074	4.78	398.00	.00	960.05	.074	565.41	1354.70
	Equal variances not assumed			4.84	260.15	.00	960.05	.019	569.78	1350.32
WLBTFMs	Equal variances assumed	1.23	.027	.76	398.00	.00	113.48	.074	178.94	405.89
	Equal variances not assumed			.69	196.68	.00	113.48	.027	212.46	439.41

Source: Field survey

Note that, WLATIMFs = Welfare After Taking Islamic Microfinance, and WLBTFMs indicates Welfare Before Taking Islamic Microfinance

Table 7 shows comparative savings statistics of respondent (before and after taking Islamic microfinance). After taking Islamic microfinance around 271 numbers of respondents say that Islamic microfinance can accumulate their savings and it is an instrument that can help them to alleviate poverty and enable them to achieve self-reliability.

Major Findings

At the end time it can conclude that Islamic microfinance is effective in introducing welfare of the life of respondents. Our analysis results assume that there is a positive and remarkable impact of respondent's age on their assets and income. By growing older the income also increases. Our results further suggest that educations of the respondents are a notable factor that positively effect on assets and income. Research findings indicates an enhance in borrowers' income due to their education. Also it is noticed that households with more working members enjoy greater outcomes.

Challenges of Islamic microfinance in the Economy of Bangladesh

Peoples of our society have a Misconception on Islamic microfinance and liability. Most of the people think that, Islamic microfinance is like other microcredit. But Islamic microfinance ensure proper use of funds and effectively works on alleviating the poverty. Microfinance are based on especially poor and moneyless talents. So they have to provide funds to many of their borrowers without any security in many cases. But the borrower may be failed to back the funds. Consequently, the organizations feel in high insecurity due to Lack of security. The installments are collected by some field officers that really pitiable. Some of the field officers use wrong tactics even force to collect the installments. Majority people beliefs, microfinance increase dowries. Microfinance will increase dowries if we can't ensure the best utilize the financed funds. And Islamic microfinance ensure it by providing instruments or goods instead of cash.

Recommendation on Basis of Finds

In order to be more competitive in micro-financing, we should prioritize–An effective frequent audit on the problem and prospects of borrower; Ensure the best utilize of the funds, are financed; Raise the public awareness and make clear the issue of Riba (interest); Making sufficient rules and follow up schedule for the operation of Islamic microfinance; Ensure suitable appreciation, sympathy as well as the attitude of officials; place more emphasis on

sustainable rural economic purposes, particularly in agriculture; and small enterprises; Further research in Islamic microfinance. If we meet the rising demand, we can expect that Islamic microfinance will become a weapon to eradicate poverty. Then can we relieve Bangladesh from hunger and poverty by utilizing the industry and talents of root level population.

Conclusion

Our current research is on an Islamic microfinance organization with the aim of studying the effect of Islamic microfinance for poverty alleviation. This research reveals that Islamic microfinance programs have a positive effect on large numbers of the poor people. By which it is proved that, Islamic microfinance has significant impacts on income, savings and expenditure levels of the Islamic microfinance borrower's household. It is the matter of thinking that the conventional microfinance ensures their profit before ensuring the welfare of the borrower. We have experienced by many more families suffer very badly by traditional microfinance. On the other hand, the Islamic microfinance ensure the welfare of the borrower by considering the problems and accidental situation and disaster situations as well. The another better side of Islamic microfinance is that, the give extra time for installment payment and in some case the provide "Qard Al Hasanah" in some emergency situations like the marrying of the borrower's daughter, recession season of project, etc. The policy makers should recognize the importance of Islamic microfinance for Bangladesh and should implement the shariah rules for issuing any microfinance in the war of alleviating poverty.

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