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Interest-Free Microfinance Arrangements and Its Impact on the Livelihood of Women in India

Faizan Khan Sherwani[1], Sanaa Zafar Shaikh[2], Zoya Zafar Shaikh[3]

[1]JamiaHamdard University New Delhi, India
[2,3]University of Houston Texas, U.S.A

ABSTRACT

Objective –The purpose of this study is to examine the impact of interest-free microfinance arrangements on the livelihood of women in India. Studies reveal that the existence of interest-free microfinance, as well as its outcome on the livelihood of weaker sections of society (particularly women), overall improved their well-being.

Methodology –Exploratory and cross-section analysis is used to understand the satisfaction level among non-conventional microfinance arrangements. Survey of non-conventional microfinance beneficiaries exposes the status of women's' earnings, financial literacy, skills development, employment generation, household savings and poverty alleviation.

Findings–Interest-free microfinance products like Zakat, Sadaqah, and KarzeHasna will successfully meet micro-financing core objectives of poverty alleviation, women empowerment, gender equality, prosperity, and employment. The analysis showed that the performance of interest-free microfinance consumers is better than conventional microfinance consumers.

Novelty –This study is an original which is based on the demographic, sociocultural and regulatory framework of interest-free micro finance systems to identify the acceptability in the Indian financial system. The discussions in the study are mainly concerned with the empirical review of the impact and effect of interest-free microfinance on the lifestyle of female microfinance users after obtaining a loan i.e., their income, expenditure, saving, entrepreneurship, consumption, and women participation in earning income in India.

Type of Paper: Empirical

JEL Classification: G20, G21.
Keywords: Entrepreneurship; Livelihood; Education Development; Living Standards; Women Empowerment

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1. Introduction

Indian women are one of the most disadvantaged groups in society. In order to achieve inclusive growth and overall development, gender equality and the prosperity of women within society are highly dependent on the empowerment of women (S. Ahmad et al., 2017).

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* Corresponding author: Faizan Khan Sherwani
E-mail: sherwanifaiz@gmail.com
Affiliation: Jamia Hamdard University New Delhi, India

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Socially and economically, women are more capable of protecting and supporting their family members in difficult times than men (Braidotti, 1994; Moser, 1989). While poverty alleviation remains an unforgettable goal of Islam society, microfinance is the best approach and strategy to eradicate poverty. Many elements of microcredit can be measured consistently with the broader goal of interest-free microfinance. In microfinance systems, microcredits or microenterprises are promoted along with risk sharing as tools for inclusion of the poor (Dhumale, R.; Sapcanin, 1998). Moreover, the interest-free microfinance model can offer an alternative paradigm for millions of poor individuals who are currently not accommodated by conventional micro financing. Nonetheless, the association to interest-free micro financing may be due to religious constraints, easy documentation and procedure, low processing fees, and other motives.

Table 1. Parameter of Women Empowerment

Social	**Economical**
Status of family in society	Income level
Literacy level	Savings
Awareness regarding health and sanitation	Standard of living
Ability to express views	Access to credit
Position in family	Awareness about banking products and other financial schemes of government
Make decisions about children's education	Awareness about policies of local, state and central government
Status of family in society	

The emergent problems and challenges in India also compel us to adopt a rational support system to empower women through interest-free microfinance (IFMF) arrangements. At an initial level, the distribution of interest-free loans in certain instances is an example of how Islamic microfinance contributes considerably to the eradication of poverty in India. For more than 2 decades, microfinance has played a significant role in the alleviation of poverty, generation of employment, and empowerment of women in India and across many other developing nations. Despite this, microfinance institutions typically charge interest rates of between 24 to 36 percent, and even more for loans to fight hunger and poverty worldwide. This empirically proves that UN Millennium Development Goals are not going to achieve expected results. Over 60% of MFIs' funds are derived from commercial banks at their lending rates.

Despite increased interest rates, many MFIs still rely on donor funds, grants, and subsidies to make ends meet. Ultimately, microfinance customers experience high interest rates and fees, which significantly hinders their ability to develop their entrepreneurship. In fact, the majority of micro finance customers experience high levels of debt - covering loan payments by obtaining a new loan from other commercial banks. Results show that micro finance customers are struggling from over indebtedness, anticipating bigger credit risks ahead. A large section of the Indian population is still in existence which is surviving well below the standard of living; these people subsequently become active participants in the larger economy. It has been suggested that interest-free micro finance could be a powerful model to contribute to the success of poverty alleviation programs. Therefore, commercial banks, along with conventional micro finance institutions, should also implement an interest-free micro finance model as they have expert human resource and proper infrastructure to assist in the development of this industry as a mass tool for poverty alleviation. The irony is that with interest-free micro finance, its target group is one of the most ignorant part of society. Therefore, a campaign of advertisement and consultancy is required for it to work. The Indian government should also take some concrete to establish interest-free micro finance by establishing some banks for the application of interest-free micro finance in different parts of the country.

Microfinance clients would have to be apprised of the different types of Islamic banking techniques; for example, capital financing (Mudaraba), partnership financing (Musharaka), markup or costs-plus-profit based financing (Murabaha), cost plus sale under deferred payment, (Bai-Muajjal) leasing (Ijara), advance purchase (Bai-Salam) and hire-purchase investment under (ShirkatulMeelk). Hence, it clears the doubts about Islamic banking models and explores greater awareness about the knowledge of interest-free micro finance products. On the other hand, Islamic banking would benefit micro entrepreneurs who would otherwise not be able to access credit markets, as well as investors in Islamic finance who might be inclined to diversify their investments via microenterprises (Abubecker, F.; Sherwani, F. K.; Nomani, A.; Shafeeq, 2020). A microfinance model without interest can also provide an alternative paradigm to millions of poor people, especially women who are not currently served by conventional microfinance systems. Muhammed, (2016) explains in his study that the "interest-free micro finance funds are known as Muslim Funds. They provide loans from Rs 500 to Rs 25000 to needy persons".

Due to low rates of service charges or processing fees and easy documentation, women prefer the IFMF system. The interest-free micro finance system has better recovery rates, increased organizational and borrower sustainability, and effectively meets microfinance's core objective of poverty alleviation. However, interest-free micro finance agencies are working as unorganized institutions and do not receive any support from the State. In India, most interest-free financing agencies are unorganised and registered under the Co-operative Society Act.

2. Literature Review

For this purpose, various studies were analysed on micro finance and interest-free micro finance in both a global and Indian context. This review identified a gap in the research gap relating to the livelihood of women and their level of satisfaction towards interest-free micro finance systems in Indian. A study by (Baydas et al., 1994) examined discrimination against women in formal credit markets; a careful analysis and investigation of the issue of discrimination against women was undertaken and they tested for confirmation of discrimination against women micro entrepreneurs by formal financiers in Ecuador. They found that men and women had equally small probabilities of being restricted for loans and concluded that gender discrimination was not widely practiced in Ecuadorian credit markets.

This analysis is conducted by first exploring the distribution of applicants and non-applicants for formal credit among men and women micro entrepreneurs then measuring the degree of success they had in obtaining the size of the loan requested. According to a study by (Goetz, A. M.; Gupta, 1996), household size and female education were more important indicators than health or socio-economic variables of the population to measure the poverty. These demographic factors need more attention so that they might function as important determinants of microcredit access and achievement. According to this paper, the heterogeneous nature of the population was critical in explaining disparity in access to microcredit opportunities and greater participation of female-headed households, which would be critical for dynamics of development, eradication of poverty and hence female membership deserved more attention. The data indicated the existence of a complex set of programs and client-related barriers to participation in BRAC's RDP. While these factors were neither clearly expressed nor well understood, one might debate that they represented an ``invisible hand'' or ``natural selection'' mechanism that efficiently identified more creditworthy households. (Ehlers, T. B.; Main, 1998) considered the development of microenterprise programs for poor US women and argued that microfinance assistance was more harmful and problematic than sponsors believed. The authors based their conclusion on the fact that few women "graduated" their business into the formal sector due to gender constraints on the type of businesses they chose to run and due to inappropriate microfinance facilities.

Jaya (2002) analysed the performance of selected SHGs and NHGs (Neighbourhood Groups) and measured its effect on microfinance programs and women empowerment. The data was collected from 70 SHGs members working under 3 selected microfinance agencies of Kerala - Shreyas, BVM-(BhoodanVikasMandal), and CDS- (Community Development Society). Five groups each from the 3 agencies were selected for a detailed study. The selected members were interviewed using a structured questionnaire. All SHG members agreed that the most outstanding advantage of microfinance was the saving module; because of the saving component they had been freed from the control of moneylenders. The saving module also provided them a support to even out the incomes throughout the off-season. All SHG members had taken up individual economic activities but group performance of SHGs was not better. The contribution of MFIs to the family income was 35 percent in BVM, 25 percent in CDS, and 27 percent in shreyas. The results show that microfinance had a positive impact on the income of families of the SHG members, meaning there was a positive change in the attitude of the beneficiaries. The report also suggested that the SHGs had provided an opportunity for women to express their concern and express their desires for change and empowered them to see what was happening outside the house. The positive of women empowerment was that they took actions against the dowry system, alcoholism, illiteracy, and divorce.

According to a paper by (Jayaraman, 2005) on “Performance Analysis of Fisherwomen Self Help Groups (SHGs) in Tamil Nadu”, microfinance provides an opportunity to the banks to serve the ‘unreached’ coastal poor and to make a profitable business. In this study, the data was collected from 725 fisherwomen from 41 SHGs of 5 coastal villages. After analysis of the data, the research found that the fisherwomen SHGs performed well in availing and repayment of loans regularly which contributed to their socio-economic development and improved their overall lifestyle. The report also stated that micro-credit and bank loan credit were used for various development purposes by the SHGs. The study also found that micro finance through SHGs had contributed to overall socio-economic development and also created awareness among poor women about the PRI (Panchayat Raj Institution).

In Rajivan’s (2007) study on “Micro-credit and Women’s Empowerment: A case study of SHARE Microfinance Limited”, the author assessed the level of impact of microfinance as a tool for women’s empowerment, a source of increasing income flow (of household) into the hands of women and also looked into other benefits drawn by women. For his research, many group discussions were held with around 88 Share Microfinance Limited members, focus group discussions were held with 86 mature members, and visits were made to households of 13 women members. The findings of the study indicated that 100 percent of the mature members confirmed a significant increase in their income and better living standards through access to microcredit. In addition, 32 new members and non-members met to compare differences between them and mature members. Very few members reported an increase in income. An increase in the self-confidence among the participating women was also noted. Participating women also discouraged their sons from dropping out of school and even wanted to enroll them in higher education. Women with a relatively longer-term membership (2 years or more) showed an increase in their control over income, assets, and expenditure. Women member’s access to government hospitals and health centers had improved after joining the group. A sharp reduction in dependence on money lenders and a diversification of the rural economy were also noted in the report. Andhra Pradesh had good reasons to worry about micro lending. Numbers from the Reserve Bank of India (RBI) show that over 53% of loans were sourced from money lenders. Tamil Nadu followed, with moneylenders accounting for 40% of all borrowings. Moneylenders account for more than 30% of all lending’s in 4 more states: Bihar, Manipur, Punjab, and Rajasthan.

(Ghate, 2007), in the paper entitled “Consumer protection in Indian Microfinance: Lessons from the Andhra Pradesh and the Microfinance Bill’, identifies the diversification of the rural economy. Because of these small loans, several new activities had sprung up such as petty shops, bicycle rentals, stone polishing, readymade clothes, fruit and vegetable sales, flowers, mutton shops, small hotels, tea shops, and so on. Hence, it was concluded in the study that a trigger for women’s empowerment had taken place with a strong economic foundation and thus a precondition for further change was established. The study suggests that micro-finance organizations should explore financial products for a range of other needs including housing, education and even cultural needs. He asserted that many micro-finance organizations or NGOs undertook capacity building and technical assistance to support the purposes for which clients had borrowed, but there were very few financial products that enabled the clients to acquire education and skills. Hence, filling this gap could provide important additional security for poor households.

Rahman and Rahim (2007) set out with the objective to evaluate the potential of Islamic micro finance models in the era of a conventional micro financing market. The paper elaborates on the concepts of Islamic micro finance and argues that the main objective of the Islamic micro finance system is to alleviate poverty and empower women in the way of Islamic financing based on Shariah.

(Parveen, 2009) examined the overall sustainability and self-sufficiency of interest-free MFIs in a newly established micro finance model of the Rural Development Scheme (RDS) of Islamic Bank Bangladesh Limited (IBBL). The author used several factors to measure the interest-free models for the purpose of financial, institutional, and economical sustainability and self-sufficiency. The number of female officers should be increased to serve female customers according to their expectations. The author also suggested providing regular training to the MFI field officers and MFI female customers to develop ethical values, knowledge, and skills to interest-free micro finance users.

(A. U. F. Ahmad & Hassan, 2007), in their study, suggest that the spread of Islamic banking could increase monetary flow, decrease inequalities in the cost of borrowing, and mobilize investment resources in rural areas to promote the economic welfare of small farmers and marginal farmers. It would also help in the reduction of unemployment.

Bashir (2001) measured the impact and efficiency of Islamic banks. For this purpose, the author analysed the financial statements of 14 Islamic banks working in Middle Eastern Countries on a yearly basis between 1993 to 1998. The study measured the profitability and efficiency of internal and external banking factors. The study revealed how Islamic banks accomplished their objectives under dynamic market environments i.e. with varying sustainability, self-sufficiency, economies of scale, taxation, and market share.

(Johnson, 2013) analysed the role of Islamic finance in the growth and development of the country. According to the author, the dispersion of Islamic banks has no major role in the growth of GDP. However, Islamic banks played a significant role in the development of the financial sector in French legal origin countries. Rendering Islamic finance to poor populations in less developed countries deserves policy and financial support as a potential tool of economic growth of the country.

Obaidullah (2008) evaluated the problems and challenges faced in the growth and development of Islamic micro finance models. The author proposed a dialogue between the members' countries of financial policy makers for promoting Islamic micro finance services at the international level. In this study, the author suggested the incorporation of Zakah, Awqaf and Islamic financial agreements for the development of the micro finance sector to target the poor masses. The main recommendation of the study was to develop an infrastructure and coordination for policy and negotiation support for the delivery of Shariah compliant Islamic micro finance services that are widely available.

(Beck et al., 2013) analyzed the problems and prospects of the Islamic finance system through applications of Sharia-compliant methods. Then, a comparison was drawn between the Islamic finance model and the conventional banking model. To examine the difference between both models, the authors used various indicators such as efficiency and effectiveness, risk and return, and profitability and stability. After the comparison by pragmatic estimations, little significant difference was found between Islamic and conventional banks.

(Ghous & Bagsiraj, n.d.) measured the validity and performance of Islamic Financial Institutions (IFIs) working in India. According to the author, IFIs played an important role in socio-economic development of Indian Muslims as well as the non-Muslims majority, who are mostly female customers. Lastly, according to the author, India's IFIs could be developed to achieve self-sustaining socio-economic growth and development for Indian Muslims in particular, and for all Indians in general. Nevertheless, the true potential of IFIs of India could be established only after a full assessment of their past performance, present problems and future prospects.

(Rahman & Banna, 2016) examined the solvency risk related to the liquidity of conventional and non-conventional banks in Bangladesh through a comparative analysis. Long term solvency and short term solvency risks would emerge from the diverse functioning of different stakeholders related to financial system such as financial intermediaries, promoters, and shareholders as they are fully liable to make available liquidity when required by the third party. In the case of non-conventional banks, additional efforts were required for scaling liquidity management due to their distinctive features which might be in conformity with Shariah based models. In this study the author analyzed the significant risks of conventional and non-conventional banks by applying analysis measures such as return on equity, net working capital ratio, capital adequacy and return on assets (ROA) relevant for long term solvency risk management in Bangladesh. For this purpose, financial data was taken from 6mid-sized banks, 3conventional and 3 non-conventional banks as a sample and the annual reports, covering a period of 2007-2011, were used. The analysis revealed that both models were good but capital adequacy ratio in conventional and Islamic banks was found to be negative. For conventional banks, an estimation to predict the liquidity risk level was proven to be successful but the model failed to generate the desired result in the case of the non-conventional banks.

Moin (2008) measured the Performance of Islamic banks and conventional banks in Pakistan by a comparative study taking the first Islamic bank in Pakistan, i.e., Meezan Bank Limited (MBL) with the group of 5 Pakistani conventional banks. The study examined the performance of Meezan Islamic Bank (MBL) in solvency, risk, and return, and growth and development for the period between 2003-2007. For the purpose of comparative analysis, financial analytical tools were applied i.e., several financial ratios such as return on equity, return on asset, income to expense ratio, debt to equity ratio, loan to deposit ratio, loan to assets ratio and asset utilization ratio, which were used to evaluate banking performance. Some statistical tools such as F-test and T-test were used to measure the significance level of the differential performance of the MBL and conventional banks. The study revealed that the return of MBL was less than those of conventional banks and MBL was more solvent (less risky) and also less efficient compared to the average of the 5 conventional banks. However, there was no significant difference in short term solvency in both sets of banks.

Nimrah, Michael and Xavier (2008) measured the performance of conventional micro finance and interest free micro finance in Bangladesh. According to the authors, conventional microfinance was very successful in most Muslim countries. The example of Grameen Bank experiment was cited which was initiated in Bangladesh by the Nobel Prize winner Mohammed Yunus. According to the authors, the majority of Muslim countries had vided microfinance industry and about 44 percent of conventional micro finance users were existing there worldwide. The authors also pointed out the large conventional micro finance industry which was not fulfilling the needs of the majority of the Muslim population as there was the demand for interest free financial products. According to the authors, the demand for interest free micro finance was not only for their religious sentiments but the majority of poor Muslims and non-Muslims alike prefer Islamic finance because of the low rate of interest or processing fees compared to conventional micro finance providers.

(Abdul Rahman, 2010) (Barua et al., 2016) (Aggarwal & Yousef, 2000) (Anand, 2002) (Meyer & Aguilera-alfred, 1991) (Dhaoui Elwardi, 2015) (Hussain, M.; Shahmoradi, A.; Turk, 2016) (Iqbal, M. Z.; Mirakhor, 1987) (Khan et al., 2007) (Meera & Razak, 2005) (Mohieldin, M., Iqbal, Z., Rostom, A., & Fu, 2012) (Muhammed, 2016) (Nabi, 2017) (Nimrah Karim et al., 2008) (Qureshi, 1991) (Siddiqui, 2001)

3. Research Methodology

In this study, data was drawn from interest-free microfinance users in the areas of 20 districts in 5 states in India, namely UP, Bihar, Maharashtra, Karnataka, and Kerala. This was used to measure the perceived impact of micro finance on the living standards of IFMF customers. Using a stratified convenience sampling method, 1,000 respondents were selected from interest-free micro finance customers and the data was collected through a structured questionnaire by interviewing the selected participants. 'Likert Scale' questions on agreement/ satisfaction (on a 5-point scale) were used to measure the respondents' perceptions/attitudes. However, frequency tables, mean deviation, and standard deviation were applied to measure the level of satisfaction of women respondents in interest-free micro finance systems. However, the main objectives of the research were to study the working model of interest-free micro finance systems in India and to measure the economic and social growth of interest-free micro finance beneficiaries after taking a loan. The study also aimed to analyse the change in the livelihood of the women receiving interest-free microfinance.

Table 2. State-based microfinance organisations

States	Districts	Interest-Free Microfinance Organizations
Uttar Pradesh	Aligarh	Al-NajibMilli Mutual Ben. Ltd
	Bulandshahar	AnjumanKhadimul Muslim
	Bijnour	Muslim Fund, Najibabad
	Faizabad	Millat Welfare Society
Maharashtra	Pune	Janseva Co. Credit Soc. Ltd.
	Mumbai	Bait-ul-Maal Co. Credit Soc. Ltd.
	Mahim	Barkat Leasing and Fin. Ser. Ltd.
	Jogeshwari	Sahulat Microfinance Society
Bihar	Patna	Sahulat Microfinance Society
	Ara	Al-Khair Co. Credit Society Ltd.
	Sasaram	Al-Khair Co. Cr. Society Ltd.
	Gaya.	Janseva Co. Cr. Society Ltd.
Kerala	Kozhikode.	Alternative Inv. & Credits Ltd
	Malappuram	PalishaRahithaNidhi
	Ernakulum	Cheraman Fin. Services Ltd.
	Thrissur	PalishaRahithaNidhi
Karnataka	Bangalore.	Al-Ameen Co-op. Credit Society
	Mysore	Janseva Co. Credit Society Ltd.
	Bhatkal	Al-Taqwa Finance Pvt. Ltd.
	Hassan	SafaBaitulMaal

In this table the interest-free micro finance institutions were explored for the purpose of data collection.

Table 3. Level of satisfaction of women through IFMF arrangements

Types of loan	**Interest-Free**	
Factors	Mean	S. D
It is difficult to get micro finance	-1.14	0.55
Procedure is complicated	-1.13	0.54
Delay in reciting of loan	-1.16	0.56
Problem of high processing fees	-1.09	0.62
Amount of loan sanction is low	-0.09	1.14
It will help in education development	0.32	0.96
It is easy to repay micro finance	0.85	0.80
This model fulfils your requirement	0.93	0.79
It will help to reduce poverty	0.8	0.80
It will help to employment generation	0.64	0.82
It will help to women empowerment	0.43	0.88
It will help community development	0.55	0.86

(-2) extremely disagree (-1) disagree (0) don't agree nor disagree (1) agree (2) extremely agree

Table 4. Economic effect on women and their families through IFMF arrangements after taking loans

Types of loan	**Interest-free MF**	
Factors	Mean	S. D
Increase in income	0.67	0.73
Increase in investment	0.04	0.94
Increase in the share of women in family income	-0.3	0.93
Increase in saving	-0.1	0.97
Increase in business	-0.08	1.00
Diversification in business	-0.46	0.86
Purchased machinery for business	-0.52	0.83
Increase expenditure in the children education	-0.03	1.07

(-2) extremely disagree (-1) disagree (0) don't agree nor disagree (1) agree (2) extremely agree

In these 2 tables, the data was analysed using mean deviation and standard deviation to determine the level of satisfaction among women consumers through interest-free micro finance systems.

4. Results and Discussion

The discussions in this study are mainly concerned with the empirical review of the impacts and influences of conventional and interest-free micro finance on the lifestyle of micro finance users before and after loans are taken i.e., their income, expenditure, savings, entrepreneurship, consumption, and participation in income earning roles in India. This study analyses factors such as problems and procedures of taking loans, the effect of the loan on their lifestyle, income, consumption, family financial status, the impact of business and society which compare the potential of interest-free micro finance with conventional micro finance systems and their role in poverty alleviation. The expenditure in youth education was relatively high with IFMF. This meant that the financial capabilities of the borrowers were not the real reason for women participation and children education. According to some studies, interest-free micro finance became a powerful tool for women empowerment, gender equality, prosperity, and reduced unemployment (Ghous & Bagsiraj, n.d.). IFMF respondents were very conversant with the process and highly satisfied with the procedure and system overall.

5. Conclusion

This study analyses factors such as problems and procedures of taking loans, the effect of the loan on their lifestyle, income, consumption, family financial status, the impact of business and society which compare the potential of interest-free micro finance with conventional micro finance systems and their role in poverty alleviation. The analysis shows that the level of satisfaction of women respondents is high, so it is an encouraging result towards interest-free micro finance arrangements. The study also shows that interest-free micro finance is a possibility and is capable of reaching the weaker sections of society, including women. The need to implement such initiatives can bring about rapid poverty alleviation.

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