

# SHARED RISK & REWARD

Issue 113 – September 2, 2012

## My Reading List

[Islamic microfinance: An instrument for poverty alleviation](#)

[The special characteristics of Islamic microfinance](#)

[Prospects and challenges of Islamic microfinance](#)

Islamic micro-finance programme and its impact on rural poverty alleviation ([PDF](#))

## Blog Posts This Week

[Arcapita seeking \\$150MM - \\$200MM in Shari'ah-compliant DIP financing](#)

[Tawarruq versus musharaka using mobile minutes](#)

Sharing Risk is looking for sponsors for the Shared Risk & Reward newsletter. If you or your company would be interested in sponsorship opportunities, please email:

Blake Goud  
[blake@sharingrisk.org](mailto:blake@sharingrisk.org)

## SHARING RISK

1500 SW FIRST AVE., SUITE 910  
PORTLAND, OR 97201

<http://www.sharingrisk.org>  
[@sharingrisk](#)  
[Sharing Risk Blog](#)

## An empirical test of Islamic microfinance

Few studies empirically test the effectiveness of Islamic microfinance, since it is only a small niche within the broader microfinance sector.

However, a study written by M. Mizanur Rahman, a Director at Islami Bank Bangladesh Ltd, studied the effectiveness of that bank's Rural Development Scheme and comes away with interesting results.

After controlling for a household's asset (its land holdings), the number of family members involved in income-generating activities, the proximity to an IBBL branch, the borrowers age and education and a measure of piety (e.g. reading the Qur'an, wearing hijab, fasting), Tk120 in higher income (significant at the 1% confidence level) for every Tk100 in financing. The number of family members involved and the age (whether the borrower was over 40 years old) are also significant at the 5% level. The measure of piety falls just short of the 5% confidence level, but also has a positive coefficient.

The author suggests that a "clients' ethics and morals had positive and significant influence on the household income" but there is always of danger in extrapolating relationships identified by regression analysis, particularly a sample of 1,020 clients within the Islamic microfinance program who share similar degree of piety.

The result with piety might be picking up unobservable individual differences between clients who are using Islamic microfinance. For example, the increase in income for client exhibiting greater piety could be separating out those clients who believe most strongly in the value of Islamic microfinance from those who are using it because they are unable to receive conventional microfinance.

The IBBL microfinance program is mostly based on bay' muajjal, which is similar to murabaha (and in economic form to conventional microfinance). The study does not show whether an alternative profit-sharing microfinance product would work better, and that is understandable since the real world experience with mudaraba and musharaka microfinance is so scant.

However, what the study does show is that Islamic microfinance can attract clients who will use the financing to increase their income. Further research is needed to determine whether or not this is due to the program itself, or whether it can attract higher quality clients than conventional microfinance, because demand for Islamic microfinance likely outstrips supply.

Until next week,  
Blake Goud