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MICROFINANCE PROGRAM: A POVERTY ERADICATION INITIATIVE

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Microfinance actually, refers to the offering of credit and savings in helping small-scale and medium scale enterprises. With the introduction of microfinance, those lacking the capital to apply credit, mainly the poor, will be able to run their business. Consequently, this will help them to improve their quality of life in the society. In other words, microfinance is in existence as to strategize against poverty by many development agencies. Historically, microfinance started in Bangladesh in 1976. Being an economics professor with University of Chittagong, Muhammad Yunus experimented on the provision of credit to the rural poor. His experiment later developed into the world's famous microfinance institution, the Grameen bank. Many microfinance institutions replicated its ground-breaking methods in combating poverty (Montgomery & Weiss, 2005).

The effectiveness of microfinance programs was aggressively debated and studied by academicians and researches worldwide. Many studies done by researchers such as Montgomery and Weiss (2005) and Khan (2022) confirmed that the majority of the microfinance program participants are poor. Obaidullah (2008) mentioned that there is an increasing number of poverty in urban and rural parts of most Muslim countries whereas Saatçioğlu, Sandıkc and Jafari (2016) indicated that 40% of Muslims worldwide are living in poverty. However, Kondo (2008) in his study on the impact of the Rural Microenterprise Finance Project (RMFP) in Philipines pointed out that some of the participants in the RMFP who are deemed qualified are not poor. Hence, there are issues on whether the microfinance institutions have done enough in identifying the poor and successfully lift them up from poverty.

Many issues raised on the effectiveness of microfinance program in reaching out to the poor. Some said that the rate of success in reducing poverty in the society is not as much as expected when microfinance was first introduced. There are many factors that contribute to this scenario. The factors range from lack of promotion to failure in implementing the program with good governance by the agencies involved. One other area of failure is due to the Muslims perspectives on the conventional products which deemed not compatible with the financial principles set forth in the Islamic law. Another concern is the issue of Islamic-compliance products and services has contributed to rejection of conventional Microfinance program among the poor Muslim worldwide. Consequently this gives birth to Islamic Microfinance. Roughly two-third of the microfinance market in the Muslim countries persisted on Islamic financing (Rahman, Al Smady & Kazemian (2015). More than a decade ago, Rokhman (2013) pointed that its existence concentrated in a few countries with the top three countries pointing to Indonesia, Bangladesh and Pakistan. Most recent, there are studies on Islamic mirofinance in countries such Turkiye, and Somalia (Odzemir, Savasa and Ulev, 2023; Hilif, Kulmie, & Osman, 2024).All these studies dwelled on how microfinance programs can be applied to eradicate poverty and improve quality living of the society.

In a nutshell, a provision of appropriate microfinance products and services to the poor is needed to assist in taking down the poverty level. In order to achieve this objective, microfinance institutions should understand the need of the poor in terms of their financial needs. Since many participants are Muslims and one of the requirements is to seek for Islamic based products and services, implementers of microfinance should offer more of shariah compliant products in their microfinance schemes. By doing so, it is believed that this Islamic Microfinance programs will be able to reach the majority hardcore poor Muslims.

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