

**Comparative Evaluation of Conventional and Interest-Free
Microfinance in Poverty Alleviation: Evidence from Bangladesh**

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ABSTRACT

Microfinance has emerged as a key instrument for alleviating extreme poverty in developing countries. The study investigates traditional and interest-free microfinance impact on the poverty reduction in Bangladesh, using the ordinary least square (OLS) approach with the data from 2010 to 2020. The research uses four poverty indicators: upper poverty rate, extreme poverty rate, infant mortality rate, and basic sanitation rate for analyzing the impact of microcredit. The result finds that interest-free microcredit has substantial effects to reduce both poverty and infant mortality rates. However, traditional microfinance (MF) has a significant positive impact on the poverty level, meaning that MF increases poverty level due to high interest rate. Furthermore, interest-free microfinance (IFM) has a positive impact on increasing the basic sanitation rate, but conventional MF has negative effects on basic sanitation. In contrast, IFM has a better impact on poverty alleviation compared to traditional microfinance in Bangladesh. The study assists in achieving SDG 1 for no poverty, SDG 3.2 for prevention of child mortality, SDG 6 for clean water and sanitation, SDG 8 for decent work, and SDG 10 for reducing inequality. The research provides valuable insights for policymakers to address poverty related social challenges.

Keywords: Bangladesh, conventional microfinance, interest, Islamic microfinance, poverty.

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