A Critical Exploration of Business Finance Options in Bangladesh: Strategic Use of Islamic Finance Instruments for Higher Financial Inclusion

Md Sabbir Hasan[1]*, Dr. Adnan Salaudeen[2], Dr. Tassadaq Rashid Qazi[3], Farzana Taslim[4]

Centre for Islamic Finance, University of Greater Manchester

***Corresponding Author**

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ABSTRACT

Purpose – The aim of the study is to explore available business finance options in Bangladesh and primary challenges toward inclusion and to come up with strategic solution using Islamic finance instruments.

Design/Methodology/Approach – The paper used sequential mixed method approach with multiphase design framework for the research.

Findings – The research found pattern for supporting established and large businesses rather than new entrants. It also empirically proves Islamic finance's relation toward higher inclusion and its growing acceptance in BD market, and based on the findings it proposes a conceptual model that can be implemented to streamline financing for higher financial inclusion in the country.

Originality/Value – The study promotes the idea that like large conglomerates and corporations, CMSMEs and young entrepreneurs should have easy and affordable access to finance for pursuing their goals and dreams. The business finance landscape along with their features, the empirical evidence (produced from credible Grey Literatures) and the proposed model can be used by the public regulatory bodies or by private entities for solving the missing-middle situation.

Practical Implications – First the paper summarizes the business financing landscape, their key features and primary challenges. Second, it empirically proves the effectivity of Islamic finance for driving higher financial inclusion. Finally, the proposed evidence-based model can be used to solve business financing issues prevalent (specially for the CMSMEs) in the country.

Keywords – Business Finance Options, Financial Inclusion, Challenges of Business Finance, Islamic Finance, Islamic Venture Capital

INTRODUCTION

In recent years, financial inclusion has attracted significant attention of the financial world. It has become an emerging research topic since World Bank (WB) tasked half of its regulatory agencies and member countries to work on the improvement of global inclusion scenario (World Bank, 2014). Bangladesh as one of the financial beneficiaries of WB is not an exception to that. According to Bangladesh Bank (BB) and Bangladesh Bureau of Statistics (BBS) the financial inclusion scenario of Bangladesh experienced significant surge since 2019. The inclusion rate grew from 29% to 54% by December 2024 (Mohasin et al., 2025). Despite the spike, individual and business both inclusion metrics show a different scenario. Only 26% of the adults of the country currently hold formal bank accounts and their formal credit penetration rate is only 14% (World Bank, 2025). According to the report (World Bank, 2025) MSME penetration rate is 28% which means only 28% MSME are served by country's formal financial institutions. A country which is in the middle of its demographic dividend (Bangladesh Bank Quarterly 2025), whose central bank is positively active toward solving business finance condition (World Bank, 2025), 72% of the SME Business do not have any formal financing relationship. This scenario is not only discouraging the young generation from being entrepreneur, but also significantly reducing the country's economic growth potential significantly.

Hence, the study aims at exploring the current business finance options available in Bangladesh bringing them onto the same canvas to investigate their patterns and most frequently citedprimary challenges to come up with strategic solution using Islamic finance instruments. The study focuses on contemporary credible reports, policy papers, and literature mainly related to business financing and Islamic finance. Accordingly, the paper explores the following questions:

(1) What are the currently available business finance options in Bangladesh and their common shortfalls?

(2) Does Islamic finance hold any relationship with financial inclusion of Bangladesh?

(3) How is Islamic finance's performance compared to the conventional system in recent years?

(4) How to strategically incorporate and accelerate the use of Islamic finance instruments into county's business finance ecosystem?

The contribution of the study is trifold. First, it contributes to the literatures by adding a missing piece of overall view of the business finance scenario of the country in one place. Second, through empirically assessing the contemporary market scenario, it establishes the need for strengthening Islamic finance use in the financial sector of the country. Consequently, the paper holds a crucial appeal to the existing and emerging finance enthusiasts and changemakers.

The paper is divided into 6 (Six) sections. Starting with contextual brief introduction in the first section. It then discusses the relevant literature review and methodological procedure at the second and third section consecutively to investigate the depth of the scenario exploratively and empirically. The fourth section of the study discloses its findings along with a conceptual model that aligns with the empirical findings. The fifth section synthesizes the findings with exiting literatures and reflects on the overall project output. Eventually, it ends with Conclusion at the seventh section.

LITERATURE REVIEW

Financial Inclusion

The concept of financial inclusion was originally derived from the concept of "Financial Exclusion" which refers to those processes which prevent formal financial system's accesses to certain group of people in a society (Leyshon and Thrift, 1995). Contrasting the initial focus, in modern times focus has been shifted towards "Financial Inclusion". According to Sarma, (2012), financial inclusion is the process of ensuring ease of access, availability, and usage of formal financial system for all members of society. Although the definition provides clear understanding about financial inclusion, it lacks some of the crucial factors like times and costs. This paper aligns with the definition of Rangarajan, (2008) which says financial inclusion is the process of ensuring accessibility of financial services in a timely and adequate manner by the vulnerable (the poor and the weak) section of the economy at an affordable cost. The key determinants of financial inclusion are the access, availability usage and the quality or depth of financial services. Modern economy with its limited resources and high demand constantly strives for an inclusive economy (World Bank, 2022).

Islamic Finance and Financial Inclusion

Islamic finance has established itself as a strong platform for a sustainable economy. In modern economy where age-old conventional banking and finance is stumbling to provide stability, and sustainability, Islamic finance with its Sharīʿah principles, is showing promising performance. With the greater objectives of Sharīʿah principles (also known as *maqāṣid al-Sharīʿah*) Islamic finance upon proper implementation, fosters an ethical, sustainable and inclusive finance (Hassan, and Aliyu, 2018). Studies show around 100 million globally are excluded from the formal financial system due to religious belief ((Abdu et al., 2018). Moreover, using its social finance instruments like Zakāh (obligatory charity), Qarḍ al-Ḥasan (benevolent loan), Waqf (endowment) Islamic finance can and does bring higher inclusion compared to the conventional financing system (Nawaz, 2018). Thus, in the discussion of financial inclusion and its solution is incomplete without the perspective of Islamic finance.

Financial Inclusion and Business Finance

Financial inclusion is often seen from two different perspectives. In microeconomics it is more concerned with individual level inclusion but from the macroeconomic perspective, it is more focused toward business finance. Ensuring required finance for the business entities (either for initial capital, working capital or in the form of credit) is the concern of usage dimension of financial inclusion in macro economy (Beck et al., 2007). Specially, access to required financial services for small and medium enterprises (SMEs) is a critical component of financial inclusion (Beck, & Demirgüç-Kunt, A., 2006). Due to a lack of formal credit history, the threat of information asymmetry is relatively high in such enterprises. Hence, economies like Bangladesh, where the SME business accounts for 99.93% of business organizations of a country (SME Foundation and Friedrich-Ebert-Stiftung (FES) Bangladesh, 2021), digital infrastructure and MFS penetration is also a considerable metric (Demirgüç-Kunt et al., 2017).

Relevant Literatures

A number of literature produced regarding Bangladesh's financial inclusion deals with micro-level impacts of it. For example, Bari et al., (2024) provides a unique perspective of relationship of financial inclusion with the expenditure pattern of urban slumdwellers and found positive relationship with education expenditure instead of food or health expenditure. Another study, Hossain et al. (2023) examine how Mobile Financial Services (MFS) can impact financial inclusion especially for marginal sections like farmers. The study ended figuring out positive relationship between MFS penetration rate and SME loan account. However, none of these studies focuses the macro financial inclusion issue of business finance.

While it comes to business finance and Islamic finance a large number of literatures focus on the comparative performance of conventional and Islamic banking system or provide fragmented pictures of financial inclusion for business finance scenario. For instance, Amin (2024) pointed out the financial management hurdles of entrepreneurs of Bangladesh while discussing the issue Amin, (2024) provided a brief overview of available business finance options. On the other hand, (Akhter et al., 2019) discussed the impact of Islamic finance from both the demand side (entrepreneurs) and the supply side (the financial institutions) perspective from 28 countries including Bangladesh.

Different annual reports like Bangladesh Bank annual and quarterly reports, Bangladesh Bureau of Statistics report, World Bank report and policy documents report about the metrics and data about business finance and financial inclusion but they lack the essence of full picture canvas including Islamic finance.

Research Gap

Several contemporary reports, policy papers and literature recognize this chronic field condition, yet no attempt has been made to explore the overall business financing options and their key features on a single canvas to look for recurring patterns and to dig deeper into the critical reality of the scenario argued by Bhaskar, (1975). Hence, the goal of this paper is to scratch the upper surface of the current business finance options, their key features and primary reasons for the scenario and look for empirical evidence-based pragmatic solution for it.

METHODOLOGY

Research Philosophy

The research is conducted through combining two different philosophical standpoints "Critical Realism" and "Pragmatism" which is also known as "Pragmatic Critical Realism (PCR)" (Imran, 2024). On one hand, the adoption of critical realism helps dig deeper into the business finance options in search of root causes of low financial inclusion in SME business arena. On the other hand, pragmatism stimulates the design of the data-driven practical solution model.

The Pragmatic Critical Realism (PCR) framework guided every stage of this research, ensuring both depth of inquiry and practical relevance. In the qualitative phase, critical realism informed the exploration beyond surface-level descriptions of business finance options, driving the search for underlying structural causes of financial exclusion, such as collateral requirements and loan distribution disparities. In the quantitative phase, pragmatism shaped the selection of empirical tests designed to produce actionable insights for policymakers and financial institutions, focusing on contemporary performance trends rather than abstract theoretical propositions. In the synthesis phase, PCR integrated qualitative findings and quantitative evidence to develop the DIVC model—a practical, implementable solution grounded in empirical reality. This philosophical alignment ensured that the research not only diagnosed the problems but also proposed tangible, evidence-based remedies that can be operationalized in Bangladesh's unique socio-economic context. Furthermore, PCR's emphasis on methodological triangulation justified the use of multiple data sources, including national reports, international policy documents, and statistical databases, thereby enhancing the credibility and robustness of the findings.

Research Design

The research was conducted using sequential mixed method approach and multiphase design framework (Creswell and Clark, 2018) . The study is conducted in 3 different phases: Qualitative Phase- ‘The Exploration’, Quantitative Phase- ‘The Empirical Evidence’, Synthesis- ‘Model Generation.’

Qualitative Phase (The Exploration)

Due to data availability, at the first phase, qualitative approach has been applied to secondary data analysis and knowledge synthesis from recent reports and empirical studies to explore the existing business finance options of Bangladesh and their practical shortcomings. Literatures and reports have been selected through purposive sampling based on their relevance toward Bangladeshi business finance, financial inclusion, and credibility. Largely, contemporary literatures are selected from 2015-2025 with some minor exceptions to the rules.

“Thematic Analysis” has been performed to extract the primary (recurring) challenges and recommendation of business financing and financial inclusion. Majority of the note taking and coding is done using Microsoft Excel while NVIVO’s “Word Frequency” and “Text Search” features have been used to ensure credibility and transparency of the analysis (See Appendix-1).

Quantitative Phase (The Empirical Evidence)

At the second phase few quantitative analyses have been performed to address the central positive assumption towards Islamic finance for driving higher financial inclusion.

Data Collection

To conduct quantitative analysis, different credible sources like national and international contemporary reports, policy papers, and literatures have been used. Bangladesh Bank annual reports provides comprehensive data about total bank asset and loan disbursement which was further cross-matched with world bank financial inclusion reports. Country’s Islamic finance scenario like Islamic finance growth rate, asset value, and expansion data has been collected from Bangladesh Bank Quarterly report on Islamic Banking in Bangladesh 2025. Apart from these, country’s digital penetration, MFS penetration data and growth comparison have been gathered from different NGO reports like LSEG & ICD Islamic Finance Development Report 2025 and Financial Express (national daily) report.

Data Analysis

Three different analyses have been performed for the research. First, “Simple Linear Analysis” also known as “OLS” has been conducted to establish the relationship between Islamic finance and financial inclusion. To measure the relationship, one of the key financial inclusion determiners “Islamic Bank Asset Value” was measures against the “Total Deposit Account”. A range of 7 years (2019-2025) data was considered in this regard. Next, to consolidate the relationship and to check Islamic finance performance over its conventional counterpart, “Independent Samples T-Test” is performed comparing the growth rate of Islamic finance and conventional finance sectors. And finally, in order to satisfy pragmatic solution of the philosophical stand (PCR), the third test, “Pearson Correlation Matrix” has been examined using MFS penetration rate, Bank Branches, and Number of SME loan accounts. This particular test is completed to determine which channel (physical channel like bank branch or digital channel like MFS) has stronger relationship with the Missing Middle, SME section of the country. All the analysis has been conducted using SPSS software the data set (See Appendix-2).

Regression Analysis (Islamic Finance and Financial Inclusion):

The independent variable, Islamic Bank Asset Value, was selected as a proxy for Islamic finance development because asset size comprehensively reflects the sector's growth, operational scale, and market penetration. It encompasses both deposit mobilization and investment activities, making it a robust indicator of Islamic banking's overall economic footprint. The dependent variable, Total Deposit Accounts, was chosen as a proxy for financial inclusion because deposit account ownership is a universally accepted indicator of formal financial system participation (World Bank, 2022; Sarma, 2012). Deposit accounts represent the most fundamental level of financial inclusion, as they serve as the entry point for other financial services such as credit, insurance, and payments. While this single-indicator approach simplifies a multidimensional concept, it aligns with the study's objective of examining the macroeconomic relationship between Islamic finance expansion and overall financial inclusion.

Independent Samples T-Test (Comparative Growth Resilience):

The growth rates of Islamic and conventional banking sectors were compared to assess relative market performance. Growth rate was selected because it is a dynamic, trend-sensitive metric that captures recent sectoral developments, market share changes, and consumer preference shifts. This is particularly relevant given Bangladesh's rapidly evolving financial landscape, where customer preferences have been observed to increasingly favor Islamic banking (Bangladesh Bank, 2025).

Pearson Correlation Matrix (Digital vs. Institutional Penetration):

The variables—MFS Penetration Rate, Bank Branches, and SME Loan Accounts—were selected to test the relative strength of digital channels versus physical infrastructure in serving SME credit needs. MFS penetration rate represents digital financial inclusion and is measured by the number of registered mobile money users relative to the adult population. Bank branches represent traditional institutional access, measured by the number of physical branches per capita. SME loan accounts represent the actual usage of formal credit by small businesses, reflecting the practical outcome of financial inclusion. This selection was informed by literature suggesting that digital finance can overcome infrastructural barriers in developing economies (Demirgüç-Kunt et al., 2017; Hossain, 2023).

The authors recognize that financial inclusion is a multidimensional construct encompassing access, usage, quality, and welfare outcomes. However, due to data constraints and the study's exploratory nature, single indicators were used as practical proxies. The findings should be interpreted as preliminary insights that warrant further investigation using comprehensive financial inclusion indices.

Limitations of the Study

Although the study has been performed using one of the strongest research design approaches (multiphase-sequential-mixed method) approach, it has several major limitations of its own.

Secondary Data source:

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This research is completely based on secondary data sources. Although efforts have been made to ensure the credibility and validity through extracting and cross-matching data from different contemporary national and international sources, the use of secondary data brings several other limitations like subjectivity, sampling bias, data quality, and readiness (Saunders et al., 2019).

Assumption Bias:

Although the research is conducted using sequential mixed method which is known and recommended for its methodological rigor (Creswell and Clark, 2019), the central assumption of the study essentially seeks solution within Islamic Finance domain.

Quantitative Data Limitations

The quantitative component of this study is based on a 7-year time series (2019-2025). This timeframe was deliberately chosen to capture the most recent and transformative period in Bangladesh's Islamic finance development. While this approach provides contemporary relevance, the authors acknowledge that a longer time series would enhance statistical reliability. Consequently, all quantitative results are presented as exploratory indicators of recent trends rather than definitive causal evidence. Future research with extended data periods is encouraged to further validate these findings.

RESULTS

Phase-1 Findings [The Exploration]

The qualitative exploration findings are mainly divided in to three different sections. The first section reveals an overall view of the current financial options available in Bangladesh, their key features and details, the second section summarizes the thematic analysis of the challenges of business finance of the country, and the third section provides a critical exploration finding

Overview of Bangladesh Business Finance options

The business finance options of Bangladesh can be classified in 4 broad categories like Government and Central Bank Programs, Private and Hybrid Funding, Specialized and Niche Financing, Personal Financing (See Figure-1 & 2). The Government and central bodies focus of attention is to prepare guidelines and ensure backups and investment availability (from local and international sources) for the financial institutions for a positive environment for business financing. Country's private sector plays the major role in business financing since it encompasses all the financing stages starting form initial stage to IPO. There are specialized sectors like microfinance, Islamic finance which are working along as private specialized options under existing laws. Apart from these, personal finance and Peer to Peer (P2P) lending is found more than 80% of the cases.

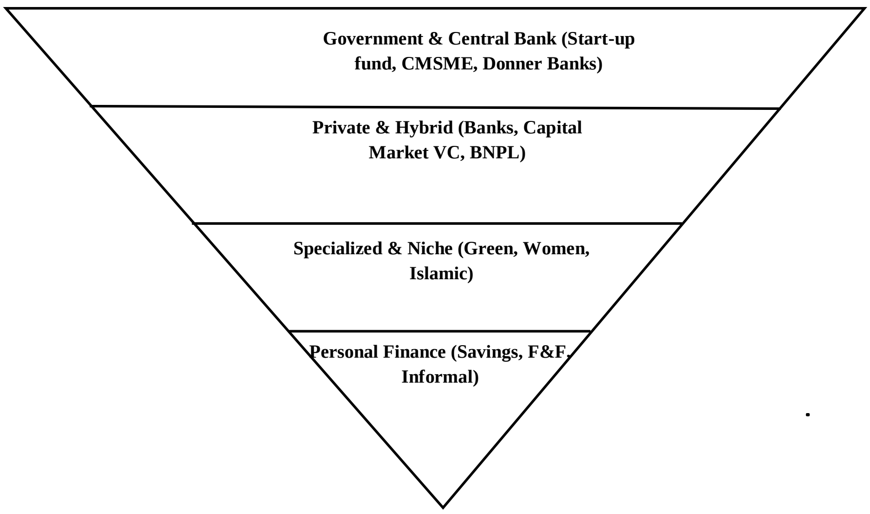

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Figure-1: Broad View of BD Business Finance Option

[Source: Prepared by author]

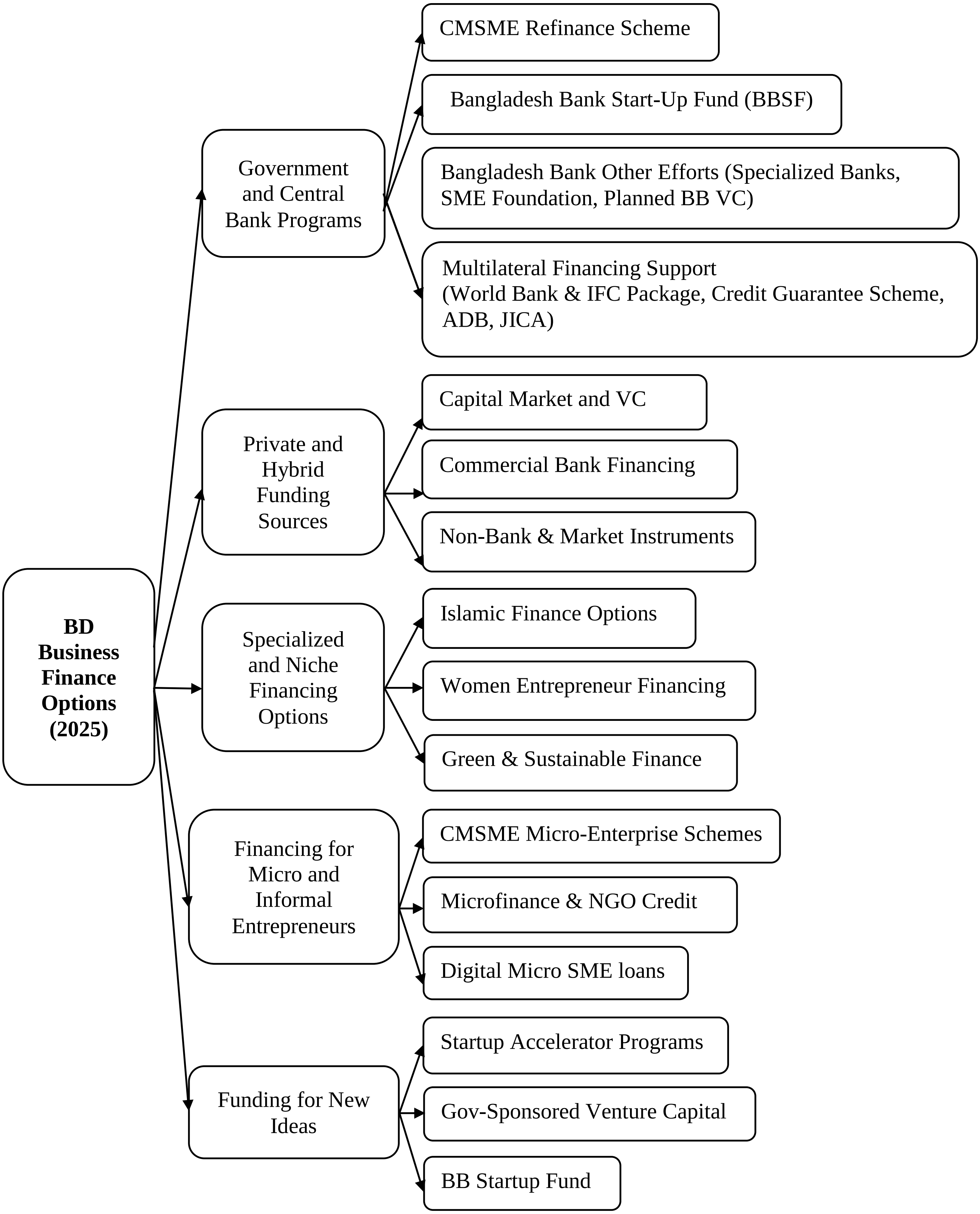

Figure-2: Detailed BD Current Business Finance Tree

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[Source: Authors' own]

In order to understand the options, understanding some key information like the key features, eligibility criteria, interest rate is essential. Table-1 below summarizes this key information for better understanding of the scenario.

Table-1: Key Information Summery of Business Finance Options of BD

Broad Category	Funding Option/Source	Key Features	Eligibility	Target Niche	Interest Rate	Loan Limit
Govt. and Central Bank	Bangladesh Bank Startup Fund	Low-cost debt and equity capital; 2025 revamp includes a Tk 500 Cr pool.	Bangladeshi citizens aged 21+; businesses registered <12 years.	Innovative tech, manufacturing, and green ventures.	4% annually (charged quarterly).	Tk 2–8 crore (based on stage).
	CMSME Refinance Scheme	Concessional refinance for small firms; BDT 25,000 crore total pool.	Must meet BB's CMSME definition based on asset size/employment.	Manufacturing, services, and rural agro processing.	7% to 9% (subsidized).	Up to Tk 50 lakh (Micro); Tk 2 crore (Medium).
	Agro-based Product Processing Fund	Dedicated refinance for rural agricultural industrialization.	Legal business identity; track record in agro-sector.	Rural agro processors outside major metro areas.	7% at borrower level.	Up to Tk 10 crore.
Private and Hybrid Sources	Family and Friends	Informal, Easy to get, both short-term and long-term, flexible payment upon discussion	Family member, Friends, Trustworthy, Experience	N/A	Interest or Equity	Generally, upto 1 Million
	Venture Capital & Private Equity	Equity investment for high-growth firms; USD 119.9M raised in H1 2025.	Registered under Companies Act; seed or growth stage with ROI 10–30%.	Tech, logistics, e-commerce, and fintech.	N/A (Equity ownership).	Usually, Equity up to Tk 8 crore.
	Commercial Bank SME Loans	Cashflow-based lending with flexible instalment options.	Minimum 2–3 years of operational track record.	Established SMEs needing working capital.	Market rate (11%–14%).	Up to Tk 1 crore (Unsecured/ SCB).
Specialized and Niche Options	Islamic Business Finance	Sharīʿah-compliant modes: Murābaḥah, Murābaḥah, Mushārakahh.	Preference for ethical, risk-sharing business models.	Religious/ethical entrepreneurs; nearly 25% of total banking assets.	Profit-sharing/Mark-up (No Riba).	Tk 50,000 to Tk 10 lakh for small firms.
	Women Entrepreneurs Refinance	Targeted support to reduce the gender gap in finance.	Female-owned businesses (at least 51% ownership).	Women-led MSMEs; specific sectors like tailoring, boutique, handicrafts.	5% annually.	Up to Tk 1 crore.
	Green & Sustainable Finance	Concessional loans for renewable energy	Compliance with green	Renewable energy, water	Concessional /Lowered rates.	Variable based on project size.

		and eco-manufacturing.	manufacturing standards/LEED.	recycling, and RMG.		
Financing for Micro/Informal	Shafollo e-Loan (BRAC Bank)	Instant digital micro-loans via mobile or agent outlets.	NID verification only; no trade license required.	Day laborers, street vendors, kiosks.	4% to 6% annually.	Tk 20,000 to Tk 50,000.
	Grameen "Struggling Members"	Microcredit aimed at social inclusion and empowerment.	Destitute individuals/beggars with working potential.	Poorest/Marginalized citizens.	Interest-free (service fee only).	Tk 5,000 to Tk 20,000.
Funding for New Ideas	Startup Bangladesh Ltd (iDEA)	Flagship Govt. VC fund providing pre-seed and seed support.	Scalable technology-based innovations.	Digital/Tech ventures at early ideation phase.	N/A (Equity/Convertible Debt).	$50,000 to $300,000 per deal.
	Accelerating Bangladesh (SSP)	Four-week accelerator focused on investment readiness.	Early-stage teams with a viable idea or MVP.	Health-tech, Software, and Digital Founders.		

Source: Authors' Own

Along with a bird's eye view of BD business finance options, the above overview also provides a consolidated brief about the options and their features. Upon careful observation of the features, a pattern of supporting established entities is clearly visible.

Investigating the fund position of all schemes funded by Bangladesh Bank (Bangladesh Bank, 2025) a strong financial exclusion can be noticed for new businesses, innovations and early-stage funding. Zero (0) distribution of a 500 Crore start-up fund since its establishment on 29th March 2021 by the commercial banks shows their unwillingness towards start-up funding (as the structural rule of the fund said this 500 Crore fund can be used after exhausting commercial banks' own funds which were not done due to less investment toward new business by the commercial banks).

Moreover, "New Entrepreneur" fund served only 3870 beneficiaries nationwide since 2014 while the CMSME Stimulus Package (for the existing businesses) supported 107108 beneficiaries which essentially proves the design of the country's financial system to be suitable for existing players rather than being friendly toward new entrants (Bangladesh Bank, 2025).

Challenges of Business Financing

The thematic analysis of contemporary policy papers, national and international reports, and scholarly articles indicates the dominance of some of the age-old constrains. "Collateral Requirements" still remains as the primary barrier (mentioned in 85% of sources) as banks are reluctant to lend without it (kader, 2025). High cost of borrowing or high interest rate is found to be the second most echoed challenge in this regard with 65% of frequency. Complex loan procedure (60%), Bureaucratic red tape, and regulatory policy bottlenecks (35%) still prevail while financing business firms (Bosri, 2019).

Table-2: Challenge Frequency Summery

Major Challenges	Frequency in sources
Collateral Requirement	85%
High Cost/interest of Borrowing	75%
Unequal Distribution or preference for large firms	65%
Complex Loan Procedure	60%
Lack of Financial Literacy and Management skill	55%
Lack of Digital Infrastructure	45%

Regulatory and policy bottleneck	35%
Lack of Start-up friendliness	33%
Scarcity of Sharīʿah Based Products	18%

Source: Authors' own

Inequality in the form of special preference towards large firms and geographical preference for loan distribution has appeared as a significant (65%) concern in the country as Dhaka and Chittagong holds 78% of the total loan disbursement (Rahman et al., 2025). Country's digital financial infrastructure has not been developed as per the speed of its digital penetration (Hossain, 2023). And finally, the country has a significant 10.02% annual growth in Islamic finance investment 7.71% growth from previous year same quarter (Q3) (Bangladesh Bank, 2025). But in spite of tremendous possibility and huge market size, there is a scarcity of Sharīʿah based products in the country (ICD, 2025).

Phase-1 Finding Summery

The results of qualitative exploration of the study reveal several shocking discoveries. Cottage, Micro, Small and Medium Enterprise (CMSME) encompasses 99% of all non-farm enterprises in Bangladesh with a huge 25% contribution to national GDP (Hossain, 2023; World Bank, 2025). With approximately 7.9 million individual entities, the sector is serving as the backbone of the country's business ecosystem (World Bank, 2019). Despite having such tremendous economic contribution, this sector is termed as the "Missing Middle" where the demand is high, but the access is significantly restricted. 80% of the SME do not have access to institutional credit though 85% of the SME firms desire it. 70% of total SME credit demand is unmet (ALI and ISLAM, 2018). In case of trying to collect financing from privately owned microfinance institutions, the interest rate can vary from 24 to as high as 44% (Nguyen et al., 2011; World Bank, 2019). And the most notable discovery made by (Rahman et al., 2025) about the business financing scenario. According to the study (Rahman et al., 2025), 1.2% of accounts absorb more than 75% of total lending which clearly raise serious concern about the concentrations of loan supply.

Based on these findings it can be said that improving the missing-middle's, the SME section's financing situation can bring drastic improvement in the inclusion Metrix of the country. Because solving the issues of SME means solving the 99% of non-farm enterprise issue and addressing a major chunk of 25% of GDP's issue. And it also indicates that undertaking strong ethical stand to resolve the "Loan-Disbursement-Disparity" is highly needed to provide fair and equal opportunity to the growing youth and entrepreneurs of the country.

Phase-2 Findings (Empirical Evidence)

The results of the quantitative analysis also show consistency with the exploration section. It consolidates the potentiality of Islamic Finance for higher financial inclusion in Bangladesh from a couple of different perspectives. In addition to that it provides guidance towards the possible solution to the challenges.

Regression Analysis:

The results of simple linear regression (OLS) analysis confirm a highly positive relationship (r= .972) between improvement of Islamic finance and financial inclusion. Similarly, the 'Regression Coefficient' value β_1= .010 shows a direct relationship between the variables (Islamic bank asset increase and Total deposit amount).

One of the limitations of simple linear regression is its inability to deal with complex relationship which is clearly visible with R2 =.945. Having a robust 94.5% of the variance mean leaving only 5.5% for all other factors. Measuring the effect of one single variable cannot represent the full context of a county's financial inclusion scenario. However, with a highly significant statistical value $p < 0.01$ (far below the 0.5 threshold). The result strongly rejects the null hypothesis proving that the relationship is not coincident.

This result provides a strong empirical standpoint in favor of using Islamic finance for higher financial inclusion in the country.

Comparative Growth Resilience Analysis

While comparing the contemporary (2019-2025) data about comparative growth resilience of conventional banking and Islamic banking in Bangladesh through "Independent-Sample-T Test", another shocking discovery came forward. Despite being relatively new system and having considerably low reach (in terms of number of branches and distribution), Islamic banking shows a far greater (1.85% point faster) growth resilience (Mean: 13.12%) compared to conventional banking system (Mean: 11.27%) in recent times. With a 0.828 standard error means Islamic banking outperforms the conventional banking (which is 0.24) in terms of actual market performance estimation.

The large effect size measured by Cohen's D=1.150 (which is larger than the topmost value 0.8) also consolidates substantial practical advantage for Islamic finance's expansion and resilience. Since the Cohen's D result can be slightly bias with a small sample size of 7 years (2019-2025), this effect size is further proven with a "Hedges Correction" of 1.076 (which is well above 0.8 compared to conventional).

However, the standard deviation of 2.19 for Islamic finance and 0.64 for conventional finance provides a different perspective which shows a higher growth rate volatility in Islamic finance and greater stability for conventional finance expansion. Nevertheless, with the Glass's Delta=2.872, Islamic finance remains as a strong outlier in the chase.

This empirical finding shad light to a highly contemporary market scenario and prove that introducing more strategic Sharīʿah-compliant instruments is not merely a theoretical assumption-based step rather a market oriented pragmatic solution for achieving higher financial inclusion in the county.

Digital to Institutional Penetration Analysis

Digital to institutional penetration analysis through "Pearson Correlation Matrix" reveals a near-perfect relationship (r =. 986) between digital penetration and SME loan account which means with the expansion of digital financial service, SME financing increases. Although the Branches to SME account penetration also provides a strong connection (r = .962), the cost of operation and lack of potential exponential expansion give extra edge to digital finance. Moreover, the high statistical significance ($p< .001$) provides evidence of the result not being accidental.

Empirical Finding Summary

All the statistical analyses provide strong empirical evidence in favor of the use of Islamic finance for financial inclusion acceleration. The increasing use of Islamic finance has direct relations with financial inclusion. In addition to that the contemporary performance of Islamic finance is much better than its conventional counterpart. The results also suggest that the digital infrastructure can be the primary catalyst to fast-forward this effort.

Phase-3 Evidence Based Model Suggestion

As per the findings of the previous two phases, to create an inclusive business finance environment in Bangladesh an ethical, equality-based solution is necessary which can not only bypass the major barriers (collateral requirement, complexity of procedure, inequality in loan distribution) of financing but also address contemporary opportunities flexibly to achieve sustainable growth according to market demand, pace and trend. The below mentioned fintech based model could be a better solution in this regard (See Figure-3)

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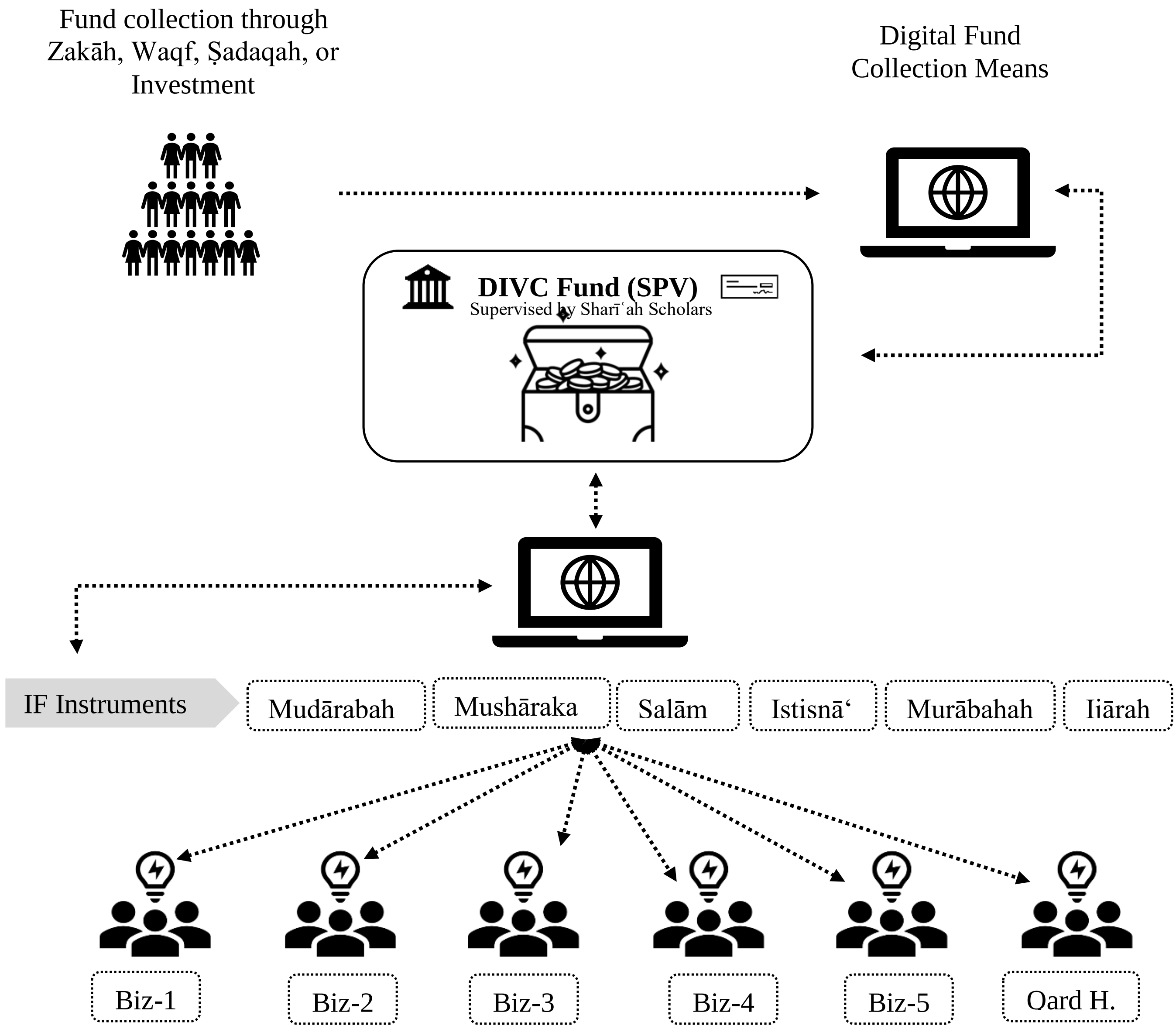

Figure 3: Digital Islamic Venture Capital (DIVC) Model

Source: Authors' own

The proposed Digital Islamic Venture Capital (DIVC) model can be a private or a state-owned Islamic venture capital firm that forms its fund through Islamic social finance options like Zakāh, Qarḍ al-Ḥasan (Benevolent Loan), Waqf, Ṣadaqah or through collecting investments from the interested members. It can be backed up by Central bank as guaranty and private banks (through their Islamic windows) for liquidity. It has to be essentially secured and digital in nature of operation where the collection of money will be done majorly online. These collected money will then create a pool of fund or an SPV to be invested using different instruments of Islamic finance like *Murābaḥah*, *Mushārakahh*, Salām, Istisnā‘ and so on. There will be digitalized means to collect application from interested entrepreneurs and business. The investment will be made in different well studied businesses by the concerned authority. Being a venture capital, it will not only invest money but also provide consultancy and supervision for the business to make sure the success and timely return.

How this model can handle the exiting challenges

The model perfectly addresses all the major challenges found through the analysis of the study. Islamic venture capital invest money to the business in exchange of equity or ownership (Choudhury, 2001; Fathonih et al., 2019). As a result, there is no requirement of collateral in business finance. In addition to that the DIVC model uses Islamic finance instruments like Muḍārabah, and Qarḍ al-Ḥasan where having a collateral is not even permitted by Sharīʿah law (AAOIFI, 2015). Moreover, An Islamic venture capital is operated based on Sharīʿah law which promotes superior ethics and rules out all short inequality from society (AAOIFI, 2015; Ishak, 2019) which will solve the distribution disparity issue. By adopting a digital based operation system it not only removes the technology barrier but also reduces the complexity issue to a great deal (Hossain, 2023). And finally, being run on an Islamic venture capital principle, the DIVC model helps reduce the scarcity of Sharīʿah-based financing options, lack of start-up friendly environment and through working closely with the business firms it develops awareness and efficiency in the local entrepreneurs.

Practical Implementation of the DIVC Model

The proposed DIVC model can be implemented through a phased approach, beginning with a pilot program in a high-demand economic zone such as Dhaka or Chattogram. The model would operate as a specialized Islamic venture capital firm registered with the Bangladesh Securities and Exchange Commission (BSEC) and compliant with Bangladesh Bank's Islamic banking guidelines. Initially, the fund could be capitalized with Tk 100 crore, sourced through a combination of: (i) social Islamic instruments including Zakāh funds managed by recognized charities, (ii) Waqf endowments from corporate donors, (iii) private equity contributions from high-net-worth individuals seeking Sharīʿah-compliant investment opportunities, and (iv) a credit guarantee from Bangladesh Bank to enhance credibility. The digital platform would integrate with existing Mobile Financial Service (MFS) providers like bKash and Nagad to facilitate seamless fund collection and disbursement. Entrepreneurs would apply through a mobile application, undergoing a streamlined digital credit assessment using alternative data sources such as MFS transaction history, utility payment records, and social media presence. A dedicated investment committee, comprising finance professionals and industry experts, would evaluate applications using a standardized scoring matrix, while a Sharīʿah Advisory Board would ensure strict compliance with Islamic principles throughout the process. This phased, technology-enabled approach ensures scalability, transparency, and cost-effectiveness while addressing the critical financing gap faced by CMSMEs.

DISCUSSION

The findings of the paper align with several other contemporary literatures and reports. For example, Akhter et al., (2019) found that Improvement of Islamic finance have positive contribution toward demand side (the borrowers' side) financial inclusion. Several other studies presented stronger positive relationship between Islamic Finance and Financial inclusion scenario but among them Khan et al., (2025) also pointed out that the relationship is stronger when the market is well established and share is high which partially aligns with Suseno and Fitriyani, (2018) who also found significant impact of Islamic finance but statistically negative relationship though such claims are very few in number.

Several contemporary reports like World Bank, (2024); IMF (2024); Bangladesh Bank (2025) advanced for digitalization trend in financial industry. Reports on Islamic finance like ICD, (2025); Bangladesh Bank, (2025) shows comprehensive growth trend (Year on Year 21% Globally) in Islamic finance which aligns with the findings of the paper and strongly supports the expansion and use of Islamic finance for accelerating financial inclusion.

CONCLUSION

The study attempts to portrait a consolidated business finance picture of Bangladesh to underpin the single most important element of country's economic development because the solution of this will trigger the several economic development factors like higher employment, higher innovation, higher export, most importantly higher inclusion. Therefore, the papery urge for further deep research greater acceptability to towards the regulatory body and key player of the country.

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