

Islamic Microfinance Credit for Women Entrepreneurship Development and its Obstacles in Pakistan

Nazima Ellahi*

Muhammad Awais†

Asif Raza‡

Abstract *Women entrepreneurs suffer from various obstacles, such as gender gap or discrimination, few years of business experience and limited access to financing. The first part of this study explains the theoretical base of the Islamic microfinance, going through religious and ethical principles and financial contracts related to these principles. By using these theoretical aspects, the present study tried to evidence the main reasons for the “feminization of microfinance” in Pakistan. This study tries to answer, why, Islamic microfinance is an answer to improvement in women entrepreneurship. The second part of this study highlights social and environmental factors acting as a hindrance to female-entrepreneurship development. The primary data set is collected through field surveys from major administrative units of Pakistan to make sample more representative of Pakistan, where major Islamic micro-financing institutions are in operation.*

Key Words:

Women Entrepreneurship, Islamic Microfinance Credit, Obstacles to growth.

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Introduction

According to Endogenous growth theories, the utilization of human capital positively and productively guarantee economic growth. Developing nations across the world seek ways to accelerate their growth process and to bring themselves in line with the rest of the progressing world. A variety of drivers are responsible for this development, the one has discussed in this study *i.e.* contribution of women as entrepreneurs, as Schumpeter (1934) contended that, business cycles and economic development are caused by entrepreneurship. Similarly, Barretto (1989) was of the view that economic development comprises of a series of steps in which new markets and new organizations are developed by the entrepreneurial efforts.

The concept of entrepreneurship, as defined by Haque (2007) is “A process of identification and development of innovative ideas and opportunities into business.” The idea was initially developed from the thinking that introducing and promoting new business brings employment generation, innovation, high welfare and improvement in living standards. Brush Candida et al., (2007). Similarly, Green, Kirkpatrick, and Murinde (2006),

*Assistant Professor, Department of Business & Technology, Foundation University Islamabad, Pakistan. Email: nazimaellahi@yahoo.com

† Assistant Professor, Department of Business Administration, Foundation University Islamabad, Pakistan.

‡ Head of Business Operations, Digital Product Limited (DPL), Islamabad, Pakistan.

studied and found evidence of a causal relationship between the development of enterprises, poverty mitigation and management of the financial policy. However, these critical factors have been challenging features to attain the global Millennium Development goals (MDGs) by 2015.

Depending on the situations of developing countries, there is an almost declining trend in employment opportunities for female workers. Therefore, they are encouraged to create jobs for themselves and become entrepreneurs. There is a long way to go for female entrepreneurs to compete and achieve the level of men-owned enterprises. It is a commonly observed phenomenon that female-owned businesses are smaller compared to men-owned businesses (Blank, 2010; Bruhn, 2011). The encouragement of female entrepreneurs requires a detailed analysis of environmental and social factors affecting them, and policies pursued by the government to promote them. A deep analysis will help the government to formulate policies, identify gaps in policies and social set up.

Financial market i.e. microfinance institutions are a source of funding to poor and assist the poor business owners to establish and successfully run their ventures either individually or jointly. At the start, this sector was only providing services based on gender while over time, when female entrepreneurs invested in long run projects and became the largest source of funding, it became a part and parcel of microfinance institutions as a tool to mitigate poverty. It is strongly believed in the literature that economic integration and globalization stream into developing countries brought the idea of women entrepreneurship there. Whereas, this concept has been a diminished idea before this (ILO, 2006).

Over time, innovations are continuously being introduced in this concept of women entrepreneurship together with risk-bearing. It has been realized by researchers and policymakers that it is a potential channel to uplift the growth index and responsible to bring employment opportunities, profitability, and innovation in the long run. As pointed by Ghani *et al.* (2011), women constitute a group of the major driver to economic growth for the last few decades. Women entrepreneurs constitute human resources meant to overcome the economic challenges globally. As argued by Kalim (2012), female entrepreneurs are an important human resource that helps meeting the economic challenges in the modern high tech world and to empower women. They diversify the production services, Stevenson and Onge (2005). The role of this sector in poor countries is different from the developed world. Iaona (2007) mentioned that the contribution of female entrepreneurship varies from country to country and region to region depending upon several factors including their cultural and ethical beliefs, their access to natural resources and policies pursued at the national level to promote female entrepreneurship.

As far as the case of Pakistan is concerned, it is ranked as 132 out of 134 countries in terms of economic activities pursued by women Nadgrodkiewicz (2011). On the same lines, Global Entrepreneurship Monitor GEM (2010) reported that female entrepreneurship is approximately 4% less than the male activity of entrepreneurship in Pakistan. A government of Pakistan survey conducted revealed that approximately 6.6 million people are employed in the household and out of the approximately 0.5 million are women. 15% of these employed females are proprietors and self-employed, while 30% are serving as unpaid workers, and the rest of all (55%) are paid, workers. Like other developing regions, in Pakistan female-owned businesses are in sub-sectors like fresh designing, food retailing, knitting and dressmaking. Against this backdrop, there is little evidence on the research

based on the issue of female entrepreneurs as per developing countries and specifically for Pakistan.

According to the GEM (2016) survey, the entrepreneurial ventures in Pakistan, while the female enterprise's contribution is lower than 3.43%. Compared to male entrepreneurs, which is four times of this. This calls for research focusing on business, which are either home, based or non-home based, run by female entrepreneurs to get an idea on the state of female enterprises in Pakistan. This will serve to highlight the role played by females to make their household financially viable.

To run small businesses, the poor need credit for financing. Microcredit Summit (1997), argued that microfinance provides credit to poor families and helps them creating job opportunities. Furthermore, the World Bank asserted that it is a tool to address the issue of poverty and income inequality. Similarly, Islamic microfinance market is an important source, which plays an important role in the development of the economy, by providing financial services without interest (riba)

Objectives /Organization of the Study

The present analysis is intended to meet the following broad objectives:

- ✓ How different Islamic Financing techniques can be used as a mode of Microfinance.
- ✓ Pinpointing the major social, environmental, legal and economic factors affecting the performance across female entrepreneurs in Pakistan.
- ✓ Identifying, and highlighting the obstacles to the operation of female-owned enterprises.

Review of Literature

The evidence of a theoretical and empirical relationship between microcredit and economic development through sound women entrepreneurship has been found in numerous studies. Akter et al (2018) studied the relationship between women entrepreneurship and microcredit programs from a social service perspective. The study conducted for women borrowers who utilized funds to run small businesses. The indicators of success showed that utilization of microcredit resulted in development from a social perspective and helped to improve the overall development. Shajahan (2017) discussed the role of Islamic microcredit for the enhancement of entrepreneurship in women in Bangladesh. The study discussed that although conventional microcredit programs have received noticeable success in fostering economic growth through women's credit programs, still there is a space available for the Islamic microcredit program. The study utilized the existing literature review and explained its significance. Bruhn (2009) studies the performance and profitability of female-owned firms in developing countries, with a special focus on Latin American countries. The study employed data from different secondary data sources and found that for small-sized firms profitability of male-owned firms is higher than female-owned firms. As far as the obstacles to growth were concerned, the study highlighted that the difference in profitability is not caused by credit access or regulatory burdens specifically. A critical finding of the study suggested that as a general practice, in terms of sales, cost structure and size of workers, female enterprises are less in number.

Blank (2010) documented the evolution in female-owned enterprises and businesses over time. Including the reasons for differences between these two kinds of enterprises, this report also discussed and highlighted the outcomes of these differences. The study

sample included females involved as proprietors or partners in privately owned businesses. Wube (2010) studied the factors affecting women entrepreneurs' performance in small and micro-enterprises. Taking a sample of five major sectors engaging women, and 203 women and found a gap in governmental policies for encouraging women.

Amin (2009) found through primary data analysis that microfinance provided to the poor women of rural India had a direct impact on the living standard as compared to those who do not get access to these microfinance services. The study pointed out a positive impact experienced on income, asset building, and access to schools and medical facilities. Similarly, a study conducted for the Indian economy by Singh, (2008), highlighted the factors responsible for the entry of women in the field of entrepreneurship and obstacles to their growth. The study highlighted that communication between successful entrepreneurs to share experiences, socially discouraging attitude, family commitments, gender discrimination at all levels and low priority given to females in terms of funds reimbursement are the critical and major factors that act as a hindrance to the development of female entrepreneurs.

On the same line, working on the obstacles and challenges faced by women entrepreneurs, Stevenson and Onge (2005), discussed the constraints faced by female entrepreneurs in Africa. The study concluded with the fact that poor infrastructural facilities, instabilities in the socio-cultural and political environment and high production cost are responsible for low participation and growth of female-owned enterprises in developing countries. It was also discussed in the study that countries in the African region possess a non-conducive business environment that impedes and retards the performance of women entrepreneurs. Also, the women in that region have faced improper access to credit and basic land resources. The study highlighted that globalization and advanced technologies urge the need of providing business education, training, and skills to women entrepreneurs.

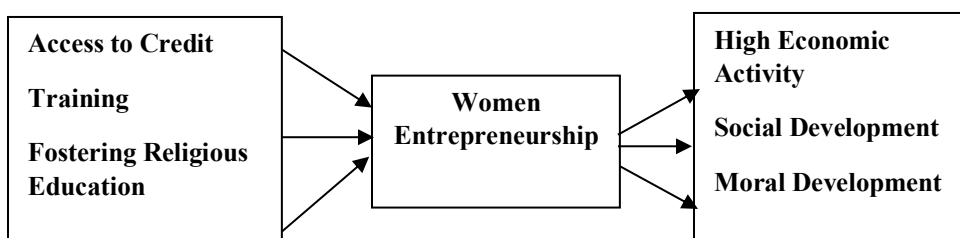
Comparative performance of male-owned and female-owned enterprises has also been an issue of discussion among researchers. Sabarwal *et al.* (2009) researched to analyze the performance gap between male-owned and female-owned entrepreneurs for three distinct regions. Ghani *et al.* (2011) taking the manufacturing and services sector of India studied the factors affecting females entrepreneurs and their businesses. The study also highlighted the role of female businesses in females' entrepreneurship. Prakash (2011) studied the status of female entrepreneurship in India and suggested that positive orientation and skills are required by females to cope with the challenges of the global world and bring excellence in the entrepreneurial arena. Iona (2008) discussed that female entrepreneurship exhibit the potential to behave as a growth engine and accelerate regional growth in Romania. The study aimed to find the impact of female entrepreneurship on regional development taking a broader aspect of educating the women and motivating them for participating in it.

Mordi *et al.* (2010) stated that female entrepreneurs face several problems; from a society, perspective infrastructure and sexual harassment are phenomenal. International Labor Organization (2003) mentioned harassment and lack of basic facilities at home enterprises run by female-entrepreneurs. Makombbe (2006) studied the extent of the success of women empowerment programs for promoting the participation of women in the food processing industry. An analysis of a subset of previous literature suggests that

several legal, environmental and social factors together with government policies affect the performance and profitability of female entrepreneurs.

The brief review of literature on female-owned enterprises, their performance, obstacles and challenges faced by them showed that there is an extensive need to explore these issues seriously, especially in the context of developing countries. As it is also evident from the literature that, this is an important channel for bringing prosperity and welfare in poor countries and a potential driver to economic growth. Lack of credit and less access to financing is a critical factor affecting the female-owned enterprises, as pointed by many studies. Therefore, the present study would discuss this factor and tries to explore the benefits of Islamic micro-financing tools and instruments for developing female entrepreneurship in Pakistan.

Islamic Microfinance and Women Entrepreneurship



Conceptual

The framework, derived from Shajahan (2017)

The figure above presents a conceptual framework for the relationship between Islamic microcredit provision and women entrepreneurship. The figure has been taken from Shajahan (2017). The figure clearly describes that financing through Islamic microcredit institutions, training, promotion of religious education aids women entrepreneurship process, and it contributes to society through high-income activity, social development, and moral development.

Principles of Islamic Microfinance

Islamic economic principle of justice is in line with the objective of microfinance schemes, *i.e.* poverty eradication and empowering the poor of society. Islam prohibits *riba* (interest) and recommends transactions based on interest-free financing. Against this backdrop, Islamic microfinance schemes can provide an alternative for better ethical, economic and financial development of poor and micro-entrepreneurs Rahim & Rahman (2007). Conventional microfinance institutions are introduced by the opening of Grameen Bank by Muhammad Yunas and hence awarded by Noble Prize in Bangladesh. Proponents of Islamic microfinance aimed to enhance Islamic society and funds compliant with *Shariah*. Furthermore, they insisted on a comprehensive microfinance program with the provision of equity finance by using tools of *Mudarba* and *Musharkah*, savings programs through *Wadiah & Mudarba*, transfer of money through *sadaqas & Zakat* and finally insurance through *Takaful*. Both the microfinance institutions are engaged in the mobilization of

savings, however, Islamic microfinance also exploits Islamic charity such as *Waqf & Zakat*. Here *Zakat* fulfills the basic needs of the poor of society and raises their participation overall.

Risk Mitigation and Islamic Micro Finance Instrument

An important feature of Islamic banking focuses on low-risk instruments and ignoring Profit and Loss Sharing (PLS). This can be balanced by diverting focus on Islamic micro-financing. Islamic banking, characterized by risk-sharing and provision of loans without collateral, can prove to be a good solution for micro-entrepreneurs. Hence, Islamic microfinance facilitates the poor of society and foster economic development overall Dhumale & Sapcanin (1999). Different tools of Islamic banking can prove to be an alternative to Islamic microfinance.

Mudabah and Musharakah

Mudabah: A two-tier structure of *Mudabah*, where three parties are involved. *Rab-ul-Maal* (zakat, waqf, or government), *mudaarib* (Islamic banking institution) and final *mudaarib* (women entrepreneur). On the agreed percentage, profit and loss ratio is decided among them. Here, in the case of profit, according to the pre-decided ratio, profits are distributed. However, losses are kept on future operations. Afterward, entrepreneurs have full control over the business, with a monitoring duty from the bank. In addition to this, a problem of profit distribution is faced in this because of lacking the proper financial statement of microenterprise.

Musharakah: another form of Islamic instrument that could be modified to be an Islamic microfinance scheme. In this case, the Islamic bank becomes a partner of entrepreneurs where losses are distributed according to capital contributions and profits according to pre-determined ratios. *Mudabah* and *Musharakah* capitals are subject to capital impairment risk. In the case of Islamic micro-financing institutions, a third-party guarantee can prove a good solution for risk mitigation.

Murabahah and Ijarah

In the case of *Murabahah*, to act as a mode of microfinance needs Islamic banks to purchase and sell to entrepreneurs and earns markup. For purchasing business equipment, it is most suitable. The feature of this mode of financing includes continuous monitoring by banks and loans are further initiated to the entrepreneurs with good repute. The loans are given to a group of micro-entrepreneurs to reduce the chances of default.

Ijarah

Among different forms of *Ijarah*, the most suitable form, that can be adapted as Islamic Microfinance Scheme includes, *Ijarah Muntahia Bitamleek*. Micro-entrepreneurs are always in need of assets along with equipment. Islamic banks purchases required assets and rent it to entrepreneurs. Entrepreneurs, further pay this rent back after regular intervals and will be responsible for taking care of assets and banks monitors its performance.

Qard al Hasan

Qardhul Hasan or interest-free loans that can be useful for initiating and promoting inexperienced and new entrepreneurs and need startup capital. Regular installments for

repayment are settled according to an agreed contract. However, Credit risk is involved in this case.

Microfinancing holds a central place in the case of Pakistan, where there are hundreds of nonprofit organizations, NGOs, programs from international development funds that are in action to alleviate poverty through microfinancing. In this context, the role played by Pakistan Poverty Alleviation Fund (PPAF) is highly appreciable, as females entrepreneurs as most of their creditors comprise of females (Mustafa & Ismailov, 2008) have utilized majority of the funds provided by them. National Rural Support Program (NRSP) and Khushali Bank and First Women Bank Limited have initiated similar efforts. All these institutes are meant to improve the state of women in Pakistan and hence contribute to the overall development targets (Micro watch, 2008). These are not only credit providers, rather serve through training programs, introducing innovative business opportunities and advisory of business management at large scale across the country.

Methodology/ Sample

The present research study tried to explore the way, Islamic microfinance is an answer to improvement in women entrepreneurship. However, the second part of this study highlights social and environmental factors acting as a hindrance to female-entrepreneurship development. To collect information on their demographic profile including information on their age group, age at which they started a business. The study used a convenient sampling method and 55 women entrepreneurs were chosen (24 women from the formal sector and rest from the informal sector). The data is collected from women running their businesses by funds taken from formal (Akhuwat Foundation) and informal sector (family members, relatives and money savers), member-based organizations, and NGOs.

Results Interpretation

The present research study is exploratory in nature, data is collected through questionnaires, and semi-structured interviews. Table 1 below pinpoints the factors responsible for causing hindrance to the development or operations of female entrepreneurs in five major administrative units of Pakistan.

A Snapshot of Major Findings

We divided the whole sample into major divisions of all the provinces. The details of findings for all provinces are as under:

Punjab

We collected data from major divisions of Punjab including Multan, Lahore, Bahawalpur, and Rawalpindi. The entrepreneurs thus selected mentioned that access to capital, information, networking channels, and guidelines from their peers are major factors, which act as a hindrance to their business. Also, a few of them told that gender discrimination, their family responsibilities, and social unacceptance also deter their working as an entrepreneur.

Sind

The data is collected from Mirpur Khas, Karachi and Hyderabad. The entrepreneurs

selected highlighted that gender biasedness, work and family life balance, security and above everything the lack of access to finance are among major factors hindering the women entrepreneurs to start and develop their businesses.

Baluchistan

The data is collected from major divisions of Quetta, Kalat, and Sibi. The major constraints to their business include cultural constraints, security, and lack of managerial skills, lack of networking facilities to talk and negotiate with banks, their dual roles, their marketing skills and abilities and lack of provision of support from the government.

KPK

The major areas include Bannu, Kohat, Hazara, and Peshawar. The constraints highlighted by women working in these areas include unequal access to market opportunities, less knowledge about marketing and business strategies, security issues, gender biasedness at its peak and access to proper banking finances.

Conclusion and Recommendations

We conducted this analysis to find out the barriers to women entrepreneurs in the country and the role of Islamic microfinance institutions to enhance the female entrepreneurial efforts in the country. The major findings show that microfinance institutions are providing funds to start and run the businesses to female business owners. Out of our sample in this study, 62% are those who use this fund facility for their business while the rest of 38% use funds from different sources. There are various factors, which have been highlighted by these women, which act as a hindrance to their performance. Along with other social and cultural barriers, their access to finance, lack of proper training, advisory on how to run business and access to their peers for their feedback and advice are among major factors. The government and policy institutes must put all their efforts to provide these facilities to them for the smooth functioning of this sector.

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