

# Role of Islamic finance in promoting women entrepreneurs in Pakistan

Islamic banking and finance is now touching the US\$3 trillion mark globally and is expected to cross PKR7 trillion (US\$24.31 billion) in asset size in Pakistan by December 2023. It is a system of finance that is based on the principles of Islamic commercial law. This system of finance has gained much popularity in recent years due to its ethical nature and its alignment with Islamic principles. Women entrepreneurs, who are playing a significant role in the economic development of many countries, can largely benefit from Islamic finance which offers financing and investment opportunities that are Shariah compliant. AHMED ALI SIDDIQUI and SAMIA TAHIR JAWAD explore.



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Pakistan, like many other countries, has seen a rise in the number of women entrepreneurs in recent years. However, women entrepreneurs in Pakistan face a range of challenges, including limited access to finance, observing cultural values and family requirements, and lack of knowledge about business management and banking. Islamic finance offers a unique opportunity for women entrepreneurs in Pakistan, as it provides a more ethical and equitable form of financing that aligns with Islamic principles. In this article, we will discuss the role of women entrepreneurs in Pakistan and the potential benefits that they can derive from Islamic finance.

Women-led start-ups and enterprises in Pakistan can play a significant role in the country's economic development. However, one of the main challenges faced by these businesses is limited access to finance. According to the World Bank, only 7% of women in Pakistan have access to formal financial services. This limited access to finance is a significant barrier for women entrepreneurs, as they need capital to start and grow their businesses. One of the reasons behind this lack of access to finance is an unwillingness to engage in interest-based financing offered by conventional banks. These faith-sensitive customers opt not to borrow on interest or in some cases avoid opening bank accounts in a conventional bank due to interest.

Table 1: Summary of Islamic financing solutions for women entrepreneurs

1. Short-term financing needs	Islamic banking solutions
Raw material requirement	Murabahah (A cost plus profit sale, where the Islamic bank sells the required raw material on a credit or cash basis to the customer)
Overheads/utilities/salaries, etc	Istisnah (An order to manufacture a finished product, where the Islamic bank orders the customer to make a product and pays the price in advance)
Finished goods and inventory financing	Tijarah (A sale transaction where the finished good inventory or stocks are purchased by the Islamic bank on cash payment and then sold in the market)
Import financing	Letter of credit and Musawwamah (import financing based on sale of imported goods by the Islamic bank to the customer)
2. Long-term financing needs	Islamic banking solutions
Acquisition of fixed assets, plant and machinery or house	Diminishing Musharakah (An asset is jointly bought by the Islamic bank under a joint co-ownership contract and rent is paid by the customer for use of the asset)
Buying a car/delivery van/scooter	Ijarah (a rental contract where the bank as the owner of the asset rents out the asset against an agreed rental payment)

Source: Meezan Bank

The government of Pakistan has recognized the importance of women entrepreneurs and Islamic finance in the country's economic development. In 2018, the State Bank of Pakistan (SBP) launched a gender finance policy to increase women's access to finance. The policy aims to increase the percentage of women customers to 25% by 2020 and to 30% by 2025. This policy is a step in the right direction and demonstrates the government's commitment to supporting women entrepreneurs in Pakistan.

Islamic finance can play a crucial role in addressing the financing needs of women entrepreneurs in Pakistan. One of the unique features of Islamic finance is its emphasis on social justice and ethical conduct. This emphasis makes Islamic finance a suitable option for women entrepreneurs who are looking for financing opportunities that align with their values and principles. For example, Islamic finance prohibits the payment

and receipt of interest (Riba), which is considered exploitative and unjust. This prohibition creates an opportunity for women entrepreneurs to access financing that is based on real trade (buying and selling), profit-sharing (Musharakah) or leasing (rental) arrangements, which are directly linked to real business or utilities derived from real assets and considered equitable and beneficial for both parties.

In an effort to support and provide financing for women entrepreneurs, who may not have access to traditional forms of financing due to lack of collateral, some Islamic banks with the support of the government and the SBP are now also offering small ticket collateral-free financing under a youth financing scheme. Additionally, the SBP has introduced a Shariah compliant Islamic Refinance and Guarantee Scheme specifically for women entrepreneurs, Islamic Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium

Enterprises, Islamic Refinance Facility for Modernization of SMEs and Islamic SME Asaan Finance Scheme to support entrepreneurship in Pakistan. These schemes provide financing opportunities for women entrepreneurs across the country to meet the credit needs of their businesses.

Islamic financial institutions in Pakistan are also providing a range of products to meet the diverse financing requirements of their customers, including short-term, long-term and trade financing. Women entrepreneurs also have the opportunity to utilize these facilities to address their business and financing needs. Table 1 shows examples of the general products offered.

In Pakistan, Islamic banks recognize the importance of women's financial inclusion and to cater to their specific needs and preferences, these banks offer a range of products and services designed exclusively for women. These products may include savings and investment accounts, personal and home financing and Islamic credit cards, among others. By providing these specialized products and services, Islamic banks like Meezan Bank, Dubai Islamic bank, Faysal Bank and others are contributing to women's economic development and helping them achieve financial access for their business needs.

Another important area to encourage women entrepreneurs to avail Islamic financial services is the holding of regular seminars, workshops and training sessions specially designed



to their needs. These sessions will help them to develop their skills and knowledge about finance and business. These programs can be particularly beneficial for women entrepreneurs who may lack formal education or training in business management, and those who are averse to investing or borrowing on interest. Thus, Islamic finance is the exclusive means for ensuring financial inclusion and ethical financing for many women entrepreneurs and start-ups in the country.

Recently, the Center for Excellence at IBA Karachi took the lead to conduct specialized workshops and webinars focused on the capacity-building of women entrepreneurs and professionals in Pakistan with the support of the

industry. These sessions were aimed at raising awareness about Islamic finance and financing product options for businesses and individuals.

Creating financial literacy, building understanding about Islamic financial products and capacity-building in terms of book-keeping and documentation are some of the main challenges faced by women-led start-ups, entrepreneurs and professionals in Pakistan. The industry, regulators and academia need to collaborate more often to overcome these challenges. A workable action plan and strategy need to be developed, keeping in view the religious preferences and desires of the target market to make these initiatives a success. ☺

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