BRIEFING NOTE

Women economic empowerment through Islamic microfinance

May 2021

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Financial exclusion remains a significant barrier to inclusive growth and sustainable development. For women in developing countries financial inclusion is not just about economic empowerment but it fundamentally determines women's holistic empowerment. Access to financial products and services does not only improve women's livelihoods, and, by enabling women to develop their own enterprises, catalyze female empowerment. However, although women make up the majority of clients of microfinance institutions globally, factors ranging from wider social and gender norms to household-level power dynamics and distribution of labour often constrain their empowerment.

ISLAMIC FINANCE AT A GLANCE: PRINCIPLES

All Islamic finance products must adhere to the basic principles that avoid:

- **Riba** – this is usually translated as 'interest', although strictly it has a much wider meaning. **Shariah** regards the charging of interest on financial transactions as a form of exploitation, in that reward is earned without effort or risk;
- **Gharar** – excessive uncertainty. There is a very high standard regarding certainty in all contractual matters from the outset of an agreement, including price and subject matter;
- **Maysir** – speculation. Shariah-compliant financial products should not profit from pure chance, as opposed to ordinary commercial risks such as risks of ownership;
- **Qimar** – gambling. This is considered similar to Maysir and is prohibited for the same reason;
- **Ihtikar** – hoarding or price manipulation. Since money is treated as a means of exchange only and not an end in itself, Shariah encourages people to put their money to work for the benefit of the community;
- **Haram** – an object or purpose which is haram is one that is unethical or unlawful. The subject of an investment cannot be a business dealing with something prohibited by Shariah; including pork products, alcohol, armaments or gambling.

Islamic microfinance

Islamic microfinance not only provides access to finance for women's enterprises, it integrates social and financial objectives. Guided by a set of ethical principles, it also creates avenues to advance women's financial inclusion and, as a consequence, empower women more broadly too. The principles of Islamic finance can remove barriers to women accessing finance and becoming economically empowered. For instance, in giving women access to financial and productive resources, Islamic microfinance addresses the challenges they face in financing their micro and small businesses.

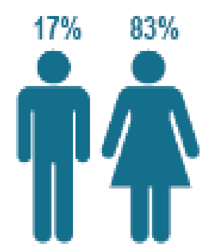
ISLAMIC FINANCE AT A GLANCE: PRODUCTS

To adhere to Islamic financing principles a range of products have been developed. The most wide-spread are:

- ***Murabaha:*** This is used for short term finance, and involves the MFI purchasing and paying for a product on behalf of a client. The MFI is liable for the goods until the client takes possession, and in return for holding this risk charges the client a pre-declared mark-up on the goods.
- ***Mudaraba:*** This involves a financial investment in the business of an entrepreneur who provides their skills and effort. The profits are shared with the MFI according to a prearranged ratio.
- ***Musharaka***: This means partnership, so that both parties contribute to a joint venture sharing in profits or losses related to the proportion of the commitment.
- ***Ijara:*** This is the Islamic equivalent of leasing, and is little different from the conventional use of the term. The client pays regular instalments to pay for goods bought by the MFI.
- ***Qard Hassan:*** This is essentially an interest-free loan although under Islamic finance rules, commercial providers can recover the direct cost involved in the delivery.

Financial inclusion but economic exclusion

Women continue to be the microfinance sector's primary target across the globe, with a coverage of 83% in 2017. At 94%, East Asia and the Pacific had the highest coverage in female borrowers, closely followed by South Asia. South Asian MFIs remain focused on serving women, as many have done since their inception, with 92% female borrowers. South Asia is also the region that saw the gap in account access between men and women decrease the most, from 18% in 2014 to 11% in 2017, at the same time that overall account access went up to 70%. At the other end of the spectrum, MFIs in Eastern Europe and Central Asia serve a majority of male clients: only 45% of their borrowers are women. The gender gap has increased from 3% to 6% despite overall growth in access of 7 percentage points (Convergences, 2018).



Proportion of microfinance clients globally in 2017

However, access to financial services alone is not enough to empower women and maintain their economic inclusion. Economic inclusion is more than a matter of access to financial services: it is also an issue of ownership and control over resources, access to markets and fair commercial treatment etc.

Women in general remain vastly underprivileged in accessing, owning and controlling productive, financial and non-financial resources due to multiple factors discussed in this section. The economic and financial exclusion factors of women, a non-homogenous group, vary across different groups of women of diverse backgrounds and intersect with other determinants of financial inclusion at personal, community and structural levels. It is therefore important to acknowledge an intersectional nature of financial exclusion in the analysis, which is specific to context and the lived realities of different women.

Barriers for female entrepreneurs

There are a range of barriers that restrict women's economic participation such as:

Area	General entrepreneurship constraints	Gender-specific constraints
Social/ Cultural norms	Low profits and growth Lack of mobility	• Competing demands between market and household work for time related to unpaid domestic and care work • Limited female labor market participation • Mobility constraints due to social norms or time limitations • Need for a male co-signer in financial documents • Lack of decision-making/intra-household bargaining power • Limited control over household resources • Restricted social networks and social capital
Structural barriers	Lack of Shariah-compliant finance Lack of ownership/control over assets Lack of authority for decision-making	• Market forces that don't recognize that women operate on an unequal playing field • Women often don't have assets and therefore do not meet collateral requirements • Dominance of lower-paying economic activities for women • Lower rates of phone ownership for accessing digital services
Legal/ regulatory factors	Excessive bureaucracy and regulations create additional costs and lengthen the time needed to register and start a business Men are usually defined as the head of household and are legal owners of matrimonial property	• Limited knowledge of government legislation and less experience of starting a business than men discourages compliance. • Lack of collateral • Barriers to getting identity documents • Women are often more vulnerable to exploitation by corrupt officials • Laws deny or limit ownership of assets • Barriers to inheriting property • Women need male approval to open bank account or own property • Gender exclusive credit reporting systems
Supply and product design barriers	Inadequate product design	• Lack of gender policies and guidelines for product design • Gender insensitive marketing strategies • Gender blind distribution channels
Education and training	Low numeracy and literacy	• Women are often less numerate and literate • Risk aversion and lack of knowledge about risk management
Institutional Factors	Operating informal businesses Lack of business training leads to low productivity	• Informal and home-based enterprises are mainly the result of a need to combine work and family responsibilities • Limited vocational and technical skills may be caused by women's lower educational attainment or social norms that limit their physical mobility
Conflict and fragile environment	Destruction of financial institutions Instability of markets	• Infrastructural challenges in accessing financial services • Escalated protection and security risks in performing business activities • Loss of assets, damaged business properties, restricted provision of inputs

Gender compounded economic exclusion can only be overcome by advocating for more political and social equity and supporting microfinance institutions to design and provide Islamic microfinance products and services in ways that adequately respond to female clients' needs and better address gender specific constraints.

Women's financial needs

Whilst microfinance is often regarded as one intervention, the same class of intervention (i.e. savings, credit, credit- plus etc.) can have significantly different outcomes depending on the client (World Bank, 2014). Capital alone, as a small cash loan or grant, is insufficient to grow women-owned subsistence-level firms. However, it can work if it is delivered in-kind to more successful women micro-entrepreneurs, and it should boost the performance of women's larger small or medium-sized enterprises (SMEs). To break out of subsistence production and grow their businesses, very poor women need a more intensive package of services than required by less poor women. What works for young women does not necessarily work for adult women. Skills training, job search assistance, internships, and wage subsidies increase the employment levels of adult women but do not raise wages. However, similar interventions increase young women's employability and earnings if social restrictions are not binding.

NEWS

"MAKING ISLAMIC MICROFINANCE WORK FOR WOMEN"

WOMEN'S WORLD BANKING CONFERENCE, SINGAPORE

On behalf of the OIC multilateral development financial institution, the Islamic Development Bank (IsDB) GEMicro carried out research which was presented by the Bank at the Women's World Banking Conference in Singapore in November 2019.

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Case study: From Women's Co-operative to Islamic microfinance

Wasil Foundation was established in 1992 by a woman, Farida Tariq. Beginning as a women's cooperative, it places women's needs at the very center of its work. The Foundation's approach to women's empowerment has built on the inherent gender analysis in its operation guided by its organizational mission and the premise that women's empowerment requires the recognition of their dual roles. Enterprise funding opportunities have been designed in ways which allow women to continue the gender roles that are important to them and allow women to combine responsibilities at home with productive activities. According to Wasil Foundation, women's economic empowerment can be achieved if women are directly involved in business, therefore organizational efforts are put into ensuring that women participate equally.

The Islamic micro-finance system by Wasil Foundation relied also on its prominent business development support (BDS) section. This offered comprehensive support to clients, from checking the costing of the products, supporting the marketing strategies and training in book-keeping, recording receipts etc. BDS also introduced clients to new opportunities such as visiting the chamber of commerce, stimulating peer exchange and learning from other businesses. BDS helped clients in improving their products and encouraged innovation.