Female Micro-Entrepreneurship: The Key to Economic Growth and Development in Islamic Economies

Alina Zapalska, Jim Stodder, and Erik Wingrove-Haugland

1 Introduction

Despite an "Arab Spring" that eliminated authoritarian regimes and made some gains for democracy, the future of political freedom in these nations and the Muslim world as a whole is endangered by a lack of economic growth and development. Entrepreneurship is a key factor in the process of economic growth and development (Carland et al. 1984; Gnyawali and Fogel 1994; Hisrich and Peters 1991; Ramadani et al. 2015a). Differences in entrepreneurial behavior among societies account for different rates of growth and development; societies that foster enthusiastic entrepreneurs can accelerate their growth and development, while societies that do not lag behind (Brockhouse 1982; Ramadani 2015; Ramadani et al. 2013; Terjesen and Ratten 2007). A standard critique of planned socialist economies is that they lack incentives for entrepreneurship, and thus fail to stimulate growth and development (Zapalska and Fogel 1998).

Like socialist but unlike capitalist systems, an Islamic economic system discourages material gain as a primary motivation, restricts the private ownership of income-producing property, and prohibits the accumulation of wealth through compound interest (Ahmed 1998, 2006). Since successful capitalist economies rely on these mechanisms, such restrictions appear to be major barriers to economic growth and development for Islamic economic systems. This criticism, however, ignores Islam's positive view of entrepreneurship. Believers in these countries can follow the Quran and still make a profit. The Quran requires that a share of this

A. Zapalska (✉) • E. Wingrove-Haugland
U.S. Coast Guard Academy, New London, CT, USA
e-mail: Alina.M.Zapalska@uscga.edu

J. Stodder
Rensselaer Polytechnic Institute, Hartford, CT, USA

U.S. Coast Guard Academy, New London, CT, USA

V. Ramadani et al. (eds.), *Entrepreneurship and Management in an Islamic Context*,
DOI 10.1007/978-3-319-39679-8_12

profit be given to the poor, so entrepreneurship provides aid to the poor in Muslim communities. Islam rejects material gain as the primary motivation for economic activity, but unlike socialism it understands gain by individuals as the key means to the ultimate end of economic activity: an equitable social order free of starvation, poverty, disease, and illiteracy (Rodinson 1966). While Islam's prohibition on compound interest (Dana 2009, 2010) and restrictions on profits generated from property ownership make it more difficult for small businesses to raise capital, they arguably make entrepreneurship significantly more important to Islamic economic systems than to capitalist economic systems; they leave entrepreneurship as the sole method for achieving both individual economic security and the social goals of Islam.

This paper compares an Islamic economic system to capitalist and socialist economic systems, focusing specifically on property rights, incentive mechanisms, interest rates, decision-making structures, and mechanisms for information and coordination. Islamic entrepreneurship has received little attention; recognizing the role of entrepreneurship in Islamic economies is crucial for growth and development. The paper examines the theoretical foundations of Islamic entrepreneurship, and explores ways entrepreneurship can stimulate economic growth and development in predominantly Muslim nations.

As Western democracies seek to help Muslim nations that have thrown off authoritarian regimes, understanding entrepreneurship in Muslim economics is crucial. The "Arab Spring", after all, began due to the frustrations of an entrepreneur: A young Tunisian street vendor named Mohamed Bouazizi could not pay the bribe demanded by a government official and set himself on fire at the Governor's office. Today, scores of young men line up every day at the same office to apply for nonexistent work (Wright 2011). University-level graduates' unemployment rate in Egypt has risen to 36 % while 47 % of young Egyptians aged 20–24 are unemployed, more than when Mubarak resigned (Ehab 2012). Traditional solutions to unemployment, such as short-term aid or government-funded jobs, reinforce the corrupt patronage-based systems these nations are seeking to overcome. Instead, developmental assistance should focus on entrepreneurship, which is not only consistent with political freedom and democracy, but also crucial to the success of the Islamic economic system.

Building a new class of micro-entrepreneurs should be an important element of economic development in Muslim nations. Empowering Islamic women and increasing their entrepreneurial skills will stimulate economic development. The role of female entrepreneurs in development should not be underestimated as women can be fully independent and contribute to the welfare of the Islamic economy. Female micro-entrepreneurship in developing countries creates greater investment levels in families' education and health than male-headed enterprises (Nichter and Goldmark 2009). This paper provides a model of Islamic entrepreneurship, with an emphasis on females. Female entrepreneurship within Islam is a different phenomenon from male entrepreneurship, due to different religious and cultural expectations.

The paper also emphasizes micro-financing as a means for Islamic women to establish micro-enterprises. The Grameen Bank—the best known micro-finance organization in the world—was developed almost entirely (over 95 %) with poor female entrepreneurs in the Muslim country of Bangladesh (http://www.grameen-info.org/about-us/). Our paper also stresses those elements of micro-finance that are consistent with Islamic banking, in promoting micro-entrepreneurship, innovation, and risk-sharing among the poor. Islamic banking has not adequately addressed the needs of the poor and micro-entrepreneurs (Akgunduz 2009; El-Gamal 2006). Islamic micro-finance is a missing component of Islamic banking. With micro-financing, Islamic banks can finance female micro-entrepreneurs, leading to long-term growth.

2 The Characteristics and Classification of Economic Systems

An economic system is the organizational arrangement a society uses to make decisions on resource allocation, and to address the basic economic problems of what is produced, how it is distributed, and who is involved in the process. In satisfying their wants, economic agents interact, both individually and through organizations. An organization, in turn, develops its own structure, shape, and mode to allocate resources, according to the principles of that economic system. Governments and laws further codify the nature of the economic system, which is governed by a specific set of rules and laws. Different viable economic systems can co-exist in the same time and place, each with its own laws and rules.

Distinguishing one economic system from another requires comparing the fundamental elements of each system. Gregory and Stuart (2004) provide a method of addressing the key characteristics of an economic system using four fundamental elements of any economic system: the decision-making structure, mechanisms for information and coordination, property rights, and incentives. The first characteristic of an economic system focuses on the *organization of decision-making* by economic agents, including the government. Economic systems can be classified according to the different degrees of centralization used in this process.

The second characteristic of an economic system is its *mechanism for information and coordination* of these decisions. What process do consumers, producers, and governments use to make decisions as to consumption, production, and distribution? Gregory and Stuart (2004) identify three coordinating mechanisms: *the market*, which operates through its price-signaling device; *the plan*, which operates through its physical quota and target system; and *tradition*, which operates through its reliance on custom and the status quo. Each mechanism makes its own assumptions about human behavior and establishes its own economic objectives.

The third characteristic Gregory and Stuart (2004) use to distinguish economic systems is that of *property rights;* who is entitled to own what. Ownership can take a number of forms: private, public, or cooperative; ownership affects income distribution and decision-making.

The fourth characteristic of an economic system focuses on how it employs *incentives,* which can be either private or collective, and either material or moral. Collective material incentives reward individuals materially while promoting a sense of social solidarity, rather than competition and individualism; firm-wide profit sharing is an example. Private material incentives reward an individual's economic behavior with a greater share of output; a higher individual salary is the obvious example. Moral incentives promote a sense of self-sacrifice and concern for the general good. The use of moral incentives assumes that social approbation can be as important as material goods in motivating economic performance.

While economic systems can be categorized according to these essential features, no economy matches the "ideal type" defined by each category. Economies are significantly shaped by factors such as the level of economic development, religious and cultural factors, and the environment. The terms "capitalist" and "socialist" refer to a variety of economies, none of which perfectly matches the ideal of capitalism or socialism, but which share enough elements to justify inclusion in one or the other category. The differences between the various systems are central, and form economic behavior. While discussing the three general types, we need to remember that they are ideal classifications, not descriptions of particular economies.

Since Islam is a religion, not an economic philosophy, Islamic economies vary even more than capitalist or socialist economies. Islam is consistent with a variety of economic philosophies, and can thus be instantiated into a wider variety of economic structures than capitalism and socialism. Because different societies have different visions of what it means to have an Islamic economic system, there is even greater variety among Islamic economic systems than among capitalist or socialist economic systems. Despite this variety, one may coherently speak of an "Islamic" economic system, one that strives to produce and allocate resources according to Islamic principles. Under this description, not every predominantly Muslim nation has an Islamic economic system; the economy of Turkmenistan, for example, is predominantly socialist, while Singapore's system is, broadly speaking, capitalist. Most predominantly Muslim nations, however, have economies that are better categorized as "Islamic" than as "Capitalist" or "Socialist."

3 Islamic, Capitalist, and Socialist Economic Systems

Table 1 compares the Islamic system to Capitalism and Socialism. As the table illustrates, capitalist economies assume that individuals are primarily motivated by material incentives. In Western capitalist economies, people motivated by maximizing profits strive to acquire wealth through entrepreneurship, acquiring properties not only for own-use but to generate income, and building wealth through reinvested dividends or compound interest. The main contrast with the capitalist system has been the state-run economy of socialism, which assumes that people are not motivated by material gain, but by a desire to improve society. Socialist

Table 1 The classification of economic systems by Gregory and Stuart

	Capitalism	Planned socialism	Islamic system
Decision-making structure	Primarily decentralized	Primarily centralized	Decentralized and some centralized
Mechanisms for information and coordination	Primarily market	Primarily planned	Market and government coordination
Property rights	Primarily private ownership	Primarily state ownership	Private and state ownership
Incentives	Primarily material	Primarily moral and secular	Primarily moral and religious

Source: Gregory and Stuart (2004)

economies reject private ownership of property in favor of state ownership, and reject the accumulation of wealth through compound interest (Siddiqi 2004).

Table 1 shows that an Islamic economic system has some of the essential features of both a capitalist system and a socialist system, and some features unique to it. In terms of its Decision-making structure, Mechanisms for Information and Coordination, and Property Rights, the Islamic economic system occupies a middle ground between capitalism and socialism. It allows for more decentralized decision-making than a socialist system does, but a greater level of centralized economic decision-making than observed in a capitalist system. Similarly, Islam permits a greater range of market activities than socialism, but subjects those activities to more governmental oversight than capitalism. While capitalism relies on private ownership of the means of production and socialism relies on state ownership of the means of production, Islam advocates a mixture of both. An Islamic economic system is not just a blend of capitalist and socialist elements, however; it has its own unique characteristics.

These characteristics are perhaps most evident in the Islamic view of incentives. Like socialist economies, Islamic economies assert that people should not be motivated by material gain; unlike socialist economies, Islamic economies see this as a religious imperative, as a part of the greater responsibility of serving God. The fact that Islam conceives of the material improvement of society as a religious duty, binding upon each Muslim as well as on governments, gives individual wealth accumulation a greater role than in socialist economic systems. Unlike socialism, which sees the material improvement of society in general and the poor in particular as primarily the responsibility of government, Islam believes that the improvement of the material conditions of society in general and the poor in particular is both a governmental and an individual responsibility. If individuals are to have enough to give to the poor to improve their condition, then individuals must be allowed to accumulate wealth; since entrepreneurship is one of the few ways to wealth accumulation within an Islamic economic system, it plays a particularly key role.

4 The Islamic Economic System

The four characteristics developed by Gregory and Stuart and used in Table 1 show that the Islamic economic system can range from a free market to a planned economy. A closer look at each of these characteristics, however, reveals that Islamic markets differ from capitalist markets, and an Islamic planned economy is very different from a socialist planned economy.

4.1 The Organization of Decision-Making Arrangements

Numerous references demonstrate that arrangements regarding who should make decisions and how decisions should be coordinated, are a crucial feature of an economic system (Birley and Westhead 1990; Hisrich and Peters 1989). Islamic economic decision-making is subject to two types of centralized command: those based on fixed or rigid orders from God, and those which, while based on fixed or rigid values, allow for flexibility regarding methods of promoting those values.

Under the first type of centralized command, individuals have the freedom to make decisions only within the fixed and eternal orders of God. In contrast to a centrally planned system, where directives from state leadership are subject to change, in the Islamic economic system certain commands are fixed, rigid, and eternal. In this sense, the economic system of Islam is a permanent command economy in areas like the prohibition on eating pork, drinking alcohol, or charging compound interest. The second type of centralized command is moral or ethical in nature. The freedom of choice of the consumer and the producer is restricted not only by the obligations discussed above, but also by Islam's elaborate value system.

Islam encourages government intervention to ensure compliance with God's orders and the values of Islam. Providing Islam's first-order priorities are fulfilled, competitive markets are the primary coordinating mechanism of the Islamic economic system. Many general guidelines and strategies for decision making can be found in the primary sources, which guarantee a free market under normal conditions (Carland et al. 1984; Krueger and Brazeal 1994a, b).

A consensus exists even among the most radical and most moderate writers on Islam that profit making is a legitimate feature of the Islamic economic system; Islam imposes no restrictions on profit, as long as it is legally acquired (Qutb 1953; Esposito 2011). The main Islamic mechanism for promoting the welfare of the poor—the *zakat* which requires each Muslim to give 1/40th of his possessions to the poor each year—assumes that people can make *zakat* payments large enough to improve the lot of the poor significantly. Furthermore, the fact that Muhammad himself was a merchant who married into a wealthy trader family and continued to make profits for his family even after he had become a prophet reflects the generally positive attitude of Islam towards profit-making (Lingis 2006; Esposito 2011). This contrasts with Medieval Christianity, which saw profit-seeking trade not as absolutely prohibited, but as "...justly deserving of blame, because, considered in itself, it satisfies the greed for gain, which knows no limit and tends to infinity. Hence trading, considered in it, has a certain debasement attaching thereto..." (Aquinas 1920: Summa Theologica, Q. 77, Article 4).

4.2 The Mechanisms for Information and Coordination: Market Mechanism

Islam places permanent restrictions on the exchange of certain goods, such as wine, pork, gambling instruments, icons, gold or silverware, and musical instruments (Zubair 2002). Subject to these restrictions, however, Islam accepts the market as the basic coordinating mechanism of its economy. Islam prohibits price fixing by buyers or sellers and encourages competition. Under perfect competition, the market allows consumers to obtain and producers to sell what they want at a mutually acceptable price, without coercion. This contributes to the welfare of both and of society in general.

Islam, however, allows a wider range for governmental coordination than does capitalism (Rodinson 1966). The market epitome of Islam is characterized by free information and no discrimination. Producers are expected to inform consumers of the quality and quantity of goods they are selling (Qutb 1953: 147). Islam therefore prohibits any type of fraud, sellers' preference, or bribe, as well as monopolies on items necessary for life, and encourages government intervention to prevent these practices. In laissez-faire models of capitalism, by contrast, vigorous competition alone is enough to weed out such practices (Friedman 1962). In addition, Islam places significant restrictions upon the money market; most notably, both the Quran and the hadith ban interest (Quran 3:130). Different Muslims interpret this ban in different ways—some assert that Islam only bans compound interest but allows simple interest, while others assert that Islam bans interest altogether—but the consensus is that Islam at least prohibits compound interest. While different predominantly Muslim nations apply this ban in different ways (or ignore it altogether), even Muslim nations that do not make it illegal to charge compound interest acknowledge that devout Muslims should not charge it.

Islam's ban on compound interest reflects a concern for economic justice and the poor. Allowing compound interest favors the rich and disadvantages the poor; those who have money receive compound interest on their loans, while those who need money must pay it. If the rate of interest is higher than the overall rate of economic growth—as it often is, due to risk premium—then those whose income is mostly from interest; i.e., mostly rich families and institutions, will tend to accumulate an ever greater share of the economy (Piketty 2014). This ban on compound interest also reflects the Islamic view that economic benefits to individuals should arise from productive activity. Receiving compound interest on deposits and loans allows one to make money without contributing to productivity. According to the Quran, the purpose of money is to facilitate the exchange of goods and services; using money to make money is contrary to this purpose and thus to the will of God (Quran 2:275–276). The ban on compound interest, then, is not a ban on profit-making *per se*; it is intended, rather, to encourage profit-making through productive economic activity. Compound interest is banned precisely because it severs the connection to productive activity, allowing wealth to grow for idle rentiers (Qutb 1953: 149–150). Ancient Judaism and medieval Christianity also banned the charging of interest, at least to those of one's own faith (Aquinas 1920: Summa *Theologica*, Question 78, and Leviticus 25:37), for similar reasons: it involves "profit without any work" (Fifth Lateran Council, Session 10, 1515). These prohibitions are ignored by most Christians and Jews today; while the Catholic Church still forbids 'usury' (Code of Canon Law c2345), it defines 'usury' as the charging of *excessive* interest, not merely the charging of interest or compound interest *per se*, and even the Vatican uses interest-bearing financing. Some Muslim scholars, such as Muhammad Abduh, Rashid Rida, Syed Ahmad Khan, and Yusuf al-Qaradawi, argue that Islam does not forbid interest, and that the Arabic term *riba* refers only to excessive interest (Siddiqi 2004: 55–56). Nearly all Muslims, however, believe the Quran forbids interest, not merely excessive interest.

In the Muslim world, the controversy is not between interest and usury (both of which Muslims see as *halal* or prohibited), but between two kinds of financing: *mudharabah* and *murabah*. "Mudharabah" (profit sharing investments) are similar to venture capital investments: one party invests capital, the other invests time and energy, and both share the profits and the risks. "Murabahah" (quasi-interest loans), on the other hand, are similar to collateralized loans or rent to own agreements: the 'lender' buys productive capital for the 'borrower' to use; after a fixed period, the 'borrower' purchases the productive capital from the 'lender' at a previously agreed-upon and higher price. Obviously this is very much like a collateralized loan, with the higher repurchase price the equivalent of interest. The interest is, however, not compound, so the indebtedness cannot increase without limit; the 'lender' is not compensated for the time value of money outside the specified term, and thus cannot charge additional interest for late payments.

Some Muslim authorities wish *murabahah* to be banned, since it is interest-bearing in all but name (Rosser and Rosser 2004: 106–107). *Muhabarah* are heavily restricted in the Muslim world, particularly in many Arab countries, which tend to be more culturally and religiously conservative. These restrictions on *murabahah* create barriers to entrepreneurship, and are correlated with a lack of economic development in the Arab world. The United Nations' Arab Human Development Reports (UNAHDR 2005) has noted that, while GDP growth for Arab countries has been higher than for the world as a whole, that rate has been declining since the 1970s (UNAHDR 2002: 85–86). Given its income, this region's level of human development—as defined by education, civil rights, and women's status—is less than one would expect. Thus the UNAHDR notes that "The Arab region might thus be said to be richer than it is developed with respect to basic human-development indicators. . .." (UNAHDR 2002: 26).

The problem with this ban on *murabahah* is that, in both capitalist and Islamic economic systems, small and medium enterprises (SMEs) are far more likely to obtain capital through interest (or quasi-interest) bearing loans, rather than through profit-sharing or equity investment. The US Federal Reserve (2014: 14) estimates that only 7 % of SMEs get equity financing from a source outside of friends or family; the rest rely on interest-bearing loans. Similarly, in fairly liberal Indonesia (the world's largest Muslim country), banks made *murabahah* (quasi-interest loans) 3 times more often than *mudharabah* (profit-sharing investments) from 2005 to 2011; in the last year, *murabahah* loans were nearly 5 times as common (54 versus 11 %) as *mudharabah* investments (Ajija et al. 2012, Table 2).

It is easy to see how investors have incentives for preferring *murabahah* loans over *mudharabah* investments. It is virtually impossible for an investor to monitor many small, personalized, informal businesses. A capital provider will generally prefer a legally binding loan at a guaranteed rate to an investment in future profits that are not guaranteed and may not be revealed. These basic incentive problems with equity financing are widely discussed among Muslim economists (Ajija et al. 2012: 15–17). These restrictions on *murabahah* create barriers to entrepreneurship, and thus to economic development, in conservative Arab countries. These barriers are compounded by the low incomes, low productivity, and lack of female economic participation in Arab nations.

- Arab economies have an unusually large portion of self-employed people (World Economic Forum 2011: 9), so by this measure entrepreneurship would seem to be high. Throughout the world, however, for both men and women, the frequency of start-ups follows a U-shaped pattern as we move from Low to Middle to High Income countries—the highest incidence occurring in Low Income countries (Minniti 2010, Fig. 2). Most of these Low Income country start-ups, however, are poor people just struggling to meet basic needs, rather than rapidly growing businesses.
- The productivity of SMEs in Arab countries is extraordinarily low, more so than their incomes would indicate. On average, countries classified as a Middle Income by the World Bank get 54 % of their employment and 50 % of their GDP from SMEs; High Income countries get more and Low Income countries get less. Egypt, Saudi Arabia, and the UAE, however—the first a Middle Income and the latter two High Income countries—get no more than 42 % of their employment and 33 % of their GDP from SMEs, putting these countries in the range of Low Income countries. This is why the UN Arab Human Development Report says "the Arab region [is] richer than it is developed ..." (UNAHDR, 2002: 26). Saudi Arabia is a particular outlier. Despite its wealth, only 25 % of Saudi employment is from SMEs, well below the mean for even a Low Income country (World Economic Forum 2011: 7).
- Arab countries have the lowest rate of female economic participation (as workers or managers) of any major region in the world (UNAHDR 2005: 88). Rates of female entrepreneurship are also low—despite the fact that over

80 % of the Arab public says that women should have equal rights in owning assets or managing a business (p. 90).

The good news is that there is a rapid rise of female economic participation and entrepreneurship in the Arab and wider Muslim world (UNAHDR 2005). Similarly, there has been a rapid rise of *murabahah* (quasi-interest) funding for small businesses in the Islamic world (Ajija et al. 2012). Ajija and her co-authors emphasize a tradition within Islam that sees *murabahah* as religiously well-founded, avoiding the unequal and usurious excesses of compound interest, and appropriate for SME funding (2012: 27–29). Endorsing the *murabahah* form of quasi-interest funding, in other words, does not mean interest-based financing needs to be unrestricted. In fact, following the global financial crisis of 2008, there has been growing concern that “financial deepening”—the ratio of financial income to GDP—can rise to levels that damage economic growth and stability (Wolff 2015; Sahay et al. 2015) because highly ‘leveraged’ investments with borrowed money increase financial fragility. Thus, in limiting the growth of interest-based income, the Islamic *murabahah* system may have an advantage over Western finance, and its recurrent problem of runaway debt.

Obviously, encouraging *murabahah* financing will help stimulate Islamic entrepreneurship, and thus economic growth and development. Conservative Arab nations that restrict *murabahah,* however, are unlikely to change their policies as a result of international pressure, even if these policies restrict their economic growth and development. Since these countries also contain a disproportionate percentage of the Muslim world’s poor, economic development efforts cannot ignore them. Conservative Islamic economies that severely restrict or even prohibit *murabahah* quasi-interest financing should compensate by ensuring that *mudharabah* equity financing is well supported—in moral, cultural, political, and financial terms. Only thus can *muharabah* financing overcome its inherent disincentives—ones that impede SME entrepreneurs in the Muslim world. As we discuss later, this will open up the prospect for “micro-investments” even in nations where “micro-loans” are prohibited by the ban on interest. From the successful trader Muhammad and his merchant wife Khadifa, Islam should embrace entrepreneurship.

4.3 Property Rights

Islam’s concept of property ownership is based on God’s absolute, natural, and divine right of possession of all that is on earth (Quran 2:284; 16:73, 57:71; Qutb 1953: 132). Real ownership belongs to Allah; humans hold property in trust, in accordance with established rules. Acquisition of property and its use are subject to limits; humans cannot become absolute owners, since ownership of all things (including humans themselves) belongs to God. As long as humans remain worthy of God’s trust, we has the right to enjoy the use of God’s property. Besides private property, Islam also promotes a concept of public ownership. Public property in Islam refers to those natural resources created by God to which all men have an equal right; individuals may use such resources according to their needs. Each individual's right of use is legitimate as long as it does not undermine the equally valid right of others; the Islamic state should ensure that it does not. Some writers argue for social ownership of land and other natural resources, confining private property to articles of consumption (Carland et al. 1984; Chen et al. 1998; Daily and Dollinger 1992).

Unlike socialism, Islam generally allows individuals to use property to earn income; unlike capitalism, it places restrictions on the accumulation of wealth through income-producing property. The Quran and Hadith encourage landowners to limit rents to a tenant's share of the time expected-value of a property and the cost of maintaining it, effectively discouraging rental income as a source of profit. They discourage absentee ownership, a policy some Muslims extend to ownership of corporate stock by those who do not work for the corporation.

Like the ban on compound interest, restrictions on wealth from income-producing property reflect Islam's concern for the poor and its view that profit is legitimate only when it results from productive economic activity. Allowing profit through rental income, absent-landlord rentals, and ownership of corporate stock favors those who can afford to own income-producing property and stock. Profits earned through rents that exceed the cost of preparing and maintaining one's property are, in effect, profits without productive economic activity, "economic rents" in the strict sense. Likewise, profits earned from ownership of corporate stock in companies one does not work for are, in effect, profits earned by doing nothing. Like compound interest, these sources of profit involve using money to make money, and thus are contradictory to the purpose of money—to facilitate exchange (Knight 1921; Rodinson 1966).

4.4 Incentive System

Theoretically, what distinguishes the Islamic incentive system from other systems is the absence of immediate private material gain as the reward for desirable acts. Islam presents securing the pleasure of God as the principle motivation for economic activity (Quran 42:36, 62:11). Acts pleasing to God can include self-satisfying activities, if conducted with the intention of serving God according to His law. A successful and devout entrepreneur will be rewarded in this world as well as the hereafter. Individuals are born materialistic and greedy and must be reborn as compassionate, giving, and generous servants of God who by proper service will be rewarded in the future. The importance of this spiritual incentive system is to benefit and enrich all members of society at the cost of forgoing gain and reducing one's own private interests. This spiritual incentive system penalizes a "respectable Islamic man" in the short-run by decreasing his material wealth, but rewards him in the long run by increasing his material means, as well as by redemption and eternal happiness in the afterlife. Islam condemns material pre-occupations as an ultimate goal, but attaches great importance to them as a means of improving society and attaining salvation in the life to come.

While Islam rejects private material gain as the primary reward for economic activity, it does not discourage economic enterprise (Dana 2009; Ramadani et al. 2015c). Individuals, whether males or females, are encouraged to be productive through agriculture, trade, commerce, and industry (Quran 62:10). What is crucial in Islam, however, is the motivation, the ends of economic activity (Zapalska 1997; Lansberg et al. 1998; Taylor 1997). These ends may be individual or social. Legitimate individual ends include the fulfillment of personal needs and those of the family; it is an obligation to earn the minimum essential for subsistence. Saving to provide for the future and the desire to leave an inheritance are also recognized as proper ends of productive effort (Hannan and Freeman 1997; Brown 1991; Gnyawali and Fogel 1994) but moderation in fulfillment of these needs is emphasized. Moderation is generally understood with reference to the negative concepts of luxury, indulgence, and expenditure on goods and services prohibited by Islam. Islam does not tolerate conspicuous consumption and condemns indulgence in luxurious living and the desire to show off.

Writings on Islamic economic enterprise attribute great importance to social ends; Islam states that the eradication of hunger, poverty, disease, and illiteracy, strengthening the Islamic state and spreading the message of Allah are the primary aims of individual economic activities. An entrepreneur who engages in productive activities for these purposes is doing God's will and is promised rewards here and "hereafter" (Quran 4:95). Islam proposes extremely ambitious social goals to take the place of private material gain as the motive for economic activity and it sees these social ends and goals, rather than immediate private material gain, as the right incentives for entrepreneurs. Islam strives to abolish hunger, poverty, disease, and illiteracy, and to develop effective governments within a worldwide community of believers and entrepreneurs who live within the ethical norms developed and supported by Muhammad. Attaining these goals demands not only just distribution, but the production of enough goods and services to enable individuals to contribute to these demanding social goals, while satisfying personal and family needs. The Islamic rejection of immediate private material gain as the proper incentive for economic activity does not result in reduced overall incentives.

5 Entrepreneurship, Microfinance, and Economic Development and Growth in Islam

Islam is based on revelations received in seventh-century Saudi Arabia by the Prophet Muhammad, who was a very young and successful entrepreneur prior to becoming a prophet. He gained knowledge of business in childhood, when he assisted with the business of his uncle, Abu Talib (Mohd Dali et al. 2008). Business and trade was a part of the Arab community's economic activities before the arrival of Islam. The Arabic word *Islam* means "submission," reflecting the faith's central tenet of submitting to the will of God. The Prophet Muhammad strongly disapproved of corruption, dishonesty, fraud, or exploitation. His accomplishments as an entrepreneur encourage Muslims to work hard, and his character in entrepreneurial activities serves as a model for Muslims today (Lingis 2006).

Entrepreneurship is a determining factor for economic growth and development; if it is not advanced and supported, even abundant resources will be misused. Economic development can be accelerated by enhancing micro-entrepreneurial talents. Micro-entrepreneurship is a key variable which links socio-cultural elements with the level of economic growth and development of a country and transforms physical, natural, and human resources into production possibilities (Schumpeter 1934). Islam, which has nothing against profit, considers entrepreneurship a form of worship that brings Muslims closer to fulfilling their faith. Starting new businesses and creating employment opportunities is a form of honoring Allah (Ahmed 1998).

In contrast to capitalism, Islam assumes that every business should be undertaken not for material rewards but to please Allah. The Quran speaks in favor of free trade as long as it is consistent with Islamic ethics and does not exploit others. The Islamic entrepreneur is expected to be trustworthy, honorable, and beyond self-interest (Ahmed 1998). However, Western economists generally argue that Islam's rejection of private incentives, its ban on compound interest, and its restrictions on income-producing property inhibit entrepreneurship; they thus emphasize the need to reform these elements of an Islamic economy (Commins 1990). Muslim economists, by contrast, focus on development of state coordination and intervention, rather than policies to promote entrepreneurship (Abbasi and Hollman 1993), arguing that their governments do not contribute enough to economic development. A focus on entrepreneurship, however, can stimulate growth within the Islamic economic system while leaving individuals with primary responsibility for economic development, and giving the state only a minor role.

Islam establishes a strict code of conduct for Muslim entrepreneurs, which prohibits dishonesty, fraud and deception, coercive practices, and gambling. Entrepreneurs should not be involved with hoarding, speculation, collusion or any business activity that is against the interests of consumers. Every entrepreneur is expected to operate within Islamic norms and rules, to help their Muslim brothers, and to foster the development of the Muslim nation (Qutb 1953: 147–148). Societal prosperity, not the entrepreneur's profit, must guide entrepreneurial decisions; the Islamic entrepreneur must go beyond satisfying his basic needs and personal interest. The fundamental capitalist principle of self-centered wealth creation (Smith 1776; Schumpeter 1934) has not been embraced for Islamic entrepreneurial activity. In contrast to the capitalist model, Islam sees these restrictions as inherent in the purpose of entrepreneurial activity. A capitalist entrepreneur whose primary motive is personal profit will seek ways to overcome restrictions on hoarding, speculation, collusion, and monopolies. A Muslim entrepreneur, by contrast, whose primary motives are the social goals of Islam and eternal salvation, accepts

Table 2 Household income inequality by Gini coefficient, regressed on income per-capita (PPP) and percent of population that is Muslim

Dependent variable	Income Gini coefficient	
R square	0.2105	
Adjusted R square	0.1992	
Standard error	8.1745	*P-value*
F-statistic	18.6591	6.550E−08
Observations	143	

	Coefficient	Std. error	t Stat	P-value
Constant	45.3276	1.197	37.882	1.847E−75
% Pop. Muslim	−0.0738	0.019	−3.829	1.937E−4
GDPpc (PPP)	−0.0003	5.271E−05	−5.679	7.546E−08

Sources: World Bank (2015)

these restrictions as essential (Zubair 2002). Overall, Islamic society shows a positive attitude towards economic enterprise and socially oriented rights of ownership. Entrepreneurs can cooperate with one another in production and exchange. This view of cooperation does not rule out free and fair competition, provided agents adhere to Islamic morality. Competition is emphasized against monopoly, the elimination of which is seen as a prerequisite to fairness and growth (Zubair 1983). Collaboration is necessary for entrepreneurs to derive innovative solutions that go beyond the traditional, and to serve as key vehicles for transformation, innovation, and economic growth (Austin and Reficco 2009; Kuznets 1955).

Predominantly Muslim countries have unusually equal distributions of income. The regression in Table 2 uses data from a Pew Report on worldwide Muslim populations (Pew Research 2011), and World Bank data (2015) on both GDP per capita (in 2011 US Dollars, as adjusted for Purchasing Power Parity), and the Gini Coefficient on household income—the most widely-used measure of inequality. This Gini measure falls with GDP per-capita. Even after accounting for that correlation, however, the effect of greater Muslim Population on Income Inequality is also negative and highly significant. To put it in ordinary language, the more Muslim a country is, the more equal its income distribution is likely to be, given its GDP per capita.

Some important Muslim countries (such as Saudi Arabia) are missing, due to their lack of distributional data. Our regression makes use of the latest data, but it is only cross-sectional, with just two independent variables. It can tell us nothing about time trends, the direction of causality, or missing variables, and may thus overstate the importance of both variables. It is not our purpose, however, to undertake a serious econometric study of this issue. We have found few such studies; Ahmad (2000) has a related Ph.D. dissertation, but using dummies for "Muslim" and "Non-Muslim" countries—not percentage of Muslim population—he finds no significant coefficient. Our purpose, rather, is to show that one cannot lightly dismiss Islam's claim to foster a more equal distribution of income than a comparable capitalist economy. The relationship between religion and income distribution is complex, but there is some evidence that Islam helps push that distribution in an egalitarian direction.

Capitalism and socialism have never seen social justice (or income distribution) and economic growth working together easily. Capitalism tends to subordinate social justice to economic growth, while socialism does the opposite. Each assumes that achieving its primary goal will precede and facilitate the accomplishment of the secondary goal. Today, the main critique of capitalism remains its lack of social justice, while the critique of socialism remains its poor economic growth. In asserting that social justice and economic growth are complementary, Islamic economic theory provides an important alternative to capitalist and socialist views (Zubair 1983). Interestingly, a comprehensive World Bank meta-survey (Ferreira et al. 2014), incorporating hundreds of earlier studies, shows that income growth is likely to be positively associated with income equality—equality of both results and opportunities.

Just as Islam promotes a positive attitude towards entrepreneurship, so it promotes a positive attitude towards economic development and growth as long as they occur within the limits set by the Quran and hadith. The restrictions Islam places upon some means to economic growth, such as its ban on compound interest, increase the importance of entrepreneurship, which is not only unrestricted but actively encouraged. Today, entrepreneurial ventures are the main player in the domestic economies of many Muslim countries. Islamic entrepreneurs contribute to capital formation, fairer income distribution, employment creation, poverty reduction, rural development, industrial development, and export growth (Gray et al. 1996). For low income households in rural areas, entrepreneurial firms have assumed a significant role as engines for the rural economy and community's sense of well-being (Tambunan 2009).

For centuries, the Muslim world has practiced Islamic banking, fostering trade, micro-entrepreneurial activities, and the development of credit. Islamic banking, with its emphasis on risk-sharing, is compatible with the needs of micro-entrepreneurs; providing Islamic banking to the poor ultimately fosters economic development and growth. Other important principles of Islamic banking establish clear individual rights and duties, property rights, and the sanctity of contracts covering capital formation, capital markets and various types of financial intermediation (Rahman 2007; Wilson 2007).

According to Wilson (2000), micro-financing for the poor has not been well developed in Islamic countries; most Islamic banks do not provide access to financing for the poor or to women. Historically, the Prophet Muhammad came from poverty but became a successful trader for many years before he was a prophet. This was mainly due to the microfinance capital provided by a wealthy widow, Khadijah, herself a succesful merchant who later became his wife (Akgunduz 2009). Microfinance is a critical component of Islamic banking services that promotes entrepreneurship and risk sharing among the poor. Micro-loans have proven to be an effective method of stimulating economic development among the poor, and have gained support since Muhammad Yunus won the Nobel Peace Prize in 2006 for pioneering the use of micro-loans through his Grameen Bank. While micro-loans are effective at eliminating poverty, their application in some areas in the Muslim world is limited because they involve interest-bearing loans.

Ahmed (2002) argues that micro-investments work better than micro-loans in Muslim countries. As noted above, micro-investments are more acceptable in conservative Arab nations, while retaining features that have made micro-loans successful. As a business partnership where one or more partners contribute money and the others contribute labor or other productive inputs (Wilson 1980, 2007) such trusts are common in the Muslim world. Collectivized repayment systems have proven to be effective in encouraging a high rate of repayment on micro-loans (Ruef 2010). The fact that micro-loans are almost always issued to single individuals limits their ability to stimulate businesses that employ others (Surowiecki 2008). Micro-investments, by contrast, may be made to entrepreneurial groups seeking to develop businesses to employ individuals outside of the group itself. Micro-loans have proven to be an effective method for getting capital to women in particular; about 96 % of the loans made by the Grameen bank went to poor women (El-Gamal 2006). Micro-investments also help women disproportionately, since women tend to prefer forming entrepreneurial groups rather than being individual entrepreneurs, more so than men (Ruef 2010). For these reasons, policies that focus on stimulating entrepreneurship through micro-investments are likely to increase the economic status of Muslim women more effectively than other approaches.

6 Islam, Gender, and Entrepreneurship

According to the World Economic Forum (2012), women around the world are increasingly accepted as equals by men in their entrepreneurial activities, making it easier for their businesses to succeed and positively impact economic growth. Whether Muslim women are an exception to this trend has been a subject of debate among Islamic and non-Islamic writers, and scholarship on female businesses in Islamic economies has shown very different outcomes compared with capitalistic economies (Kohler 2011). Critics assert that Islam makes women economically dependent on men, severely restricting their social and political freedom and preventing them from participating in most productive economic activities (Ahmed 1992; Afkani 1997). Some authors argue that excluding Muslim women from productive economic activities makes economic development more difficult in Islamic economies, and that Muslim women should be permitted to undertake entrepreneurial endeavors in order to assist economic development in Islamic countries (McIntosh and Islam 2010).

Other writers contend that Islam offers mechanisms for improving the position of women in general and women's entrepreneurship activities in particular (Grine et al. 2015). The Quran specifically states that women are allowed to earn money, be paid fairly, own property (4:32–33), and inherit (4:7). The best example of a female entrepreneur was Khadija, the first wife of the Prophet Mohammed, a wealthy businesswoman who became an important role model for women in Islamic society. Islamic women entrepreneurs have always engaged in a variety of economic activities in areas such as agriculture, craft, textile production, trade, services, and other commerce related areas (Darling 1996). Females in the Ottoman Empire, eighteenth century Aleppo, and nineteenth century Cairo had the right to appeal in court if they were unjustly excluded from inheritance (Casale 2006). In the eighteenth and nineteenth century, Muslim women become vibrant entrepreneurs in the silk industry in Lebanon, Iran, and India (McCabe 1999) and the carpet industry in Iran (Faroqhi 1999). These women did not produce for survival but generated prosperity, engaging in large scale buying and selling of commodities; their entrepreneurial activities generated returns to their investors and jobs in their local economies (Hanna 1998).

While a comprehensive history of the status of women in Islam is beyond the scope of this paper, it is clear that some Islamic societies have placed much stricter restrictions on women than other Islamic societies have; that continues to be true today. For example, female seclusion, which originated as a status symbol showing that a man is wealthy enough to meet his family's needs without having his wife work (Papanek 1982) is still practiced in some Islamic countries. Nigerian female seclusion continues to be a standard symbol of male economic success (Zakaria 1997; Greene 2011). Conservative Islamic cultures such as Saudi Arabia, Egypt, Pakistan, Afghanistan, and Nigeria have significant restrictions on female interaction with people outside the home (Shabbir 1995). In other Islamic societies, women are still subjected to different socio-cultural values and traditions (Roomi and Harrison 2008; Grine et al. 2015).

These restrictions obviously make it difficult for women to become entrepreneurs; furthermore, they are often combined with explicit restrictions on the economic activity of women. For example, in Saudi Arabia, Muslim women cannot drive, open a business on their own, buy a home, or invest in real estate (Itani et al. 2011; Pope 2002) and they can participate in entrepreneurial efforts only through their families and mostly as silent partners who receive support and advice from their husbands or fathers (Hann 2002). Similarly, Kavossi (2000) argues that in Middle Eastern and North African countries, not only do the rights, responsibilities, and restrictions for women significantly differ from those in non-Muslim countries, but so do the legal and economic frameworks within which female businesses operate. In Egypt, the dominance of male networks requires men to assist women in gaining access to business networks (Singerman 1995). In Pakistan, the position of Islamic women relative to men is one of systemic subordination (Roomi and Harrison 2010); as a result, socio-cultural variables play an important role in the growth of women owned enterprises in Pakistan (Shabbir 1995). As women in Pakistan do not enjoy the same opportunities as men (Shaheed 1990), their businesses tend to concentrate in low-growth service, handicraft, and textile sectors that can be started with a small investment, where most customers are women (Roomi and Parrott 2008).

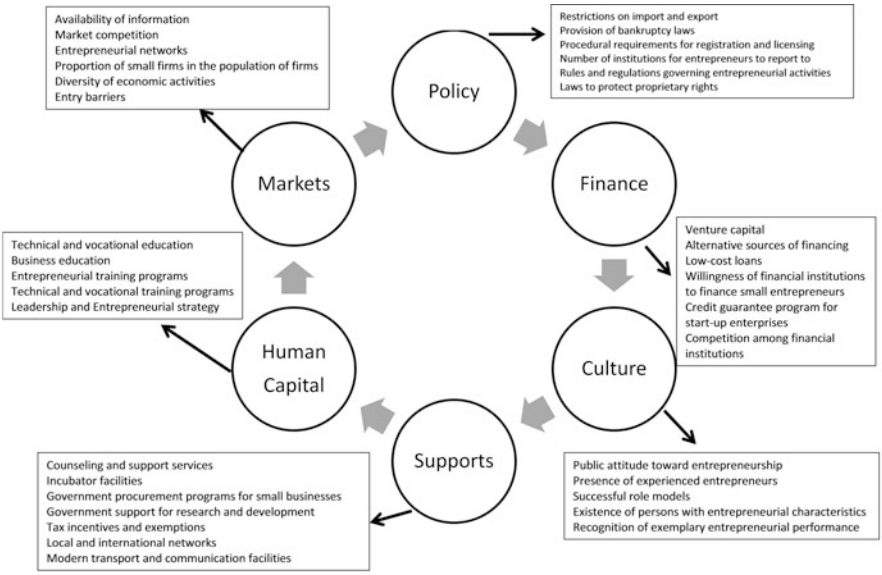

Fig. 1 Domains of the entrepreneurship ecosystem (*Source*: developed by Zapalska based on domains of the entrepreneurship ecosystem by Daniel Isenberg, the Babson Entrepreneurship Ecosystem Project, May 12, 2011, Dublin Ireland)

A study conducted by the World Bank in 2006 confirms that during the first years of new millennium women were not economically free in much of the Muslim world, and that female labor force participation rates in South Asia and Middle East regions lagged behind other regions in the world. Other studies show that, in Muslim nations, successful enterprises are primary started by males, who are gender supported, achievement-motivated, able to manage risk, and have sufficient financing to support entrepreneurial activities (Abbasi and Hollman 1993).

These restrictions are not the only barriers Islamic women must overcome to succeed as entrepreneurs. The barriers female Muslim entrepreneurs face can best be understood by conceiving of entrepreneurship as an “ecosystem” (Isenberg 2011) that needs six elements to be self-sustaining: policy, supports, human capital, markets, culture and finance (Fig. 1).

The restrictions on women’s economic freedom in conservative Muslim nations are significant barriers in the “policy” domain. Lack of “supports” from their families, husbands, etc., while less visible than these restrictive policies, is arguably an even more significant barrier for many Muslim women, even in nations with relatively favorable policies. Research reveals that women entrepreneurs in Muslim nations also face barriers in the “markets” domain, and are more frequently disadvantaged by lack of business information, advice, and access to networks and support systems, than women entrepreneurs in Western cultures (Al-Riyami et al. 2003; Tucker 1993).

Human capital is an important factor for entrepreneurial success. Female entrepreneurs with high levels of human capital (e.g., graduate degrees, work experience) are more likely to secure funding from Islamic banks (Roomi and Parrott 2008; Rachman 2007) and more likely to have confidence in their abilities to create a successful business. Major barriers in the "human capital" domain include lack of education and experience (Hofstede 1980), either because of a discriminatory educational system or because the education and occupation of parents is incompatible with entrepreneurial goals.

The main types of barriers to Muslim women entrepreneurs are presented in Table 3. Female Muslim entrepreneurs often face multiple barriers from several domains, which are more significant than a barrier within a single domain. For example, female entrepreneurs in Nigeria remain on the periphery of the national economy (Mordi et al. 2010). In addition to cultural or social restrictions on their economic freedom, Nigerian women face many other barriers, including: the psychological impact of cultural norms, employment legislation and policy, lack of information, training, finance, markets, technology and business infrastructure, absence of means for building skills and capacity, and fragmented strategies on government interventions (Zakaria 1997; Jamali 2009). Studies show that lack of education is a significant barrier that discourages female Muslim entrepreneurs in Nigeria from entrepreneurship (Allen 1986; Frishman 1991; Coles 1991; Callaway 1987).

Just as the ban on compound interest leads many Western economists to dismiss Islamic economics as incompatible with economic growth, so these non-financial barriers to women's equality have led many Westerners see the position of women in many Muslim countries as a major barrier to modernization, growth, and development (Roomi and Parrott 2008). This would suggest that the emancipation

Table 3 Types of barriers faced by female Islamic woman

Type of barrier	Explanation
Policy	Restrictions on women's economic freedom, such as laws requiring husbands or fathers to give written permission for their wives or daughters to work
Supports	Lack of support from family, husband's family, etc. Child care and domestic responsibilities that leave no time for entrepreneurship
Markets	Lack of equal access to markets, lack of distribution channels, negative attitudes of customers, absence of entrepreneur's networks
Human Capital	Lack of knowledge, education, and management skills due to discrimination in education and the assumption that males are the main source of income in the family
Cultural	Stereotypical beliefs that women cannot withstand pressure, lack leadership skills, and are irritable. Patriarchal culture, social disapproval, lack of acceptance from men of women as team members. Corresponding lack of confidence in women due to these factors
Financial	Lack or shortage of private capital, problem of liquidity

Source: Authors

of Muslim women must precede economic development efforts in the Muslim world. Such a conclusion is misleading, however, for several reasons.

First, while various policies can reduce the impact of these non-financial barriers to female Muslim entrepreneurship, they are not likely to be eliminated in the near future. In the *policy* domain, Muslim governments can be encouraged to eliminate discriminatory policies and encourage women's entrepreneurship through policies such as free consumption credits for vulnerable Islamic women. In the *supports* domain, poverty eradication programs can specifically address the needs and problems of Islamic women. In the *markets* domain, women can be given equal access to markets and distribution networks, and cross-cultural entrepreneur's networks can be established for women. In the *human capital* domain, special training courses can provide Islamic women with entrepreneurial skills. In the *culture* domain, successful female Muslim entrepreneurs can be publicized as role models to challenge common stereotypes. Since these measures all depend on cooperation from governments and societies, however, they are unlikely to be widely adopted, especially in conservative Muslim nations.

Second, despite all these non-financial barriers, Islamic women entrepreneurs have grown in number over the last two decades, and have changed their local economies in many parts of the Islamic world (Tambunan 2009; Mernissi 1987). Muslim women in Nigeria, for example, are increasingly active in entrepreneurship through "grey market" or informal economy ventures, bypassing the legal market and contributing significantly to the economic progress of the society. In the face of religious constraints for women, Bangladeshi women have been breaking barriers to become entrepreneurs and workers. As a result, they have earned more respect in their families and society, gained some independence, and contributed to the growth of the economy (Minniti 2010). While these non-financial barriers are significant, Muslim women have shown a remarkable ability to overcome them with tenacity and hard work.

Third, improving the economic situation of a subordinated group almost always leads to increased rights and freedoms, as well as greater political clout. Granting a subordinated group rights and freedoms without improving their economic status, on the other hand, may give them rights in theory but not in practice.

Fourth, entrepreneurship in particular brings important non-economic benefits that are likely to improve the lives of Muslim women in many non-economic ways. Some authors explain (Goodwin 1994) that the main motives for women to participate in business are intrinsic or transcendental: self-realization, internal control, perseverance, interest in challenges, opportunity for skills and experience, and a chance to influence own destinies. Itani et al. (2011) assert that United Arab Emirate women are motivated by flexibility and independence in managing work and family.

Fifth, even conservative Muslim nations face economic pressures to increase women's opportunities for entrepreneurship. According to World Bank studies (2007), female Muslim entrepreneurs help promote a country's exports. Exports are an important factor of economic growth and development; the quality of export-based entrepreneurship explains much of the difference between developed and developing economies. Other studies demonstrate that female-owned firms are more globally oriented than the male-owned firms in countries like Morocco, Jordan, Syria, West Bank, and Gaza. Countries of the Middle East, China, and Singapore are already benefiting from a long tradition of women in export-based entrepreneurial business (Dhaliwal 1998). Ultimately, Muslim nations will increase women's economic opportunities not because of ideological changes, but for the same reason non-Muslim nations have been doing so recently: in a competitive global marketplace, a nation cannot succeed economically if half of its potential labor force is not allowed to contribute to its economic potential, or half of its potential entrepreneurs are excluded from entrepreneurship.

Finally, while these non-financial barriers still exist and should not be minimized, they vary widely from one Muslim nation to another, and are diminishing—albeit too slowly—even in conservative Muslim nations. Financial barriers, by contrast, are ubiquitous throughout the Muslim world, and do not appear to be diminishing as steadily.

Partly for these reasons, the literature explicitly indicates that limited access to financial markets is the major barrier for Muslim female entrepreneurs (Jamali 2009; Roomi et al. 2009; Greene et al. 2001). Funding for women entrepreneurs in conservative Muslim societies typically comes from fathers, husbands, or other family members or their own personal savings (Greene et al. 2001; Azam-Roomi and Parrott 2008). These provide capital for small-scale traditional businesses such as retail establishments, day care facilities, or restaurants, but without access to funds from banks or investors, these sources do not typically provide capital adequate for large scale or high growth enterprises (Itani et al. 2011). A study conducted in Nigeria reported that after family funding, female entrepreneurs rely on donations, very small bank loans, and charities provided by Islamic groups that support women (Singh and Belwal 2008). External sources of capital would dramatically improve the prospects for female Muslim entrepreneurs.

Daniel Isenberg states that "*...Entrepreneurship is no panacea for society's ills, but it has enough spillovers and is causal enough that it should be a public priority on par with education, security, welfare, energy, and health as a basic social good. I believe that if we gather all the dispersed wisdom (research, theory, and practice) in the world, we have sufficient practical knowhow about how entrepreneurship develops in societies to know what kinds we need, to know how much is enough, and to intentionally and strategically create enough of it in a given region that it will become self-sustaining. Let me be clear: entrepreneurship can naturally develop in societies; witness Ireland, Iceland, Israel, Chile and China. But we already know enough to achieve better results, faster, and cheaper than by leaving it to chance. And I am claiming that the investment is so low, and the potential benefit is so high, that we should immediately create dozens or hundreds of projects to test this out...*." This paper argues that Isenberg's claims are particularly true regarding women in Muslim nations. Efforts to stimulate Islamic entrepreneurship among women through micro-loans and micro-investments will not only stimulate economic growth and development in the Muslim world, but will also increase opportunities for women throughout the region. This argument has been presented in various studies developed by several experts in an area of entrepreneurship (Ramadani et al. 2015a, b; Ramadani 2015; Azam-Roomi and Parrott 2008).

7 Conclusions

This paper discusses differences between three types of economic systems: capitalistic, socialistic, and Islamic. A key weakness of socialistic economies is the absence of incentives for entrepreneurs. Western entrepreneurs often have profit maximization as a primary objective, while Muslim entrepreneurs have an obligation to pursue societal needs within religious restrictions. Islam is founded on the notion of a total commitment to the spirit of God, which guides every aspect of Muslims' life and involves total compliance with God's vision regarding resource allocation and income distribution.

The distinguishing element of Islamic entrepreneurs is that they act under the guidance of Islam, which forbids certain activities and encourages others. While Islam forbids some activities that promote growth and development—compound interest and large profits from absentee ownership—it also forbids activities harmful to growth and development, including waste, fraud, hoarding, monopoly, and collusion. While Islam encourages spiritual activities and social ends rather than personal gain, achieving these goals requires economic growth and development within the Islamic community. The Islamic ethic of entrepreneurship not only promotes hard work and fairness, it also demands that entrepreneurs pay others what is due, share profits with the poor and with those who helped create them, and treat customers, employees, and vendors with respect.

This paper shows that entrepreneurs play a central role in the Islamic economic system. By establishing firms, creating markets and employment, Islamic entrepreneurs are major contributors to growth and prosperity. They are responsible for technological innovation in products and production processes, and are a force for transformation and international trade. Entrepreneurs in Islamic economies, large or small, establish new forms of organization and new business methods. Despite the nature of their economic contribution, the importance of female Muslim entrepreneurs has not been recognized. The authors believe that the discussion of female Muslim entrepreneurs in this study provides insights for public policy to foster entrepreneurship in the Islamic world. Recognizing how Islam promotes entrepreneurship is crucial to creating policies for growth and development in Muslim nations. Since Islam promotes a balance of material and spiritual aspects, there is a need to build initiatives for entrepreneurial development on sound Islamic principles. Development policies should focus on micro-enterprises, as they provide jobs and alleviate poverty. Financial institutions should not dismiss small entrepreneurs as poor sources of profit, with high lending costs and risks; collectivized repayment systems can reduce both costs and risks. Despite the fact that Islam prohibits compound interest and debt-based instruments, Islamic microfinance can stimulate micro-entrepreneurship and deliver financial assets to the poor.

Although well-established in Islamic countries, women's entrepreneurship has not reached its potential due to high barriers to capital; most startup capital for Islamic female entrepreneurs comes from personal savings, family, and friends. Muslim nations should help build efficient micro-financial systems with competitive and diverse financial service providers, especially for women. As Nobel Laureate Professor Mohammad Yunus argues, economic development can only take place when the socio-economic status of the poor, especially women, is improved. While Yunus' micro-loans have helped achieve this goal for many poor Muslim women, their use has been restricted by Islam's ban on interest; supplementing this approach with 'micro-investments' will broaden its application to women in conservative Muslim nations, many of whom are particularly in need of economic assistance. Stimulating female entrepreneurship in Islamic nations will not only improve the status of women, but will also promote growth and development in the Muslim world as a whole.

References

Abbasi, S. M., & Hollman, K. W. (1993). Business success in the Middle East. *Management Decision, 31*(1), 55–60.

Afkani, M. (1997). Promoting women's rights in the Muslim world. *Journal of Democracy, 8*(1), 157–166.

Ahmad, M. (2000). *Income distribution in Muslim countries vis-á-vis non-Muslim countries* (Ph.D. Economics Thesis). Bahauddin Zakria University. http://eprints.hec.gov.pk/437/1/192.html

Ahmed, L. (1992). *Women and gender in Islam: historical roots of a modern game*. New Haven, CT: Yale University Press.

Ahmed, A. S. (1998). *Islam today*. London: I.B. Tauris Publishers.

Ahmed, H. (2002). Financing micro enterprises: An analytical study of Islamic microfinance institutions. *Journal of Islamic Economic Studies*, *9*(2).

Ahmed, H. (2006). Islamic law, adaptability and financial development. *Islamic Economic Studies, 13*, 79–101.

Ajija, S. R., Annisa, E., & Hudaifah, A. (2012). How do Islamic banks optimize profit and loss sharing arrangements? *Economics and Management, 16*(2), 118–124.

Akgunduz, A. (2009). *Studies in Islamic economics: Islamic banking and development*. Rotterdam: IUR Press.

Allen, G. (1986). Entrepreneurial activities of women and children among Islamic Hausa of northern Nigeria. In S.M. Greenfield & A. Strickon (Eds.), *Entrepreneurship and social change, monographs in economic anthropology* (pp. 195–223). Lanham, MD: University Press of America.

Al-Riyami, R., Warren, L., & McElwee, G. (2003). Women entrepreneurs in Oman: Some barriers to success. *Career Development International, 8*, 39–46.

Aquinas, T. (1920). *The Summa Theologica* (2nd and Rev ed.). Literally translated by Fathers of the English Dominican Province, Online Edition Copyright 2008 by Kevin Knight. http://www.newadvent.org/summa/

Austin, J. E., & Reficco, E. (2009). *Corporate social entrepreneurship* (working paper). Harvard: Harvard Business School.

Azam-Roomi, M., & Parrott, J. (2008). Barriers to development and progression of women entrepreneurs in Pakistan. *Journal of Entrepreneurship, 17*(1), 59–72.

Birley, S., & Westhead, P. (1990). The growth and performance contrasts between types of small firms. *Strategic Management Journal, 11*, 535–557.

Brockhouse, R. H. (1982). The psychology of the entrepreneur. In C. Kent, D. Sexton, & K. Vesper (Eds.), *Encyclopedia of entrepreneurship* (pp. 39–57). Englewood Cliffs, NJ: Prentice-Hall.

Brown, F. H. (1991). The family part of the business equation: New challenges for the future. *Family Business Review, 4*(4), 363–366.

Callaway, B. J. (1987). *Muslim Hausa women in Nigeria: Tradition and change*. New York, NY: Syracuse University Press.

Carland, J. W., Hoy, F., Boulton, W. R., & Carland, J. A. (1984). Differentiating entrepreneurs from small business owners. *Academy of Management Review, 9*, 354–359.

Casale, G. (2006). The Ottoman administration of the spice trade in the sixteenth-century Red Sea and Persian Gulf. *Journal of the Economic and Social History of the Orient, 49*(2), 1–29.

Chen, C. C., Greene, P. G., & Crick, A. (1998). Does entrepreneurial self-efficacy distinguish entrepreneurs from managers? *Journal of Business Venturing, 13*, 295–316.

Coles, C. (1991). Hausa women's work in a declining urban economy: Kaduna, Nigeria, 1980–1985. In C. Coles & B. Mack (Eds.), *Hausa women in the twentieth century* (pp. 162–191). Wisconsin: University of Wisconsin Press.

Commins, D. D. (1990). *Islamic reform: Politics and social change in late Ottoman Syria*. Oxford: Oxford University Press Inc.

Daily, C. M., & Dollinger, M. J. (1992). An empirical examination of ownership structure in family and professionally managed firms. *Family Business Review, 5*(2), 117–136.

Dana, L. P. (2009). Religion as an explanatory variable for entrepreneurship. *Entrepreneurship and Innovation, 10*(2), 87–99.

Dana, L. P. (Ed.). (2010). *Entrepreneurship and religion*. Cheltenham: Edward Elgar.

Darling, L. (1996). *Revenue-raising and legitimacy: Tax collection and finance administration in the Ottoman Empire*. Leiden: E.J. Brill.

Dhaliwal, S. (1998). Silent contributors: Asian female entrepreneurs and women in business. *Women's Studies International Forum, 21*(5), 463–474.

Ehab, M. (2012). *Egypt's next President will inherit an unemployment crisis*. Egypt Source: Following Egypt's Transition. Atlantic Council. Retrieved October 11, from http://www.atlanticcouncil.org/blogs/egyptsource/egypts-next-president-will-inherit-an-unemployment-crisis

El-Gamal, M. A. (2006). *Islamic finance: Law, economics, and practice*. Cambridge, MA: Cambridge University Press.

Esposito, J. (2011). *What everyone needs to know about Islam* (2nd ed.). Oxford: Oxford University Press.

Faroqhi, S. (1999). *Approaching Ottoman history: An introduction to the sources*. Cambridge, MA: Cambridge University Press.

Federal Reserve. (2014). *Joint small business credit survey report, 2014*. New York, NY, Atlanta, Cleveland, OH, Philadelphia, PA: Federal Reserve Banks. Retrieved October 13, from http://www.newyorkfed.org/smallbusiness/SBCS-2014-Report.pdf

Ferreira, F. H. G., Lakner, C., Lugo, M. A., & Ozler, B. (2014). *Inequality of opportunity and economic growth: a cross-country analysis* (Policy Working Paper No. 6915). World Bank. Retrieved October 11, from http://documents.worldbank.org/curated/en/2014/06/19646107/inequality-opportunity-economic-growth-cross-country-analysis

Fifth Lateran Council 1512-1517 A.D., Papal encyclicals online. Retrieved October 11, from http://www.papalencyclicals.net/Councils/ecum18.htm

Friedman, M. (1962). *Capitalism and freedom*. Chicago: University of Chicago Press.

Frishman, A. (1991). Hausa women in urban economy of Kano. In C. Coles & B. Mack (Eds.), *Hausa women in the twentieth century* (pp. 192–203). Wisconsin: University of Wisconsin Press.

Gnyawali, D. R., & Fogel, D. S. (1994). Environments for entrepreneurship development: Key dimensions and research implications. *Entrepreneurship: Theory and Practice, 18*, 43–62.

Goodwin, J. (1994). *Price of honor: Muslim women lift the veil of silence on the Islamic world*. Boston, MA: Little, Brown and Company.

Gray, K. R., Cooley, W., Lutabingwa, J., Mutai-Kaimenyi, B., & Oyugi, L. A. (1996). *Entrepreneurship in microenterprises*. Lanham, MD: University Press of America.

Greene, P. G. (2011). Challenges facing women entrepreneurs in Nigeria. *Management Research Review, 34*(2), 221–235.

Greene, P. G., Brush, C. G., Hart, M. M., & Saparito, P. (2001). Patterns of venture capital funding: Is gender a factor? *Venture Capital: An International Journal of Entrepreneurial Finance, 3* (1), 63–83.

Gregory, P., & Stuart, R. (2004). *Comparative economic systems* (7th ed.). Boston: South Western Cengage Learning.

Grine, F., Fares, D., & Meguellati, A. (2015). Islamic spirituality and entrepreneurship: A case study of women entrepreneurs in Malaysia. *The Journal of Happiness and Well-Being, 31*(1), 41–56.

Hann, H. C. (2002, March). *Report on a survey of UAE nationals in micro small and medium enterprises invention* (Policy Research paper). Dubai: Tanmia-CLMRI, no. 6.

Hanna, N. (1998). *Making big money in 1600: The life and times of Isma'il Abu Taqiyya, Egyptian Merchant*. Syracuse, NY: Syracuse University Press.

Hannan, M., & Freeman, J. (1997). The population ecology of organizations. *American Journal of Sociology, 82*, 929–964.

Hisrich, D., & Peters, P. (1989). *Entrepreneurship: Starting, developing, and managing a new enterprise*. Homewood, IL: Irwin.

Hisrich, R., & Peters, M. (1991). *Entrepreneurship*. Homewood, IL: Irwin.

Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage Publications.

Isenberg, D. (2011, May 12). *The entrepreneurship ecosystem strategy as a new paradigm for economic policy: Principles for cultivating entrepreneurship*. The Babson Entrepreneurship Ecosystem Project, Presentation at the Institute of International and European Affairs, Dublin, Ireland.

Itani, H., Sidani, Y. M., & Baalbaki, I. (2011). United Arab Emirates female entrepreneurs: Motivations and relational perspective. *Gender in Management: An International Journal, 30*(5), 409–424.

Jamali, D. (2009). Constraints and opportunities facing women entrepreneurs in developing countries: A relational perspective. *Gender in Management: An International Journal, 24*(4), 232–251.

Kavossi, M. (2000). *The globalization of business and the Middle East. Opportunities and constraints*. Westport, CT: Quorum Books.

Knight, F. H. (1921). *Risk uncertainty and profit* (2nd ed.). New York, NY: Houghton Muffin.

Kohler, B. (2011). Female entrepreneurship in early Islam. *Economic Affairs, 30*(2), 93–95.

Krueger, N. F., Jr., & Brazeal, D. V. (1994a). Entrepreneurial potential and potential entrepreneurs. *Entrepreneurship: Theory and Practice, 19*, 91–104.

Krueger, N. F., & Brazeal, D. V. (1994b). Entrepreneurial potential and potential entrepreneurs. *Entrepreneurship: Theory and Practice, 18*(3), 91–104.

Kuznets, S. (1955). Economic growth and income inequality. *American Economic Review, 65*, 1–28.

Lansberg, I., Perrow, E. L., & Rogowsky, S. (1998). Family business as an emerging field. *Family Business Review, 1*(1), 1–8.

Lingis, M. (2006). *Muhammad: His life based on the earliest sources*. Rochester, VT: Inner Traditions.

McCabe, I. B. (1999). *The Shah's silk for Europe's silver: The Eurasian trade of the Julfa Armenians in Safavid Iran and India, 1530–1750*. Atlanta, GA: Scholar Press.

McIntosh, C., & Islam, S. (2010). *Beyond the veil: The influence of Islam on female entrepreneurship in a conservative Muslim context*. Boise, ID: Boise State University.

Mernissi, F. (1987). *Beyond the veil: Male-female dynamics in modern Muslim society*. Bloomington, IN: Midland Books-Indiana University Press.

Minniti, M. (2010). Female entrepreneurship and economic activity. *European Journal of Development Research, 22*(3), 294–312.

Mohd Dali, N. R. S., Marzuki, A., Sabri, H., Muhammad, I., Zainuddin, M. T., Basah, M. Y. A., & Shafii, Z. (2008). *Introduction to Muamalat*. Kuala Lumpur: MacGraw Hill (Asia).

Mordi, C., Simpson, R., Singh, S., & Okfar, C. (2010). The role of cultural values in understanding the challenges faced by female entrepreneurs in Nigeria. *Gender in Management: An International Journal, 25*(1), 50–21.

Nichter, S., & Goldmark, L. (2009). Small firm growth in developing countries. *World Development, 37*(9), 1453–1464.

Papanek, H. (1982). Pardah in Pakistan: Seclusion and modern occupations for women. In H. Papanek & G. Minault (Eds.), *Separate worlds*. New Delhi: Chanakya Publications.

Pew Research Center. (2011). *Table: Muslim population by country*. http://www.pewforum.org/2011/01/27/table-muslim-population-by-country/

Piketty, T. (2014). *Capital in the twenty-first century*. Cambridge, MA: Belknap Press of Harvard University Press.

Pope, H. J. (2002, 01 Feb). For Saudi women: Running a business is a veiled initiative. *Wall Street Journal*.

Qutb, S. (1953). *Social justice in Islam*. Oneonta, NY: Islamic Publications International.

Rachman, A. (2007). Islamic banking and finance between ideals and realities. *IIUM Journal of Economic Management, 15*(2), 123–141.

Rahman, A. (2007). Islamic Microfinance: A Missing Component in Islamic Banking. *Kyoto Bulletin of Islamic Area Studies, 1*(2), 38–53.

Ramadani, V. (2015). The woman entrepreneur in Albania: An exploratory study on motivation, problems and success factors. *Journal of Balkan and Near Eastern Studies, 17*(2), 204–221.

Ramadani, V., Dana, L. P., Ratten, V., & Tahiri, S. (2015a). The context of Islamic entrepreneurship and business: Concept, principles and perspectives. *International Journal of Business and Globalisation, 15*(3), 244–261.

Ramadani, V., Gërguri, S., Dana, L. P., & Tašaminova, T. (2013). Women entrepreneurs in the Republic of Macedonia: Waiting for directions. *International Journal of Entrepreneurship and Small Business, 19*(1), 95–121.

Ramadani, V., Hisrich, R. D., & Gergusi-Rashiti, S. (2015b). Female entrepreneurs in transition economies: Insights from Albania, Macedonia and Kosovo. *World Review of Entrepreneurship, Management and Sustainable Development, 11*(4), 391–413.

Ramadani, V., Rexhepi, G., Abazi-Alili, H., Beqiri, B., & Thaci, A. (2015c). A look at female entrepreneurship in Kosovo: An exploratory study. *Journal of Enterprising Communities, People, and Places in the Global Economy, 9*(3), 277–294.

Rodinson, M. (1966). *Islam and capitalism*. London: Allen Lane (English translation published 1974).

Roomi, M. A., & Harrison, P. (Eds.). (2008). Impact of women-only entrepreneurship training in Islamic society. In: *The dialogue of woman entrepreneurship and Social Capital*.

Roomi, M. A., & Harrison, P. (2010). Behind the veil: Women-only entrepreneurship training in Pakistan. *International Journal of Gender and Entrepreneurship, 2*(2), 150–172.

Roomi, M. A., Harrison, P., & Beaumont-Kerridge, J. (2009). Women-owned small and medium enterprises in England: Analysis of factors influencing the growth process. *Journal of Small Business and Enterprise Development, 16*(2), 270–288.

Roomi, M. A., & Parrott, G. (2008). Barriers to development and progression of women entrepreneurs in Pakistan. *International Journal of Entrepreneurship, 17*(1), 59–72.

Rosser, J. B., & Rosser, M. V. (2004). *Comparative economics in a transforming world economy* (2nd ed.). Cambridge: MIT Press.

Ruef, M. (2010). *The entrepreneurial group: Social identities, relations, and collective actions*. Princeton, NJ: Princeton University Press.

Sahay, R., Čihák, M., N'Diaye, P., Barajas, A., Bi, R., Ayala, D., Gao, Y., Kyobe, A., Nguyen, L., Saborowski, C., Svirydzenka, K., & Yousefi, S. R. (2015). *Rethinking financial deepening: Stability and growth in emerging markets*. International Monetary Fund, Staff Discussion Note, SDN/15/08. http://www.imf.org/external/pubs/ft/sdn/2015/sdn1508.pdf

Schumpeter, J. A. (1934). *The theory of economic development*. Cambridge, MA: Harvard University Press.

Shabbir, A. (1995). How gender affects business start-up: Evidence from Pakistan. *Small Enterprise Development, 6*, 25–33.

Shaheed, F. (1990). *Pakistan's women: An analytical description*. Lahore: SANJH.

Siddiqi, M. N. (2004). *Riba, Bank interest, and the rationale of its prohibition*. Visiting scholars series. Jeddah, Saudi Arabia: Islamic Development Bank Islamic Research and Training Institute. Retrieved October 11, from http://www.globalwebpost.com/farooqm/study_res/i_econ_fin/nejatullahs_riba.pdf

Singerman, D. (1995). *Avenues of participation: Family, politics, and networks in urban quarters of Cairo*. Princeton, NJ: Princeton University Press.

Singh, G., & Belwal, R. (2008). Entrepreneurship and SME's in Ethiopia: Evaluating the role, prospects, and problems faced by women in this emergent sector. *Gender in Management: An International Journal, 23*(2), 120–136.

Smith, A. (1776). *The wealth of nations. A modern library E-Book* (Kindle ed.).

Surowiecki, J. (2008, March 18). *What microloans miss*. The New Yorker

Tambunan, T. (2009). Women entrepreneurship in Asian developing countries: Their development and main constraints. *Journal of Development and Agricultural Economics, 1*(2), 27–40.

Taylor, M. (1997). The business culture in Kazkhstan. In M. Bateman (Ed.), *Business cultures in central and eastern Europe*. Oxford: Butterworth-Heinemann.

Terjesen, S. A., & Ratten, V. (2007). La vita imprenditoriale: Female and male entrepreneurs in Italy. In M. Markovic (Ed.), *The perspective of women's entrepreneurship in the age of globalization* (pp. 41–54). Charlotte: Information Age Publishing.

Tucker, J. W. (1993). *Arab women: Old boundaries, new frontiers*. Bloomington, IN: Indiana University Press.

United Nations. (2002). *Arab Human Development Report 2002: Creating opportunities for future generations*. http://www.arab-hdr.org/publications/other/ahdr/ahdr2002e.pdf

United Nations. (2005). *The Arab Human Development Report 2005: Toward the rise of women in the Arab World*. http://www.arab-hdr.org/publications/other/ahdr/ahdr2005e.pdf

Wilson, E. (1980). Social responsibility of business: What are the small business perspectives? *Journal of Small Business Management, 18*, 17–24.

Wilson, R. (2000). Islamic banking and its impact. In A. Siddigi (Ed.), *Anthology of Islamic banking* (pp. 69–73). London: Institute of Islamic Banking and Insurance.

Wilson, R. (2007). Making development assistance sustainable through Islamic microfinance. *IIUM Journal of Economics and Management, 15*(2), 197–217.

Wolff, M. (2015, March 26). *Why finance is too much of a good thing*. Financial Times, Commentary Section. http://www.ft.com/intl/cms/s/0/64c2f03a-03a0-11e5-a70f-00144feabdc0.html

World Bank. (2007). *MENA economic development and prospects*. Washington, DC: World Bank.

World Bank. (2015). *GINI Index, World Bank Estimate, and GDP per capita, PPP (current international $)*. http://data.worldbank.org/indicator/SI.POV.GINI, http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD

World Economic Forum. (2011). *Accelerating entrepreneurship in the Arab World. A world economic forum report in collaboration with Booz & Company*. http://www3.weforum.org/docs/WEF_YGL_AcceleratingEntrepreneurshipArabWorld_Report_2011.pdf

World Economic Forum 2011. (2012). *Country highlights of the global competitiveness report (2011–2012)*.

Wright, R. (2011). The Arab spring is a jobs crisis. *The Atlantic, 308*, 58.
Zakaria, Y. (1997). *The cultural context of business: A study of firms in a northern Nigerian society*. Unpublished doctoral dissertation, Uppsala University, Gotab, Stockholm.
Zapalska, A. (1997, October). Profiles of woman entrepreneur and enterprise in Poland. *Journal of Small Business Management, 35*(4), 76–82.
Zapalska, A., & Fogel, G. (1998). Characteristics of Polish and Hungarian entrepreneurship. *Journal of Private Enterprise, 13*(2), 132–144.
Zubair, H. (1983). Theory of profit: The Islamic viewpoint. *Journal of Research in Islamic Economics, 1*(1), 1–16.
Zubair, H. (2002). Maximization postulates and their efficacy for Islamic economics. *American Journal of Islamic Social Sciences, 19*(1), 95–118.