

WOMEN BUSINESS OWNERS PRESENT GREEN GROWTH POTENTIAL FOR FINANCIAL INSTITUTIONS IN PAKISTAN

by Women's Finance Exchange

Introduction

The impact of climate-related events, in combination with environmental degradation and air pollution, is expected to reduce Pakistan's gross domestic product (GDP) by 18%–20% by 2050 (World Bank 2022a). There is momentum for climate action with the launch of several policies, including the National Climate Change Policy and Action Plan 2021. The State Bank of Pakistan, for its part, has introduced the Green Banking Guidelines together with green finance incentives. On their own, some financial institutions also offer finance renewable energy projects and other types of green finance to micro, small, and medium-sized enterprises (MSMEs).

However, women-owned businesses that need financing to develop and scale up green initiatives face significant barriers to access. Increasing women's economic participation in countries with very low gender parity such as Pakistan could add some 60% to GDP, according to projections (Ostry et al. 2018). Better access to financing for women business owners presents opportunities for green growth, as they are more likely to consider climate factors when making business decisions (Women's World Banking 2020).

A survey of 100 women and women-owned MSMEs (WMSMEs) in Pakistan was done to get insights into the drivers of access to finance, including green finance, as well as the barriers that hinder access.¹ The survey produced the following information:

- Women, greatly underrepresented in entrepreneurship, run small-scale businesses, but the economic sectors in which they are engaged cover a broad range and have greening potential.
- Climate-related disasters, and the income lost as a result, are of concern to women business owners.
- These business owners are interested in building their capacity for taking climate action and in securing green loans.
- However, there are barriers to borrowing. Financing, mainly in the services sector, is perceived to be scarce. The women business owners lack confidence in their ability to manage a loan and lack ownership of assets that is acceptable as collateral. Also, the loans may not be affordable, and the loan process and documentation can be unduly complex.
- Financial institutions can leverage and build on the strong political will and momentum for change in green financing, as well as in women's financial inclusion, to create a path forward that is mutually beneficial for them and the women business owners they serve.

Underrepresented Entrepreneurs Engaged in Sectors with Greening Potential

Women in Pakistan are severely underrepresented in entrepreneurship. Of the more than 5 million small and medium enterprises in the country (State Bank of Pakistan 2022), only 8% are owned by women. This proportion is among Asia's lowest (ADB and The Asia Foundation 2018). Expanding women's entrepreneurship is both a social and an economic imperative.

Women business owners have few employees, indicating the small scale of their operations. Fifty-nine percent either operate on their own (21%) or receive support from family members (38%). Of those who employ others (41%), 58% have 1–3 employees, 26% have 3–10, and only 16% employ more than 10. Among the women business owners surveyed,

¹ Of the 100 survey respondents, 48 were business owners. The results presented here pertain only to business owners operating out of urban areas in the Punjab (79%) and Sindh (21%) regions. Fifty-eight percent of these were between the ages of 30 and 45, and 83% were married.

account ownership was high,² with 77% owning an account or a combination of account types including a current account, a savings account, and an e-wallet. Smartphone ownership was also high, at 79%, in comparison with 20% among women in Pakistan in general, as reported by the Global System for Mobile Communications Association (GSMA 2021). A smaller portion (38%) of respondents used their mobile phones for financial transactions, the most common of these being utility bill payments and transfers to suppliers and other entities. Access to financial services, especially through digital means, helps strengthen the adaptive capacity of women business owners and their businesses and improves resilience against the impact of climate change and environmental degradation.

Surveyed women business owners were engaged in a broad range of economic sectors with greening potential, including the services sector (e.g., tourism, restaurants, salons) with 40% handicrafts and jewelry with 25%, and manufacturing (including garments) with 23%. Pakistan accounts for 2% (All Pakistan Textile Mills Association 2022) of the global apparel and textile industry, which could have the potential to reach \$3.3 trillion³ by 2030, at a compound annual growth rate of 3.5% (Klein et al. 2021). The industry drives growth in many emerging markets, particularly in Asia, where it is concentrated. Worldwide, it employs more than 60 million along its value chain of which two-thirds are women predominantly earning low wages. The apparel and textile industry is responsible for 4% of total emissions and consumes 79 trillion liters of water each year (Klein et al. 2021). The All Pakistan Textile Mills Association reported that the industry is just starting to integrate sustainable business practices, primarily in response to competitive pressures to comply with international environmental standards and domestic environmental regulations. Industry players, especially small and medium-sized enterprises (SMEs), need access to expertise, technology, and financing.

Tourism in Pakistan is also an important economic sector, with more than 6% of total employment. However, the sector provokes environmental degradation because of the unchecked development of tourist accommodation leading to environmental and biodiversity losses. Untreated wastewater and waste are contributing to pollution.

Given the country's potential to become a regional hub for health tourism and ecotourism, the Government of Pakistan has seen the need for a shift to responsible investments, such as sustainable buildings and transport (UNDP and Ministry of Foreign Affairs of Pakistan 2022). Initial developments have taken the form of ecotourism projects promoted by the government or the Sustainable Tourism Foundation Pakistan. Such sustainable tourism initiatives often promote local products and services, and create opportunities for small businesses or communities.

Climate Disaster Concerns

Sixty-seven percent of surveyed women business owners expressed concern about climate change-related disasters. Pakistan faces rising annual maximum and minimum temperatures, and more frequent and intense extreme climate events affecting the most vulnerable segments of the population and economy (World Bank and ADB 2021). The Small and Medium Enterprises Development Authority reported, for instance, that nearly 200,000 SMEs endured around \$5.3 billion in total losses from the devastating floods of 2022 (Haq 2022). According to 42% of women business owners surveyed, climate change-related disasters in the past 2 years have had a major impact on their lives; 31% of them said they had lost income.

Interest in Green Loans and Capacity Building for Climate Action

The women business owners we surveyed relied on their personal and professional networks for information. To understand financial products, for example, they would consult with their networks rather than with financial institutions. Sixty-five percent would like to build on their knowledge of financial products through training. Similarly, half of the survey respondents said they had learned about climate change from women's organizations, while 38% depended on their networks. Forty-eight percent were aware of the solutions available to help them mitigate and adapt to the impact of climate change and build resilience against future disasters. Forty-six percent were interested in receiving training and information on how to address climate risks primarily through online and in-person training courses. Coupled with financial literacy, "climate literacy"⁴ and knowledge about improving environmental impact could promote the expansion of green finance among WMSMEs.

² In comparison with the level of account ownership of 13% for all female adults aged 15 years and over, as reported in the World Bank's Global Financial Inclusion (Findex) Database 2021 (<https://www.findexgateway.org/country/financial-inclusion-in-pakistan>).

³ In this publication, "\$" refers to United States dollars.

⁴ Climate literacy refers to understanding the climate impact on oneself and society, and vice versa.

Barriers to Borrowing

While account ownership among survey respondents was high, their propensity for borrowing was extremely low, with only 2% of survey respondents able to borrow for business purposes in the past 2 years. This could be explained in part by a sharp drop-off between having the need or desire for financing and receiving a loan, because 27% of the surveyed women business owners expressed an interest in accessing green loans for projects such as solar photovoltaic and collectors, and rainwater storage.

The three biggest barriers to borrowing cited by survey respondents were the perceived scarcity of financing in the sectors where they operate (mainly services), their lack of confidence in their ability to manage a loan, and the affordability of loans. The complexity of the loan approval process and documentary requirements, and the lack of collateral were also cited as barriers.

While women were majority owners of their businesses (81% held at least a 51% share), few had property registered under their names (21% owned no property, 33% had property registered under their names, and 38% had property under their husbands' names). The lack of property ownership and registration in their names have implications for women's ability to pledge collateral essential for gaining access to financing, including green loans.

The main barriers preventing banks from providing inclusive green financing include: the perceived riskiness of green loans due to lack of collateral; high financing costs for beneficiaries; lack of understanding of green technologies; and prevailing social and cultural norms limiting their interest in serving women with green financing instruments.

The Path Forward: Financial Inclusion and Green Business Opportunities

The enabling environment for green financing and women's financial inclusion has strengthened over the last decade. To promote green finance and boost environmental risk management, the State Bank of Pakistan issued the Green Banking Guidelines (SBP 2017) and launched the Financing Scheme for Renewable Energy and the Islamic Financing Facility for Renewable Energy (SBP 2019). The financing schemes are aimed at promoting renewable energy projects, including small-scale solutions for the agriculture sector, SMEs, and households. This is rooted in the Government of Pakistan's commitment to climate action, supported by the creation of the National Climate Change Policy and the Ministry of Climate Change in 2012. The country is also a signatory to international treaties and frameworks and has aligned itself with the Paris Agreement and the Kunming Montreal Biodiversity framework. It aspires to reduce its greenhouse gas emissions to 50% of its 2016 levels by 2030 by transitioning to 60% renewables, banning imported coal, and sequestering carbon through natural capital restoration initiatives (Mako et al. 2022).

While Pakistan has ratified several international commitments,⁵ gender equality is a work in progress. Pakistan scored 55.6 out of 100 on the World Bank's Women, Business and the Law Index, below the South Asia average of 63.7 (World Bank 2022b). However, it may have reached a breakthrough in 2021, at least in terms of women's financial inclusion, with the State Bank of Pakistan's Banking on Equality policy. The policy sets specific targets for the financial sector (see text box below) and has five pillars—gender diversity within financial institutions, women-centered products and services, dedicated women's desks at branches, integration of sex-disaggregated data and target setting, and institutionalization of the State Bank of Pakistan's Policy Forum on Gender (SBP 2021).

Banking on Equality Policy of the State Bank of Pakistan

The policy is intended to achieve the following targets by 2024:

- Increase the proportion of women entrepreneurs in the financial sector to 20%.
- Increase the proportion of women agents in branchless banking to 10%.
- Increase the outreach of women-centric products and services, women's access to and use of accounts, and financing for women entrepreneurs to raise the number of active digital accounts for women to 20 million.
- Place women champions at 75% of all bank touch points.
- Provide gender sensitivity training to all staff members of the bank to reduce implicit gender biases.

⁵ Including the Universal Declaration of Human Rights, the Beijing Platform for Action, the Convention on the Elimination of All Forms of Discrimination Against Women, and the Sustainable Development Goals.

Several financial institutions have developed women banking solutions; others have promoted green financing beyond the State Bank of Pakistan's refinancing scheme. However, neither of these initiatives is moving forward at scale. Interviews with financial institutions in Pakistan done as part of this survey indicate that green loans, as well as loans to women business owners, account for less than 10% of loan portfolios.

Therefore, a more detailed assessment of green investment opportunities and demand for green finance could help financial institutions develop targeted financial products. Coupled with their experience of implementing the State Bank of Pakistan's Banking on Equality Policy, financial institutions could provide green finance with a gender lens. In combination with financial and green literacy, gender-inclusive green finance could help women realize their potential to green their economic activities.

Conclusion

Women business owners in Pakistan are involved in many sectors of the economy, including the garment industry, which is beginning to introduce more sustainable practices that could have a significant impact on the environment. Women surveyed have experienced climate change and observed the climate risks to their businesses. They expressed an interest in increasing their "climate literacy" and accessing green loans to introduce renewable energy and harvest rainwater, among other green initiatives.

Regulators, financial institutions, and other stakeholders in Pakistan have an important role to play in supporting an enabling ecosystem to support women-owned and led businesses to transition to sustainable practices and access green finance, thereby taking advantage of significant untapped green growth opportunities.

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