

STUDY ON MAPPING THE MARKET POTENTIAL AND ACCELERATING FINANCE FOR WOMEN ENTREPRENEURS IN BANGLADESH

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Abbreviations

ANBC	Adjusted Net Bank Credit
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BC	Business Correspondents
BHWA	Bangladesh Homeworkers' Women Association
BMDC	Bangladesh Management Development Centre
BMET	Bureau of Manpower, Employment and Training
BRDB	Bangladesh Rural Development Board
BSCIC	Bangladesh Small and Cottage Industries Corporation
BWCCI	Bangladesh Women Chamber of Commerce & Industries
CAGR	Compounded Annual Growth Rate
CIB	Credit Information Bureau
DPCB	Domestic Private Commercial Banks
GAP	Gender Action Plan
HBFC	House Building Finance Corporation
ICB	Investment Corporation of Bangladesh
MFI	Micro Finance Institution
MIDAS	Micro Industries Development Assistance Society
NAP	National Action Plan for Women's Advancement
NASCIB	National Association of Small & Cottage Industries of Bangladesh
NBFI	Non-Bank Financial Institutions
NGO	Non-Government Organisation
PRSP	Poverty Reduction Strategy Paper
RBI	Reserve Bank of India
RJSC	Registrar of Joint Stock Companies
RM	Relationship Manager
SAPRI	Structural Adjustment Participatory Review Initiative
SCB	State Owned Commercial Banks
SHG	Self Help Group

SME	Small and Medium Enterprise
WEAB	Women Entrepreneurs Association of Bangladesh
WEDP	Women Entrepreneurship Development Program

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Executive Summary

Background and Objectives

As promoters of innovation and employment, entrepreneurs are key accelerators of any nation's economic development. Women, in particular, offer a vast untapped source of innovation, job creation and economic growth. Hence, a woman's ability to create, operate and grow her business is increasingly recognized as fundamental to economic growth.

With women comprising more than half the population in Bangladesh, accelerating women entrepreneurship is pivotal to its socioeconomic development. Nevertheless, women entrepreneurs continue to constitute less than 10% of the total business enterprises in Bangladesh (Zaman & Islam, 2011). This can be attributed to the many barriers that disproportionately impact women entrepreneurs, both, when starting and scaling up a business – legal and regulatory environment, firm/owner-specific characteristics (e.g. education, training, size of firm, etc.) and cultural barriers. However, their greatest disadvantage is their inability to access finance. Bangladesh was observed to be amongst the worst performing countries in terms of women's access to credit, property other than land, inheritance practices and social rights – ranking 97 out of 106¹.

Given this backdrop, the key objectives of this study were to:

- Map the potential opportunity in facilitating finance to women SMEs in Bangladesh and estimate the current financing gap
- Develop comprehensive sectoral knowledge of the ecosystem that women SME entrepreneurs operate in
- Identify the major challenges faced by women SME entrepreneurs in availing finance from financial institutions
- Identify key areas of focus, which could improve financing for women SME entrepreneurs

The scope of work involved conducting field surveys with 500 women SME entrepreneurs, as defined by Bangladesh Bank, across 12 districts in Bangladesh – Dhaka, Tangail, Gazipur, Rajshahi, Bogra, Rangpur, Chittagon, Comilla, Khulna, Jessore, Barishal and Sylhet. Women SME entrepreneurs were sampled based on location and whether the enterprise was owned and managed by women. Additionally, 40 qualitative interviews were conducted with government agencies, financial institutions, women business associations and other stakeholders in the entrepreneurial ecosystem.

Women SME Financing Gap

In recognition of the gender gaps in the entrepreneurial ecosystem, the Government of Bangladesh has initiated various steps, including establishment of a separate 'Women Entrepreneurs' Dedicated Desk', target-based lending program, credit re-finance scheme for women entrepreneurs, provision of interest at 10% per annum, and availability of loan up to Tk. 25,00,000 (USD 32 thousand) against personal guarantee. However, for a variety of reasons, these initiatives have not been able to have the intended impact on women SME entrepreneurs' access to finance.

¹ Evaluated as part of the International Property Rights Index's Gender Equality (GE) measure, 2016 (Sary, 2016)

Demand in the Women SME Sector

- The overall demand for finance among women-owned SMEs is estimated to be approximately Tk. 9,975 crore (USD 1.29 billion). 49% of this requirement – around Tk. 4,851 crore (USD 0.62 billion) – is to meet working capital needs for day-to-day operations.
- Nearly two-third of the surveyed women SME entrepreneurs were unable to finance more than 75% of their entire business requirements.
- The average additional requirement, perceived by the surveyed women SME entrepreneurs, to meet all their needs amounted to Tk. 7.2 lakh (USD 9.2 thousand).
- Among the surveyed women SME entrepreneurs who were successful in availing external finance, 36% could not attain the required credit.

Flow of Formal Finance to the Women SME Sector

- Lending to women-owned enterprises, as a proportion of the total SME portfolio, has hovered around 3-4%, over the past five-years (2010-14)
- Lending to women SME entrepreneurs increased at a compounded annual growth rate (CAGR) of 17% during 2010-14 to reach Tk. 3,968 crore (USD 0.51 billion), for the year ending June 2015. The number of women availing enterprise finance during this period saw a CAGR of 26% from 13,723 in 2010 to 42,730 in 2014
- Within the banking sector, Domestic Private Commercial Banks (DPCB) saw the highest average credit disbursement to women-owned SMEs per bank, of Tk. 84.62 crore (USD 10.9 million) per year

Finance Gap

The overall financing gap in the Women-owned SME sector is estimated to be around Tk. 6,007 crore (USD 0.77 billion) for the year 2014-15. The potential demand for external finance is estimated to be Tk. 9,975 crore (USD 1.29 billion), while the total finance channelled by formal sources is estimated to be Tk. 3,968 Crores (USD 0.51 billion). This resulted in a financing gap of 60.2% (that is, 60.2% of the women SME entrepreneurs' demand for finance went unmet by banks and NBFIs).

Profile of Women SME entrepreneurs

Financial Performance

The women business owners surveyed during the study were growth-oriented, generating an average annual turnover of Tk. 16 lakh (USD 20.5 thousand) and earning marginal profits of Tk. 2.7 lakh (USD 3.5 thousand). Further, nearly 80% of the women SME entrepreneurs surveyed sought formal credit for expanding their business. Two-third of women businesses surveyed were unable to finance more than 75% of their entire business requirements. The average additional requirement perceived by the enterprises, to meet all their needs, totalled Tk. 7.2 lakh (USD 9.2 thousand).

The highest average profit per enterprise was noted for those enterprises engaged in 'Agro and Food Services', closely followed by those in the 'Healthcare and Pharmaceutical' industry. Further, the Healthcare and Pharmaceutical industry (conventionally, a sector with limited women's representation) in the northern division displayed above-average turnover and profits, and importantly, an above-average unmet demand for finance.

Regional Insights

- **Perceived Finance Gap:** Enterprises in Rajshahi perceived the greatest gap in financing, averaging Tk. 10.67 lakh (USD 13.7 thousand) per enterprise, followed by Khulna. The lowest average financing gap was seen in Barishal.
- **Collateral:** Dhaka, Rajshahi and Chittagong were the only districts where more than 50% of the respondents had independent access to collateral. The most restricted access to collateral was seen in Sylhet and Barishal, with only 29% and 31% of the respondents having independent access to collateral, respectively.
- **Awareness:** On awareness regarding finance products and government schemes, Barishal, Sylhet and Khulna were among the worst performing, falling far below the national average.

Barriers to Access to Finance for Women SME entrepreneurs

This study identifies key hurdles, on the demand and supply sides, which must be overcome, to fill the gap.

Demand-side issues

Lack of access to finance is a severe constraining factor – only 31% of the women SME entrepreneurs interviewed were able to finance most of their entire business requirements. On one hand, women SME entrepreneurs seeking finance showed reluctance in availing loans from banks and NBFIs for their financing needs, and on the other hand, for those SMEs which did seek access to external finance, the complexity of the bank lending process was a barrier. The main findings from the demand-side assessment are summarized below:

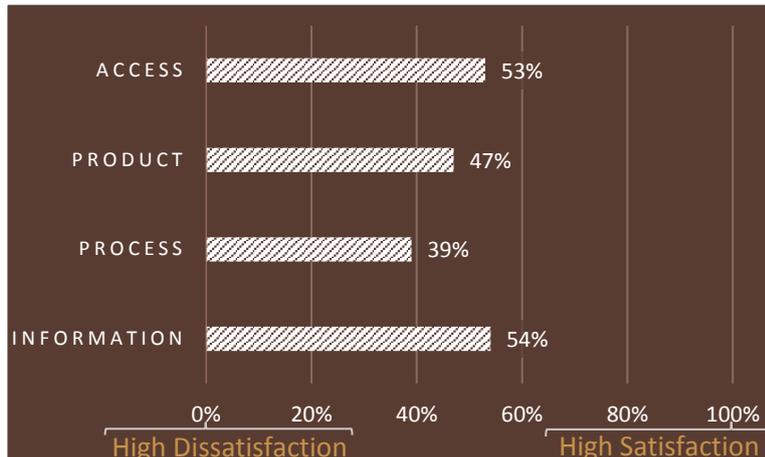
- 76% of women SME entrepreneurs were not aware of any government or bank instituted scheme for women SME entrepreneurs; this increased the reliance on personal and informal finance, which restricted the scope for growth and expansion
- 69% of women SME entrepreneurs faced challenges in meeting collateral requirements, and were required to provide collateral and guarantee for their loans despite seeking loans less than Tk. 10 lakh (USD 12.8 thousand).
- 77% of the respondents faced difficulties in providing required documentation during the loan application process. Poor discipline in maintaining financial records and poor financial literacy are key factors hindering women SME entrepreneurs from gaining access to formal sources of finance
- 36% of women reported 'gender-bias' among financial institutions against women's entrepreneurial capabilities and their perceived role as primary care givers. This necessitated the involvement of a male counterpart in dealing with banking and financial matters

- 60.2% of the women entrepreneurs' demand for finance is unmet by banks and NBFIs
- 88% of women entrepreneurs expressed dissatisfaction with the loan application process
- 69% of women entrepreneurs faced challenges in meeting collateral requirements
- 76% of women entrepreneurs were not aware of any government or bank instituted scheme for women owned SMEs
- The average loan size for women-owned SMEs is 47% less than the amount financed for male-owned SMEs
- Credit to women constituted a meagre 4% of the total SME lending portfolio of financial institutions

- 88% of women SME entrepreneurs expressed dissatisfaction with the loan application process. On average, women SME entrepreneurs made nearly 13 visits to the bank, to get their loan approved
- High turnaround time for loan sanctions proved to be an expensive challenge to women, with sanctioning time averaging 137 days

Debt Ecosystem Satisfaction Index

Figure 1: Debt Ecosystem Satisfaction Index



Source: The IFC-Gender Finance Survey, 2016

A Debt Ecosystem Satisfaction Index (DESI) that measures the satisfaction of women SME entrepreneurs with the financial ecosystem in the country was constructed. Results indicate that there is tremendous scope for improvement with Bangladesh receiving a score of 46 on a 100-point scale. Women SME entrepreneurs displayed the highest level of dissatisfaction with

the loan application and approval process. The highest level of satisfaction was observed with the availability of information relating to loan products and government schemes.

Supply Side Issues

- The average loan size, reported by Bangladesh Bank, was around Tk. 19.4 lakh (USD 25 thousand) for male entrepreneurs and Tk. 9.2 lakh (USD 12 thousand) for women SME entrepreneurs. Thus, banks incur high administrative costs given the relative ticket size of loans extended to women SMEs. The absence of formal credit histories among women SME entrepreneurs exacerbates the financial institution's cost of credibility checks and increases the transaction cost.
- Shortage of manpower within banks, generally limit resources for undertaking awareness generation activities that specifically target women SMEs, thereby limiting their outreach.
- Given the lack of gender disaggregated data on Non-Performing Assets by women SMEs, bankers lack information on repayment patterns and trends among women SME entrepreneurs. Hence, bankers are unable to evaluate whether women are better borrowers and associate high repayment risk with women, especially in the service industry.
- Scheme related inefficiencies caused by lags and delays in the resettlement of refinance schemes, absence of mechanisms for certifying genuine women-owned and managed enterprises increase the risk exposure of the financial institutions.

Creating an Enabling Environment for Growth of Finance in the Women SME Segment

Given the limited financing to women SME entrepreneurs, the study proposes a comprehensive solution that could deliver the tools to access finance, information and education to start and grow their businesses to women SME entrepreneurs. The focus of the recommendations is on improving the capacity of banks in Bangladesh to better serve the women SME entrepreneurs by instituting responsible finance practices. The study outlines a framework for developing specially designed products for women, outlining specific aspects that are necessary to reach women SMEs. This value chain approach has been briefly outlined below:

Figure 2: Gender Responsive Financing Framework

1. Building a case for women SMEs	<ul style="list-style-type: none"> • Women Business Census • Collection and reporting of supply-side data on financial inclusion
2. Product design and customer value proposition	<ul style="list-style-type: none"> • Advocates a needs-based approach, combining access to financial services, with information, education and networking opportunities, to provide a host of financial and non-financial services
3. Delivery	<ul style="list-style-type: none"> • Deployment of external facilitators and agents to ease processing • Development of technology-based workflows • Facilitate mobile banking
4. Marketing and outreach	<ul style="list-style-type: none"> • Build non-credit banking relationships • Certification of women-managed enterprises • Identification of women SME entrepreneurs and provision of credit referrals by third party agencies
5. Internal alignment and sensitization	<ul style="list-style-type: none"> • Gender sensitization of financial institutions
6. Internal assessment task force	<ul style="list-style-type: none"> • Establish a task force that will set targets, review progress, conduct research on issues important to women entrepreneurs towards financial inclusion and inform Government's strategy and policy action with respect to responsible finance

Source: The IFC-Gender

The two-fold analysis of the financial ecosystem captures the borrower's and provider's perspectives, to underline the participation of

various stakeholders in accelerating women SME entrepreneurs' access to finance. The first step towards this would be to create a business case for lending to them. This would not only aid building a consensus among financial institutions on the potential of lending to them, but also secure their buy-in towards participating in financial inclusion activities. In fulfilment of this, partnerships with well performing financial institutions (in terms of lending to women) may be explored to identify and possibly replicate best practices. This could consequently transcend into capacity building for both – borrowers and providers. Specific recommendations on this have been outlined in the above gender-responsive financing framework. This, alongside other results from the study, was used to develop a roadmap, to address the estimated financing gap presented by the segment (detailed in the conclusion, under the 'Way Forward' section).

1. Review of the Entrepreneurial Ecosystem for Women in Bangladesh

Women-owned businesses are viewed as the new economic agents of change in Bangladesh, however, limited access to finance coupled with socio-cultural barriers limit their participation in the economy.

Women entrepreneurs play a substantial role in contributing to the growth of economies. A study, commissioned for the World Development Report 2012, found that “in the East Asia and Pacific region, output per worker could be 7 to 18 percent higher across a range of countries if female entrepreneurs and workers were to work in the same sectors, types of jobs, and activities as men, and have the same access to productive resources” (Cuberes & Teignier-Baqué, 2011). According to the Centre for Women Business Research, in the U.S., there are 8 million women-owned businesses, which have an annual economic impact of USD 3 trillion that translates into creation and/or maintenance of 23 million jobs – 16% of all U.S. employment. Currently, while there is a dearth of studies that capture the economic impact of women-owned firms in Bangladesh, these statistics reveal the potential of women entrepreneurs to play a critical role in the economic development of Bangladesh.

With an almost balanced sex ratio of 1.04, Bangladeshi women can be catalysts for social development, with women entrepreneurs acting as change-makers in the society. There is growing evidence that women are more likely to reinvest their profits in education, their family and their community. According to Vander Brug (2013), women in emerging markets plough back 90 cents of every additional dollar of income into “human resources”, which includes their families’ education, health, and nutrition (compared to 30–40% for men), thereby helping their families, communities, and nations. Further, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) estimates that the Asia-Pacific region annually loses up to USD 47 billion in output alone, due to lack of female participation in labour markets (Economic and Social Commission for Asia and the Pacific, 2007).

Bangladesh saw growth of women SME entrepreneurs during the 1970s. Women enterprise growth increased exponentially during the 1980s and 1990s, and recorded highest enterprise establishment² in the 2000s (MIDAS, 2009). However, the population’s entrepreneurship status shows that out of the 46.8% self-employed citizens, only 8.3% are women (DCCI). Despite growing recognition of the importance of women SME entrepreneurs, there are substantial challenges that inhibit their capabilities to perform. Various research studies have established that low levels of education and training, poor health and nutritional status, and limited access to resources restrict women’s productivity, efficiency and growth. Moreover, women are also denied or have limited access to information, technical know-how, extension programs, training, marketing assistance, and credit; thereby limiting their ability to grow. The GEI index (2015), measuring the quality and dynamics of

² Nearly 50% of all women SMEs were noted to have been established in the 2000s.

entrepreneurial ecosystems, ranks Bangladesh 130 out of the 130 countries evaluated. This is indicative of the substantive scope for development of the Bangladeshi entrepreneurial ecosystem.

Among the many bottlenecks involved, 'Access to Finance' has often been identified as the greatest challenge faced by women entrepreneurs in Bangladesh (Jahed, Kulsum, & Akhter, 2011; Saha, 2007). The ADB estimated the overall supply-demand gap for SME credit to be approximately Tk. 165 billion (USD 2.39 billion), resulting in what is called the "frustrated credit demand" of the SMEs³. This enormous financing gap is substantiated through many other studies, indicating that only 25-30% of the capital requirements of SMEs are being met by bank loans (MIDAS, 2009).

The severity of this financial hurdle is further intensified for women entrepreneurs. According to IFC, around 70% of women-owned SMEs in the formal sector, in developing countries, are unserved or underserved by formal financial institutions, resulting in a financing gap of around USD 285 billion. According to the 2015 Female Entrepreneurship Index (FEI) that analyses conditions fostering high-potential female entrepreneurship, Bangladesh fell in the lowest tier, ranking 75 out of the 77 countries evaluated. Table 1 provides the FEI index of other countries in the region, with only Pakistan ranking below Bangladesh. A closer look at the index reveals that Bangladesh scored high in terms of innovativeness and willingness to start a business but scored low in labour force parity and **access to formal finance**. This was a pivotal factor in inhibiting growth of high-potential female entrepreneurs in the country.

On the Female Entrepreneurship Index, Bangladesh scored high in terms of innovativeness and willingness to start a business but scored low in labour force parity and access to formal finance.

Female Entrepreneurship Index (FEI):

The FEI seeks to identify which factors enable high potential female entrepreneurs to flourish — these women own and operate businesses that are innovative, market expanding, and export-oriented. The 2015 FEI analyses 77 countries, scoring them on a scale of 100, facilitating comparison and benchmarking of gender differentiated conditions that often affect high potential female entrepreneurship development. Key findings from the 2015 Female Entrepreneurship Index are listed below:

- The United States ranks first in the world again at 82.9, eight points ahead of 2nd-ranked Australia (74.8).
- 61% of the countries scored below 50 points – an indication that these countries must pursue significant changes to reduce barriers for female entrepreneurs
- The most important area of focus recognized for South Asia was improvement in labour force parity and finance – debt capital and financial literacy

Table 1: Female Entrepreneurship Index

FEI	Malaysia	India	Bangladesh	Pakistan
Rank	46	70	75	77
Score	39.2	25.3	17.9	15.2

Source: FEI, 2015

³ The estimated potential market demand for SME loans was TK. 255 billion (USD 3.7 billion) as of 2006, with the total current supply being only TK. 88.9 billion (USD 12.8 million) in 2009 (ADB, 2009).

Bangladesh ranked 75 out of the 77 countries evaluated, just above Pakistan and Malawi

The predicament of women entrepreneurs is the result of constraints posed on various fronts, including the complex procedures of banking and financing, and the prevailing socio-cultural norms working against women's interests. Lack of assets for collateral,⁴ discrimination from officials and poor financial literacy are often cited as substantial problems associated with accessing credit for starting up or running day-to-day businesses. (Mitra, 2002; Vishwanathan, 2001). This limits women's access to formal sources of finance, pushing them to rely on family, partners and friends to meet their financial needs. This is reflected in the fact that the proportion of women who have "borrowed to start, operate, or expand a farm or business" was one-third their male counterparts (Global Financial Inclusion Database, 2014).

A recent survey by the Bangladesh Bureau of Statistics (BBS) revealed that a meagre 2.8% of all enterprises, outside agriculture, were owned by women.

Below, three key factors that exacerbate women entrepreneurs' barriers to access finance are identified:

- **Social Norms:** Social norms regarding women's mobility and their primary role as family caregivers not only limit their economic participation (Carter & Cannon, 1992), but also foster prejudices to preclude them. For example, Terjesen and Elam (2012) noted that levels of female entrepreneurship are significantly influenced by traditional family and social norms that determine women's freedom to work and travel.
- **Firm/owner-specific characteristics (e.g. education, training, size of firm, etc.):** Several studies, across the developing world, have validated how owner-specific characteristics like education and training are positively associated with economic participation.⁵ This inherently puts Bangladeshi women at a disadvantage as they have relatively lower literacy rates (55%) than their male counterparts (62%) (World Bank Group, ed., 2012). The disproportionate impact of firm specific characteristics is reflected in the bipolar Bangladeshi labor market. This in turn impedes the entrepreneurial opportunities to women (Terjesen S. A., 2015).
- **Access to markets and information:** Nearly 70% of the women entrepreneurs in Bangladesh are in micro and rural enterprises (MIDAS, 2009). Thus, they often tend to be small, with limited access to markets and information. Anil Kumar (2008) found that despite being educated, many women, at various levels, faced the problem of attaining information. This could be attributed to additional personal challenges faced by them. According to a recent study by Athena Infonomics (2014) in India, 61% of the women entrepreneurs surveyed felt that their inability to access

⁴ Bangladesh Bank's Guidelines on Credit Risk Management for Banks (2015) categorizes collateralized lending into 8 types: (1) Shares and securities, (2) commodities/export documents, (3) Machinery/fixed assets (excluding land, building/flat), (4) Real estate, (5) Financial obligations, (6) Guarantee of individuals (personal guarantee), (7) Guarantee of institutions (corporate guarantee), (8) Miscellaneous (e.g. hypothecation of crops)

⁵For example: Mitra (2002); Kitching, Mishra and Shu (2005); Hull (2009).

finance was due to personal challenges, with 42% of them hurdled by documentation and procedural factors.

These inherent disparities in the economy have led to a highly skewed gender ratio amongst SME entrepreneurs. A recent survey by the Bangladesh Bureau of Statistics (BBS) revealed that a meagre 2.8% of all enterprises, outside agriculture, were owned by women (Foisal, Sagar, & Khanam, 2015).

There have been efforts to improve the financial ecosystem for women SME entrepreneurs, but these are yet to have the desired impact.

In recognition of the gender gaps in the entrepreneurial ecosystem, the Government of Bangladesh has initiated various steps. As per Bangladesh Bank's '*Small and Medium Enterprise (SME) Credit Policies and Programmes*', the interest rate for women SME entrepreneurs should not be greater than 10% per annum.; highest priority would be accorded to women SME entrepreneurs wherein loans up to Tk. 25,00,000 (USD 32 thousand) can be sanctioned against personal guarantee; banks are encouraged to set up dedicated desks for women entrepreneurs, among other things. Accountability from banks is further sought by establishing a three-tier monitoring system for SME credit disbursement. Further, all nationalized banks now have women branches to encourage their financial inclusion. Bangladesh Bank's 6 refinance schemes are also important initiatives for accelerating finance to women SME entrepreneurs.

However, for various reasons, these initiatives have been unable to make the intended impact on women SME entrepreneurs' access to finance. For instance, although there was an annual increase of 44.8% in 2012, the number of enterprises financed the disbursement to women SME entrepreneurs only saw a 9.13% increase.⁶ Further, women SME entrepreneurs continue to constitute less than 10% of the total business enterprises in Bangladesh (Zaman & Islam, 2011).

In 2012, disbursement to women entrepreneurs saw a meagre increase of 9.13%, whereas the total number of enterprises financed witnessed an annual increase of 44.8%.

The gender sensitivity of the institutional credit framework to women remains an under-investigated area. Lending to women-owned SMEs as a distinct segment is still unexplored when compared to lending to SMEs in general, in Bangladesh. Due to a lack of segmental focus and, perhaps, due to a higher perception of risks, formal financial institutions have made little effort to invest in this segment. Among bankers, there is a lack of awareness about the potential business opportunity presented by this segment. One reason is the lack of data to help present a business case to target this emerging segment. Mapping the potential for women SME entrepreneurs requires an understanding of their market: size of the addressable market, competitive landscape, existing capabilities, required investment, and path to profitability. This can be built through internal data analysis, market sizing of potential women customers and analysis of the ecosystem.

⁶ Dhaka Chamber of Commerce and Industry (2013), '*Handbook of Entrepreneurship Development*'

1.1. Objective of the study

To design better suited products, services and policies for women entrepreneurs, it is imperative to understand the needs of this segment; evaluate the demand for financing against the supply of formal institutional finance and analyse factors impeding borrowers and providers. There is a need to understand the credit requirements of women-owned SMEs as well as barriers that affect them in accessing institutional debt. At the providers' end, this not only involves an analysis of loan products, but also an exploration of non-financial aspects impeding access and their willingness to cater to women SMEs. The reasons for under-serving this market segment are not well researched. While anecdotal evidence suggests a variety of reasons for this under representation, it is critical to establish the limitations and challenges faced in accessing finance.

Specifically, the study seeks to achieve the following objectives:

- Map the potential opportunity to facilitate finance for women-owned SMEs in Bangladesh and estimate the current financing gap,
- Develop comprehensive sectoral knowledge of the ecosystem that women SME entrepreneurs operate in,
- Identify major challenges faced by women SME entrepreneurs in availing finance from financial institutions,
- Identify key areas of focus, which could improve financing for women SME entrepreneurs.

1.2. Approach and Methodology

Towards fulfilling the above objectives, the report delves into a twofold analysis of the financial ecosystem for women SME entrepreneurs, in Bangladesh. This is done by drawing insights from both, borrowers (women SME entrepreneurs) and providers (banks and NBFIs) through primary and secondary channels. The secondary channel involved an extensive review of existing literature and support schemes, drawing from multiple data sources such as Bangladesh Bank, Bangladesh Bureau of Statistics, SME Foundation and other existing publications. The primary research extensively draws on information from discussions with two key sets of stakeholders: a) financial institutions and b) women SME entrepreneurs. The sampling criteria for these stakeholders can be found in the Appendix.

Assessment of demand-side constraints that affect women SME entrepreneurs' access to finances

The demand-side entities interviewed for primary data collection comprised of 500 women SME entrepreneurs sampled from Bangladesh's seven administrative selections. The 12 districts sampled from these administrative selections were Dhaka, Tangail, Gazipur, Rajshahi, Bogra, Rangpur, Chittagong, Comilla, Khulna, Jessore, Barisal and Sylhet. These interviews were mobilised using databases availed from various industry associations and chambers of commerce. Women SME entrepreneurs were sampled based on location and whether the enterprise was owned and managed by women.

The survey focused on understanding the business characteristics, financial requirements, sources of finance and supply of credit for women-led SMEs. It also identified key challenges (financial and non-financial barriers) faced by them while accessing finance. The survey sought to establish the borrowers' awareness of financial products and assessed the usage of financial services and practices.

Evaluation of key supply-side constraints affecting women SME entrepreneurs access to finance

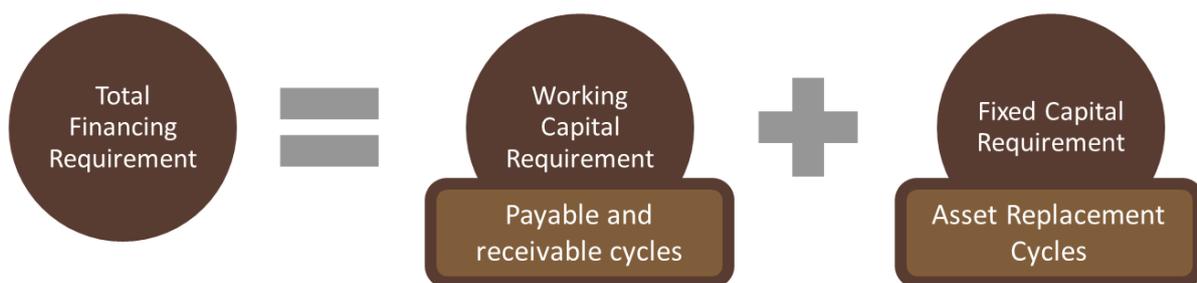
To assess the financial ecosystem and understand the scope of financial services provided to women SME entrepreneurs, interviews were conducted with financial institutions and various stakeholders engaged in SME financing. The current study evaluates the financial ecosystem based on inputs gained from Bangladesh Bank, public and private sector banks, NBFIs and other ecosystem stakeholders such as the SME Foundation and the Micro Industries Development Assistance Society (MIDAS).

The objective of the qualitative in-depth interviews with bankers was to examine the supply of financial and non-financial products and services currently offered to women-owned SMEs. Inputs were solicited from the bankers on design of products, eligibility criteria, enablers and barriers to loan uptake, process of loan approval and the experience of lenders with this target group to identify facilitators and challenges across the lifecycle of the loan.

Estimation of Women SME entrepreneurs' Finance Demand

The estimation of Women SME entrepreneurs' demand for finance was based on a 'bottom up' approach. The demand estimation was conducted at the enterprise level. This was done by assessing each entrepreneur's working and fixed capital requirements, in the manner illustrated in Figure 3:

Figure 3: Entrepreneurs' working and fixed capital requirements



Source: The IFC-Gender Finance Study, 2016

The working capital was estimated based on the enterprise's receivables and payables. The fixed capital was estimated based on the value of assets owned by an enterprise through a lifecycle approach. This process resulted in a customized estimation of finance requirement for each enterprise. The enterprise demand was then extrapolated, using secondary data, to attain the annual aggregate financing requirement, at a national level.

Estimation of Supply of Finance

This study primarily looked at formal sources of finance. Bangladesh Bank's database was extensively used for data on the supply of formal finance to the SME sector, and particularly, to women-owned SMEs. Bangladesh Bank statistics provide quarterly reports on the gender disaggregated supply of credit to SMEs by banks and NBFIs.

1.3. Assumptions

The current information on SMEs and particularly, women-owned SMEs in Bangladesh was found to be limited. The absence of an SME census implied that gender disaggregated, enterprise-level information across sectors was not collected or made available in the public domain. Thus, the study required certain assumptions which were validated through stakeholders and expert interactions.

- **Women SME entrepreneurs' sample**, in the absence of an SME census, was based on information availed from SME Foundation
- **Current Women SME entrepreneurs' population**, in the absence of an SME census, was estimated based on past economic census data for female proprietors
- **Gaps and inconsistencies** in the demand and supply-side data, was identified and appropriately accounted for
- **Current price of assets** was estimated using the GDP deflator, in the absence of appropriate data on the Wholesale Price Index
- **Sectoral analysis** undertaken was limited to the sample size of the women SME entrepreneurs surveyed and could not be extrapolated

1.4. Outline of the report

The rest of the report is organised into the following sections:

- Chapter 2 presents the business case for accelerating credit to women entrepreneurs. This includes an understanding of the profile of women SME entrepreneurs, their demand for finance, the financing ecosystem, the supply of finance and the financing gap.
- Chapter 3 examines why women SME entrepreneurs have limited access to finance by examining the demand and supply side constraints. It looks at institutional, personal and social constraints that burden women SME entrepreneurs. The chapter also examines constraints within financial institutions that limit their outreach to women SME entrepreneurs. Women's satisfaction with the financial ecosystem has been presented in the form of the 'Debt Ecosystem Satisfaction Index'.
- Chapter 4 provides a sectoral and geo-spatial analysis of the market potential, in financing women SME entrepreneurs.
- Chapter 5 uses the evidence generated by the study to draft strategic recommendations to increase credit access for women SME entrepreneurs in Bangladesh.
- Chapter 6 presents the conclusion and way forward.
- Chapter 7 provides an 'At a Glance' summary of the report for a financial institution with an overview of key sector and geography specific findings.

2. Business case for financing women SMEs

Research shows that across geographies, when women are the direct beneficiaries of credit, their repayment rates are higher. The study on ‘Women and Repayment in Microfinance’ analysed global datasets covering 350 microfinance institutions across 70 countries and found that having a greater proportion of women clients is associated with a lower portfolio-at-risk, lower write-offs and lower credit-loss provisions. The study provides important evidence on gender differences related to credit risk and suggests that women are reliable borrowers with strong repayment records (D’Espallier, Guérin, & Mersland, 2009). Global experience in targeting women entrepreneurs highlights that women tend to be more disciplined in repayment and their non-performing loan ratio is generally lower than those of male-owned SMEs. To illustrate, an analysis of repayment patterns of women-owned SMEs in Indonesia indicated that they wanted to borrow more to invest in their companies and they typically recorded lower default rates than their male counterparts. It was also found that more women entrepreneurs regarded their businesses as ‘highly profitable’ compared to men (IFC, 2016).

This section attempts to better understand the opportunity posed by women SME entrepreneurs in Bangladesh by presenting an overview of women-owned businesses in Bangladesh and sheds light on key operational and financial characteristics of their business. The survey data on the women SME entrepreneurs’ demand for finance and their markets aims to provide banks in Bangladesh with information to better serve women business owners. The second part of this section maps the current state of lending to women-owned SMEs in Bangladesh. The last section focuses on assessing market opportunities by estimating the gap in the demand and supply of finance for women SME entrepreneurs.

2.1. Characteristics of women SME entrepreneurs

2.1.1. SMEs and women entrepreneurs

Enterprises in Bangladesh are categorized into small and medium as per their ownership of fixed assets and number of employees. This report follows the definition provided by Bangladesh Bank in the ‘Small and Medium Enterprise (SME) Credit Policies and Programmes’ report. The classification is as follows:

Table 2: SME Definition

Sector	Fixed Asset other than Land and Building in Tk.		Employed Manpower (not above)	
	Small (USD thousand)	Medium (USD million)	Small	Medium
Service	50,000-50,00,000 (0.6-64)	50,00,000-10,00,00,000 (0.06-1.3)	25	50
Business	50,000-50,00,000 (0.6-64)	50,00,000-10,00,00,000 (0.06-1.3)	25	50
Industrial	50,000-1,50,00,000 (0.6-192)	1,50,00,000-20,00,00,000 (0.19-2.6)	50	150

Source: Bangladesh Bank, 2010

This report focuses on women-owned and managed enterprises. These have also been identified based on Bangladesh Bank's report titled 'Small and Medium Enterprise (SME) Credit Policies and Programmes'. It classifies women entrepreneurs as woman engaged in business in their own name or those who own/ possesses more than 50% of shares of a business. To include genuine women-owned enterprises, only those SMEs where women were involved in the day-to-day operations were included in the sample.

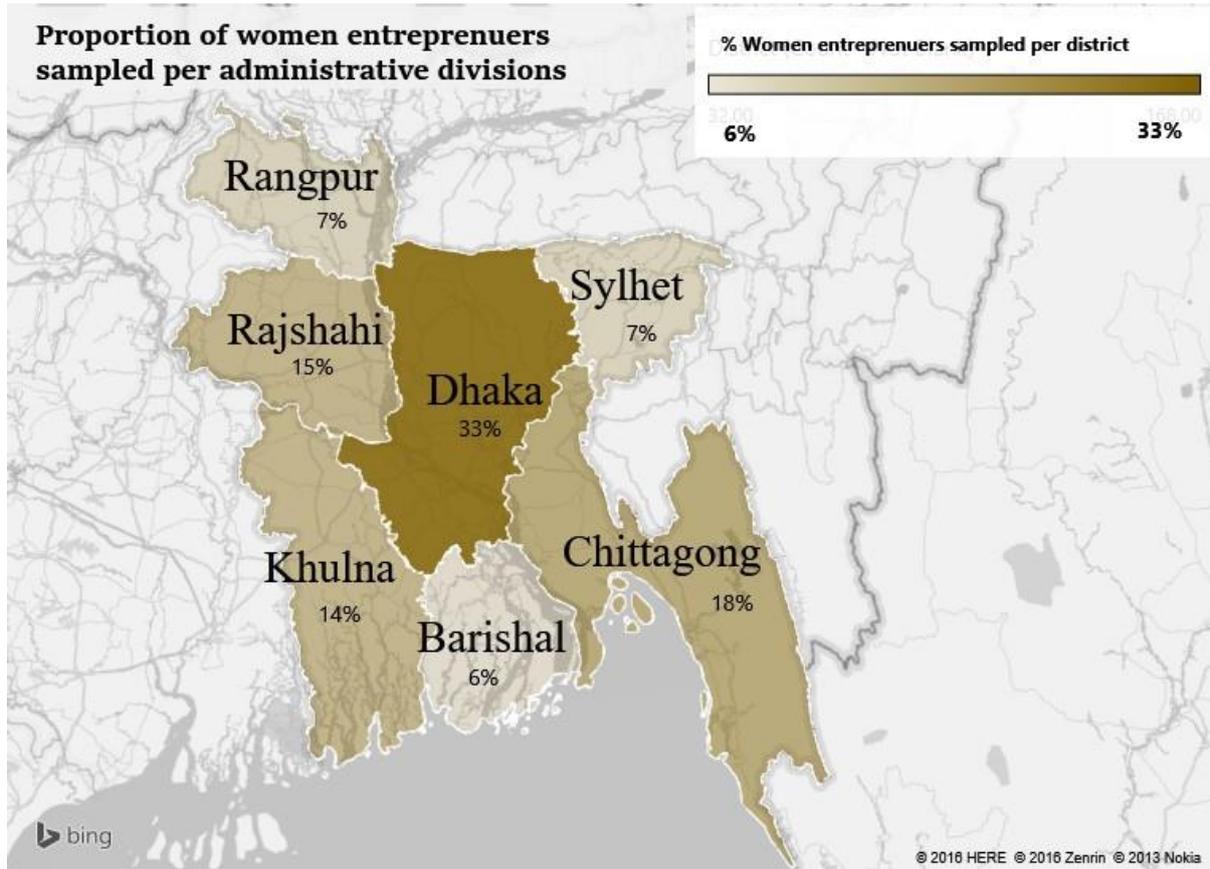
On conducting a broad enterprise listing exercise of 2,000 registered women-owned businesses at the start of the study, it was found that nearly 20% of the enterprises had closed, only 25% of the enterprises listed were owned as well as managed by women, and around 15% of the operating enterprises had availed a loan.

2.1.2. Profile of Women SMEs

Several studies reveal that Bangladeshi women-owned enterprises largely operate in the 'small segment' and in the service sector. This was also noted amongst the women SME entrepreneurs surveyed. Majority of women-owned businesses – around 99% - were small enterprises, with 58% of them employing 1-5 employees. 80% of the respondents were noted to have been operational for less than 6 years. Overall, 71% of women SME entrepreneurs were sole proprietors and 28% were partnerships. Of those who did not own their firms outright, 60% shared ownership with a male member of the family (husband, father or other male relatives).

The geographical presence of the surveyed women SME entrepreneurs is mapped across the seven administrative divisions in Figure 4. Dhaka had the highest density of women SME entrepreneurs surveyed (33%). The lowest share was in Barishal, constituting 6% of the women SME entrepreneurs sampled. A detailed methodology of the geographical sampling criteria can be found in the Appendix. The sampling criteria developed is in line with the presence of proprietors (male and female) across the administrative divisions, as noted by the 2013 Economic Survey for Bangladesh.

Figure 4: Sample's Geographic Selection



Source: The IFC-Gender Finance Survey, 2016

Most of the enterprises surveyed, were found to operate in the service and trade sector. To further explore their nature of operation, all the surveyed enterprises were categorized into 7 groups of industries. The industrial concentration of the enterprises surveyed has been illustrated in the below figure. The highest concentration was seen in the wholesale and retail trade of textiles (24%), followed by the wholesale and retail trade of other goods, including electronics, handicrafts and consumer goods.

Figure 5: Sector of Operations



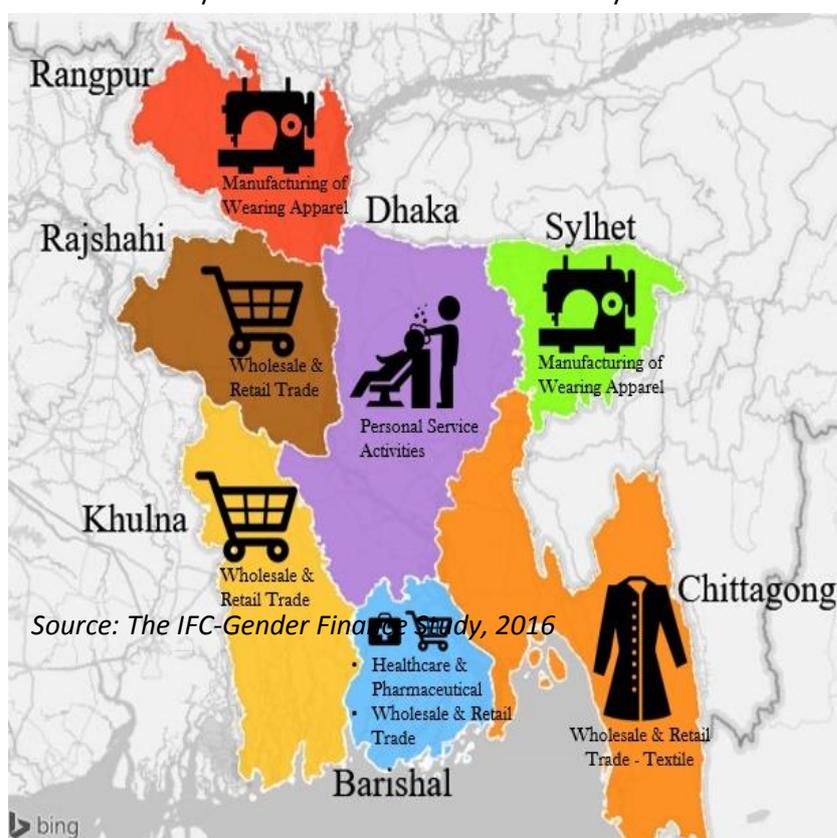
Source: The IFC-Gender Finance Survey, 2016

A mapping of this industrial concentration of women SME entrepreneurs was conducted across the 7 administrative divisions to identify the predominant industry in each division. This has been

illustrated in Figure 7. Chittagong was noted to have the highest concentration of women SME entrepreneurs in the wholesale and retail trade of textiles. This was followed by Dhaka, which saw a marginally greater share of its women SME entrepreneurs engaged in ‘Personal Service Activities’ such as beauty parlours and cleaning services. Majority of the women SME entrepreneurs in Rangpur and Sylhet were engaged in the manufacturing of ready-made apparel.

To further gauge the nature of operations, it is important to understand the presence of women SME entrepreneurs as against male entrepreneurs in each of the industry categories. This is represented in Table 3, according to women entrepreneurs’ perception of the presence of women in their industrial category. The values in Table 3 represent the proportion of women who reported the given perception. These values are represented on a colour scale, where a greener code indicates that more women formulated a particular perception. The most common consensus was among women engaged in ‘Personal Services’-87% of the women engaged in the industry considered it to be dominated by women. The next most common consensus was in the ‘Agro & Food Services’ industry where 62% of the women SME entrepreneurs were of the opinion that it was dominated by men.

Table 3: Women SME entrepreneurs' perception on the presence of women in their sector



Industry	Presence of women SME entrepreneurs in the sector				
	Very Low	Low	Medium	High	Very High
Agro & Food Services	62%	7%	24%	3%	3%
Education & Others	14%	43%	29%	4%	11%
Healthcare & Pharmaceuticals	19%	17%	46%	11%	7%
Manufacture of Wearing Apparel	6%	11%	57%	20%	6%
Personal Service Activities	0%	4%	1%	8%	87%
Wholesale & Retail Trade (Excluding Textiles)	44%	18%	13%	11%	13%
Wholesale & Retail Trade-Textiles	9%	18%	18%	28%	26%

Key

Largely Disagreed

Largely Agreed

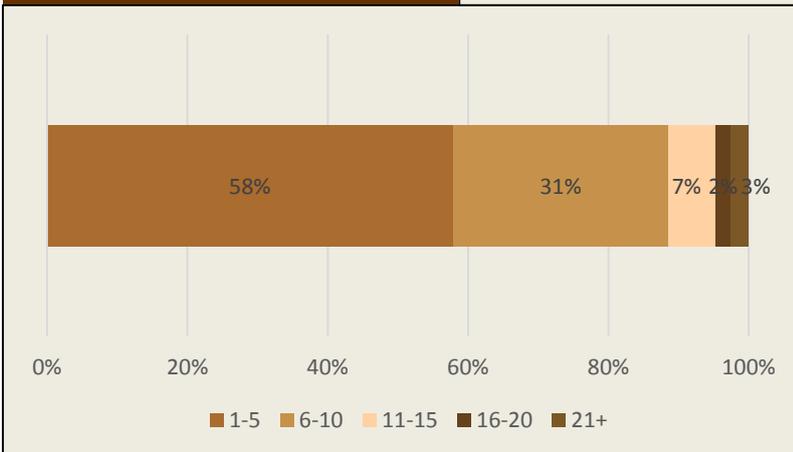
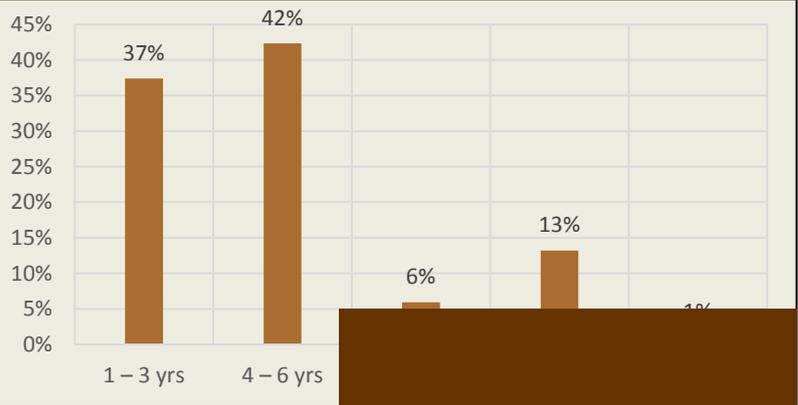
Source: The IFC-Gender Finance Survey, 2016

Location of Enterprise

33% of the enterprises listed were in Dhaka. This is consistent with previous enterprise surveys which show that women entrepreneurs in non-metropolitan areas are fewer. Enterprises in Dhaka were seen to have easier access to loan products than other areas. 97% of enterprises worked out of a dedicated office for their business, with 3% operating out of home.

Age of Enterprise

Nearly 80% of women enterprises interviewed were less than 6 years into operations. 44% of enterprises supplied to large organisations.



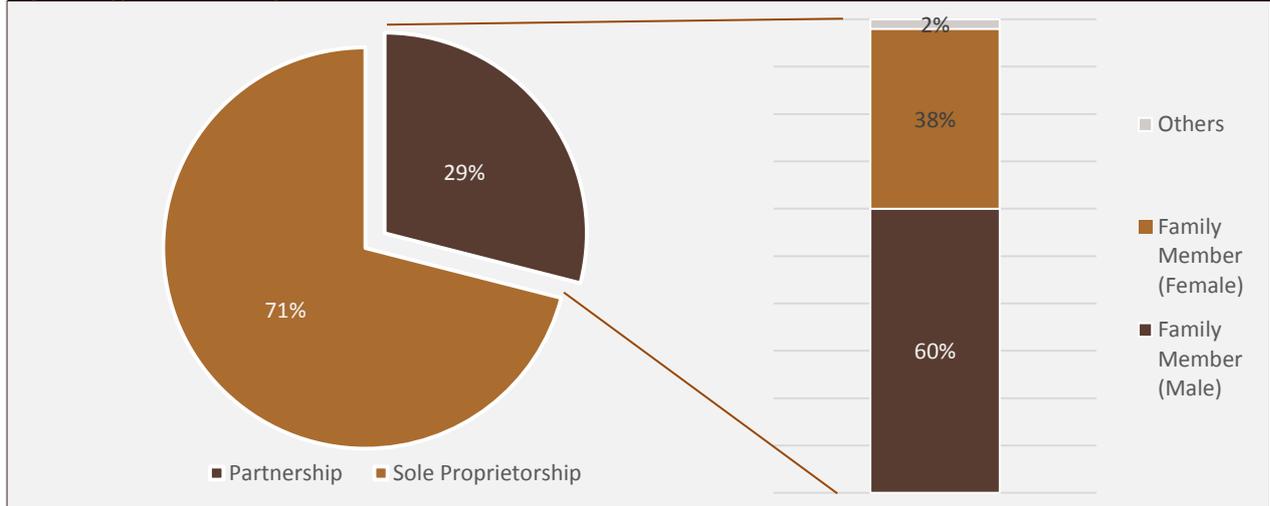
Number of Employees

On an average, women-owned business enterprises had 6 employees. Enterprises with more than 15 employees largely belonged to the manufacturing sector.

Partnerships

71% of women entrepreneurs were sole proprietors; of the remaining, 60% had a male family member as a partner. Male partners were observed to assist women in managing financial aspects of the business.

Figure 9 Type of Ownership



80% of women were married with children, and between 30-40 years of age



80% of the women were university graduates and 44% had prior employment experience

Source: *The IFC-Gender Finance Study, 2016*

2.1.3. Financial Characteristics of women-owned SMEs

Women-owned businesses in Bangladesh are ambitious but need capital

The surveyed women business owners were growth-oriented, with nearly all of them expressing a desire to scale up and grow. On an average, they generated an annual turnover of Tk. 16 lakh (USD 20.5 thousand), earning marginal profits of Tk. 2.7 lakh (USD 3.5 thousand). Moreover, nearly 75% of the surveyed women SME entrepreneurs sought formal credit for expanding their business--an indication of their levels of aspiration. However, many faced barriers in accessing finance.

Survey findings reveal that two-third of the businesses were unable to finance more than 75% of their entire business requirements. Thus, enterprises were forced to prioritize expenditure requirements. Unsurprisingly, enterprises prioritized meeting raw material costs, resulting in most of their requirements in human resources, assets, and marketing going unmet. The average additional requirement perceived by the enterprises, to meet all their needs amounted to Tk. 7.2 lakh (USD 9.2 thousand). Even among those who were successful in availing external finance, the loan amount sanctioned was less than the required amount. ***On an average, 36% of their loan requirements remained unmet.***

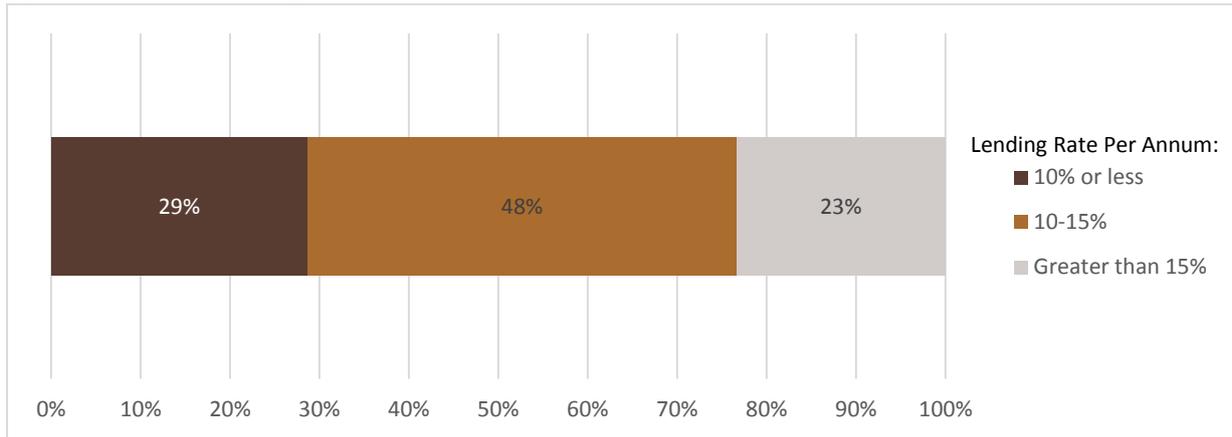
While it is encouraging to observe that nearly half the respondents (48%) have availed a loan, nearly 25% of respondents stated that they have not sought financing for business, indicating the presence of factors such as discouragement or discomfort with the process, lack of networks or poor awareness on financial products available. Collateral remains a challenge for women business owners at various stages of growth, with only 52% of respondents indicating independent access to collateral – primarily in the form of personal property, due to unfavourable inheritance laws. Further, the asset profile of the enterprises predominantly constituted only of movable assets such as furniture and machinery.

In the start-up phase, majority of the respondents met their businesses capital needs through private or internal sources such as, personal savings and loans from family and friends. Business or commercial loans were utilized only in the growth phase. The most popular external sources of finance in this stage were private commercial banks, with 37% of the surveyed women SME entrepreneurs relying on it. It was followed by informal money lenders, with 27% of the surveyed women SME entrepreneurs availing these services. Although arguably, the disparate reliance on sourcing funds during the different stages is common for both, men and women, it is particularly prevalent for women. This is reflected in the fact that out of the total finance disbursed to SMEs in 2014, a scant 5% was given to women-owned SMEs.

The interest rate offered by banks to SMEs ranged from 7% to 23.75%

As per Bangladesh Bank's announced interest rate chart for scheduled banks for March 2015, banks in Bangladesh were noted to offer credit to SMEs at rates starting from 7% per annum, as seen for exporting enterprises, and ranged up to 23.75%. The banks' lending rate for working capital was frequently noted to be marginally greater than the rate for term loans (Bangladesh Bank, 2016). Among the surveyed women SME entrepreneurs who availed finance from formal sources, the lending rate varied from 7% to 21%. The nature of this variation is presented in Figure 10. It is important to note that nearly 48% of the women SME entrepreneurs availed credit at a rate of 10-15%.

Figure 10 Women SME entrepreneurs' Cost of credit



Source: The IFC-Gender Finance Survey, 2016

2.1.4. Women SME entrepreneurs' demand for finance

The study estimates the overall annual demand for finance among women-owned SMEs to be approximately Tk. 9,975 crore (USD 1.28 billion). Of this, 49% of the requirement – around Tk. 4,851 crore (USD 0.62 billion) – is to meet working capital needs for day-to-day operations. The fixed capital requirement was marginally greater, accounting for 51% of the entrepreneurs' demand. Given the nature of the business, this demand was usually for small machinery and furniture.

Financial Profile

of Women Entrepreneurs

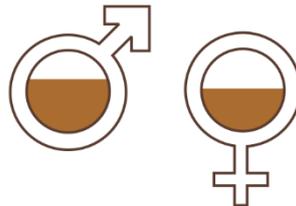


Average Turnover
of enterprise
₹ 16 lakh
(\$ 20.5 thousand)



Average Profit
₹ 2.7 lakh
(\$ 3.5 thousand)

66%
Men manages
the finance aspects
of the business

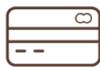


50%
Women undertake financial
practices such as generation
of financial statements

92%
Women have a banking history
for an average of 3 years



96%
Women bank with
a private bank



< 20%

Women use financial services
such as mobile banking,
credit cards & overdraft facilities



52%

WBEs have independent
access to collateral
and fixed assets



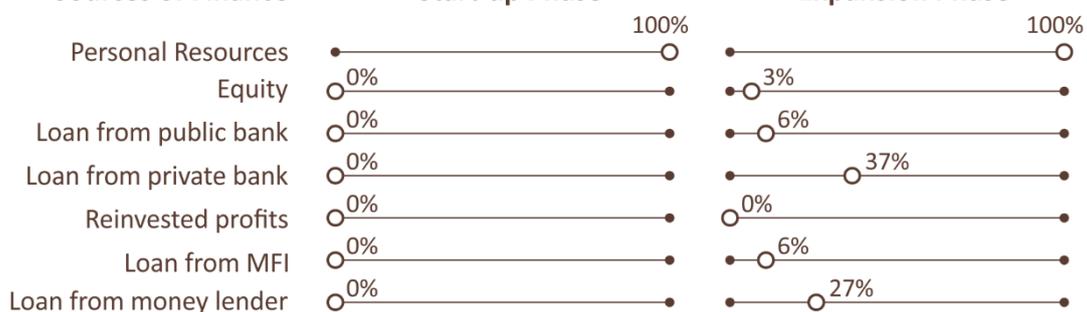
36%

Women had undergone
training to manage financial
aspects of business

Sources of Finance

Start-up Phase

Expansion Phase



81%

Women sought advice
from a family member in
financing their enterprise



24%

Women were aware of
any finance schemes;
citing financial institutions
as a source of information



48%

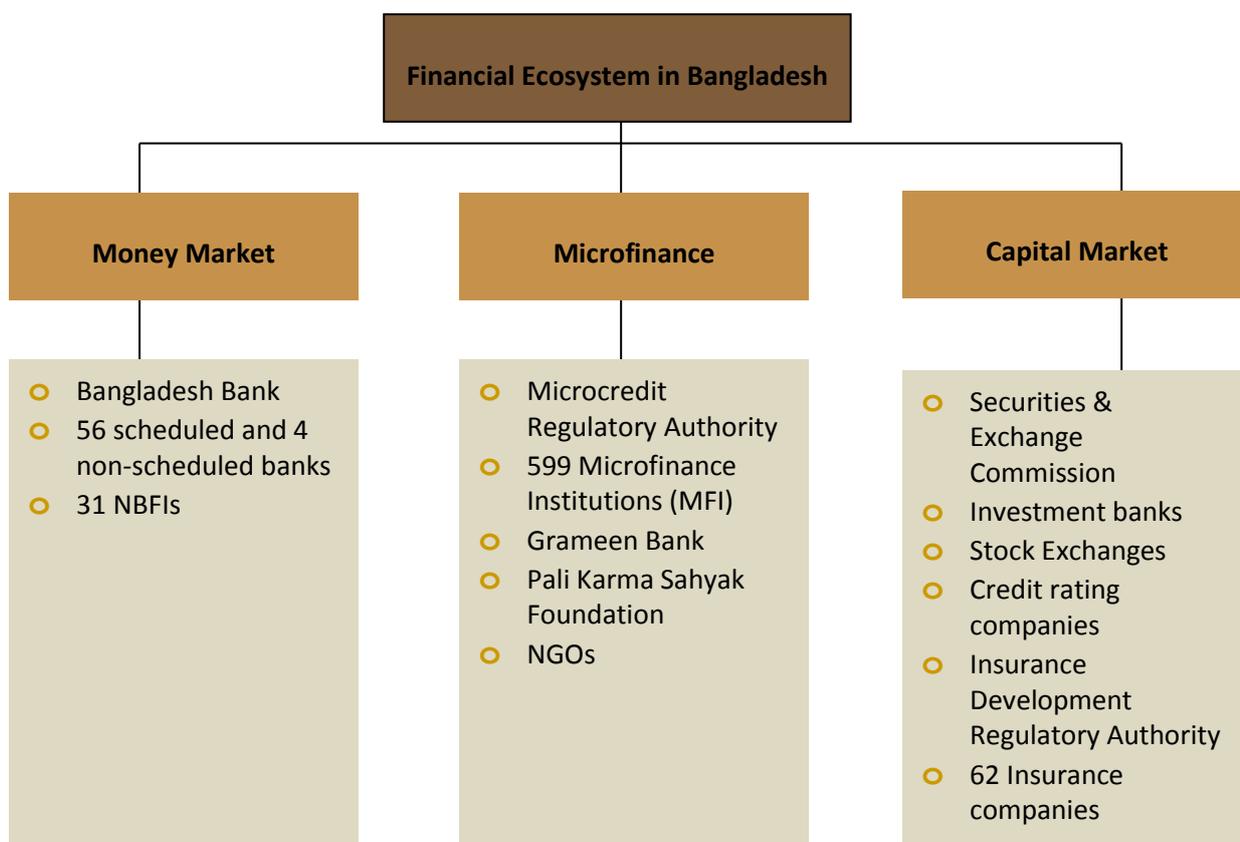
Women entrepreneurs
interviewed availed a loan

2.2. Characteristics of the Financial Ecosystem

2.2.1. Financial Institutions in Bangladesh

The financial sector in Bangladesh comprises the money and capital markets, insurance, pensions and microfinance. Bangladesh's banking sector consists of scheduled and non-scheduled banks. As of 2015, this includes 6 state-owned commercial banks (SCBs), 2 state-owned specialized banks, 39 domestic private commercial banks (DPCBs) – of which, 31 are conventional DPCBs and 8 are Islamic banks, with 9 foreign commercial banks, 4 non-scheduled banks and 31 Non-Bank Financial Institutions. Figure 11 depicts the financial ecosystem in Bangladesh:

Figure 11: Bangladesh's Financial Ecosystem



Source: Bangladesh Bank, 2015

2.2.2. Financing programmes for women-owned SMEs

To increase access to finance for women, Bangladesh Bank has initiated numerous policies. One of the most significant measures to provide women SME entrepreneurs with financial assistance has been Bangladesh Bank's '*Small and Medium Enterprise (SME) Credit Policies & Programmes*', announced in March 2010. It incorporates special arrangements for women SME entrepreneurs through a variety of measures, including:

Table 4: Bangladesh Bank's gender sensitive SME credit policies and programmes

Measure	Description
<p>Establishing a separate 'Women Entrepreneurs' Dedicated Desk' in select branches and ensuring a service-friendly approach towards women entrepreneurs</p>	<p>Banks and financial institutions were directed to establish a separate 'Women Entrepreneurs' Dedicated Desk' with necessary and suitable manpower, provide them with training on SME financing and suitably appoint a lady officer as chief of the dedicated desk. Further, a branch-wise list of 'Women Entrepreneurs' Dedicated Desks' was to be sent to the SME and Special Programmes Department of Bangladesh Bank within 2 months from the date of declaration of the policy and programme.</p>
<p>Sanctioning loans up to Tk. 25,00,000 (USD 32thousand) to women entrepreneurs against personal guarantee; also, can consider group security/social security</p>	<p>Banks and financial institutions can apply their own due diligence method in selecting clients/entrepreneurs. However, they must formulate their credit policy, following Central Bank guidelines as a minimum benchmark and inform the SME and Special Programmes Department of Bangladesh Bank. Group security or social security can also be considered in formulating such policy.</p>
<p>Interest rate for women entrepreneurs to be the bank rate (which is 5% at present) plus a maximum of 5%; i.e. not more than 10% per annum</p>	<p>Given the banks' high operating cost for financing small entrepreneurs, they face relatively higher interest rates. In this light, Bangladesh Bank is providing refinance facility to banks and financial institutions at bank rate (at present, 5%) in SME sector. The fund thus obtained must be disbursed at bank rate + not more than 5% interest to the client level (in case of women entrepreneurs). Thus, women SME entrepreneurs can, at most, be charged an interest rate of 10%, as against the current industry variation of 9% to 18% observed on term loans to small industries.</p>
<p>Financial Institutions will accept and settle all types of loan applications of women SME entrepreneurs with the highest priority</p>	<p>The Bangladesh Bank states that "for more participation of women entrepreneurs in the industrial development of the country and for conducting business activities by women entrepreneurs in large numbers, priority shall have to be given to potential women entrepreneurs in respect of SME credit disbursement."</p>

Source: Bangladesh Bank, 2010

Bangladesh Bank also initiated a target-based lending program in 2010. The banks and NBFIs independently decide their targets for annual credit disbursement to SMEs and women-owned SMEs. Accountability from banks/financial institutions is sought by establishing a 3-tier monitoring system (at BB Head Office, BB branch offices and banks) for SME credit disbursement. This is primarily through quarterly progress updates submitted by banks, and gender-disaggregated targeted increase in the share of net bank credit.

Bangladesh Bank recently issued a guideline to all bank and non-bank financial institutions (NBFIs) directing them to identify at least 3 women per branch, annually. These women must have never taken loans. The bank/NBFI will then train these women on SME programs and ensure that at least one of them avails a financial service, in that year. Another gender-specific policy adopted involved opening of branches for women by some commercial banks. All the nationalized banks now have women branches to encourage their financial inclusion.

In addition to regular financing by banks and NBFIs to SMEs, Bangladesh Bank is injecting funds through its 6 refinance schemes: BB Fund, BB Fund-Women, Agro processing refinance scheme, ADB Fund, JICA Fund, Equity Entrepreneurship Fund and, Refinance scheme to Renewable energy & Environment friendly industries. Of the 6 schemes, the 'BB Fund-Women' is exclusively for women entrepreneurs – encouraging all Banks and NBFIs to provide loans at 10% interest rate (base rate plus 5%). Furthermore, at least 15% of the total BB refinance fund for SMEs has been reserved for women SME entrepreneurs.

To ensure that genuine women SME entrepreneurs are the recipients of these benefits, Bangladesh Bank has suggested seeking assistance from the Bangladesh Small and Cottage Industries Corporation (BSCIC), SME Foundation and other professional organizations such as the Handloom/Handicrafts Association-Mahila Samity and different Women Entrepreneurs' Association, such as, Bangladesh Women Chamber of Commerce & Industries (BWCCI), Women Entrepreneurs Association of Bangladesh (WEAB), Bangladesh Homeworkers' Women Association (BHWA), National Association of Small & Cottage Industries of Bangladesh (NASCIB), etc.

The Government has further taken steps through the 5-year plans and National Action Plan for Women's Advancement (NAP) in 1997. NAP assigned a definitive set of responsibilities to the Ministry of Industry, to finance, train and provide other support to develop women's capabilities to run production enterprises.

The Government has also extended its gender sensitization measures to other schemes and programmes, such as the Export Policy (2015-18). The Ministry of Commerce has consistently used its Export Policies to encourage women entrepreneurs, alongside honouring the best of them through an Annual Export Trophy.

Some of the other relevant Government measures include the Poverty Reduction Strategy Paper (2013), Industrial Policy (2005), SME Policy (2005) and Gender Action Plan (GAP) by the SME foundation. The GAP seeks to advance the economic empowerment of women in SMEs, which will in-turn promote shared economic growth and reduce poverty. An overview of the supporting services of public and private institutions and agencies benefitting women SME entrepreneurs has been compiled and presented in the Appendix.

The overall proportion of women specific schemes was noted to be ‘Low’ for most banks.

a summary of the existing schemes, at an institutional level, is captured in the table in Appendix 1. It categorizes the financial institution’s targeted schemes, as illustrated below.

Figure 12: Financial institutions’ scheme categorization



Source: The IFC-Gender Finance Study, 2016

It is noteworthy to observe that although banks had differentiated women specific/friendly schemes, they were primarily linked to Bangladesh Bank’s Refinancing Scheme for Women and collateral-free credit directives. Most banks did not divulge women friendly schemes, laying greater emphasis on women specific schemes.

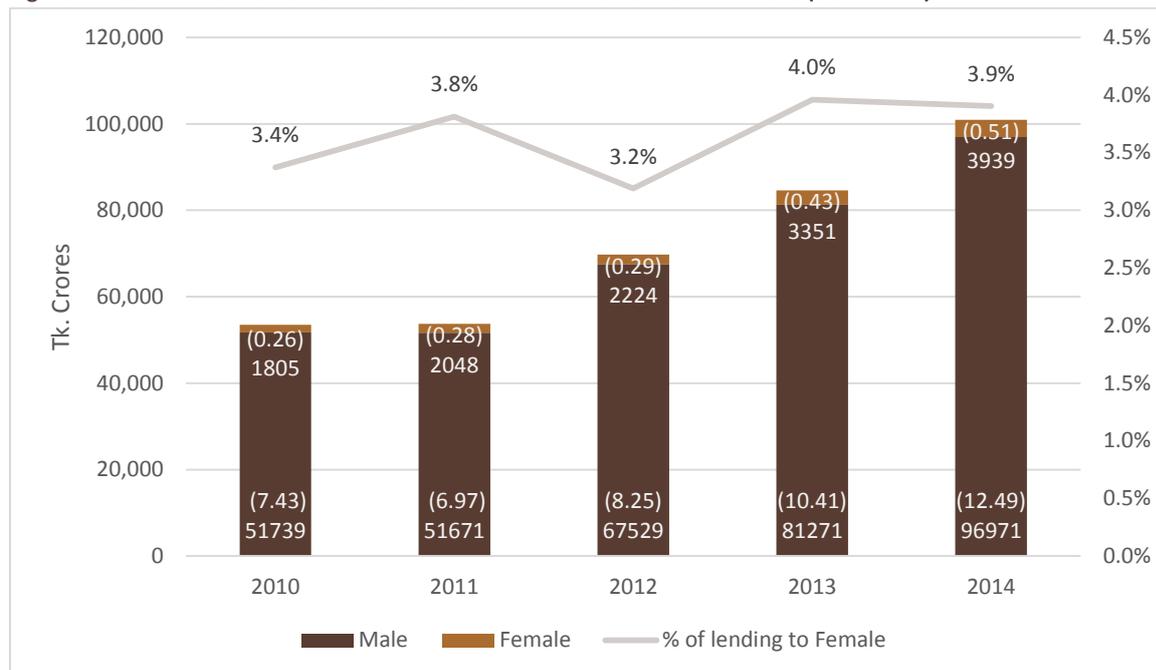
2.2.3. Current flow of finance to the SME sector

The total annual lending to women SME entrepreneurs by financial institutions for 2014-15 was Tk. 3,968 crore (USD 0.51 billion).

An analysis of the statistics from Bangladesh Bank indicates that annual disbursement to women SME entrepreneurs increased at a CAGR of 17% during 2010-14 to reach Tk. 3,968 crore (USD 0.51 billion) for the year ending June 2015. The number of women availing this finance, during the same period, saw a higher CAGR of 26%, moving from 13,723 in 2010 to 42,730 in 2014.

This growth in lending to women SME entrepreneurs was noted to increase at a marginally higher rate, when compared to their male counterparts. Lending to male-owned SMEs in 2014 stood at Tk. 96,971.4 crore (USD 12.5 billion) and grew at a CAGR of 13%. A similar pattern is observed in the number of male-owned enterprises which grew at 11%.

Figure 13: Cumulative Credit Disbursement to women-owned SMEs in Tk. crore (USD billion)



Source: Bangladesh Bank, 2015

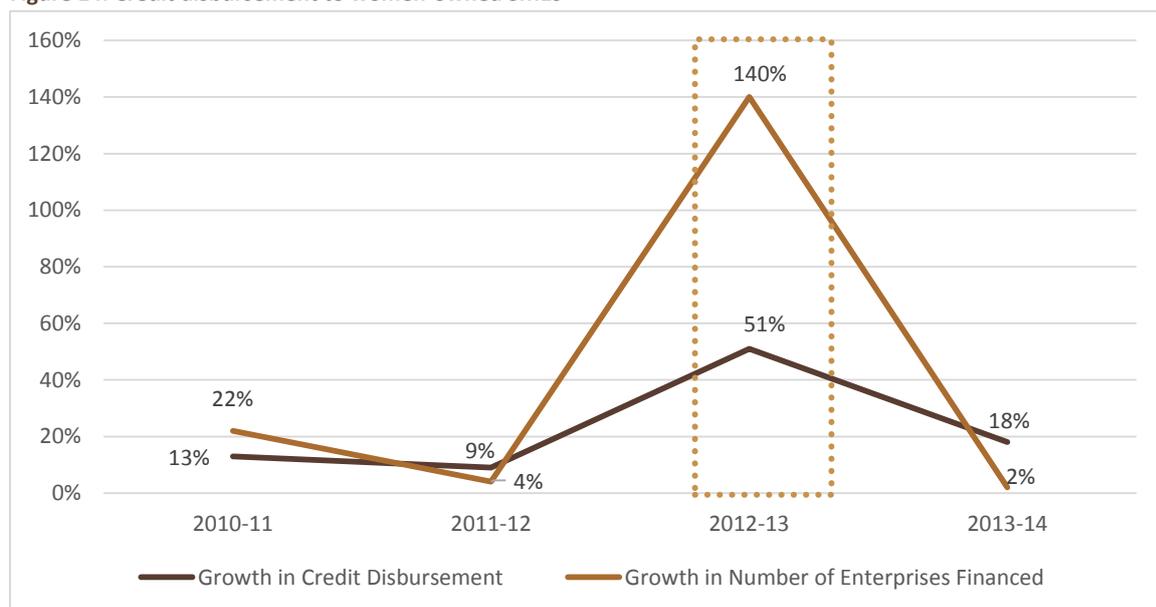
Credit to women constituted a meagre 4% of the total SME lending portfolio

Lending to women-owned enterprises as a proportion of the total SME portfolio has remained more-or-less constant at 3-4%, over the past 5 years (2010-14). This poor ratio was also reflected in the Bangladesh Structural Adjustment Participatory Review Initiative (SAPRI) report. It estimated the overall share of women in accessing formal finance to be a meagre 1.79% (SAPRI, 2000).

Credit disbursement to women was highest during 2012-2013

During 2012-13, there was a 51% increase in credit disbursement to women-owned SMEs and a 140% increase in the number of women-owned enterprises that were financed.

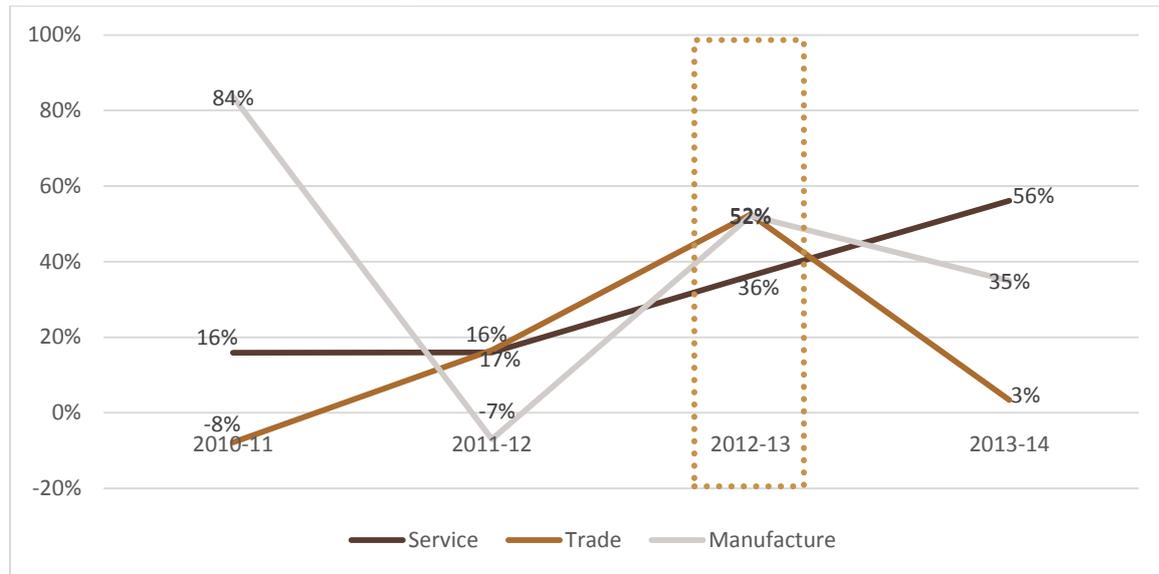
Figure 14: Credit disbursement to women-owned SMEs



Source: Bangladesh Bank, 2015

Analysis of sector-wise lending helps to understand this unprecedented increase in lending to women. SME loans to the manufacturing sector declined from 31% to 28% and recorded a dismal growth rate of 10% in credit disbursement. However, this period was positive for the trading sector. Subsector wise, 67% of the lending went to the trading sector in 2013, while women-owned SMEs in the trading sector received 62%. Women-owned SMEs are well engaged in this sector and saw an increase of 52% in credit disbursement. Figure 15 displays the growth in sector-wise lending for women-owned enterprises.

Figure 15: Growth in sector-wise lending to women-owned SMEs

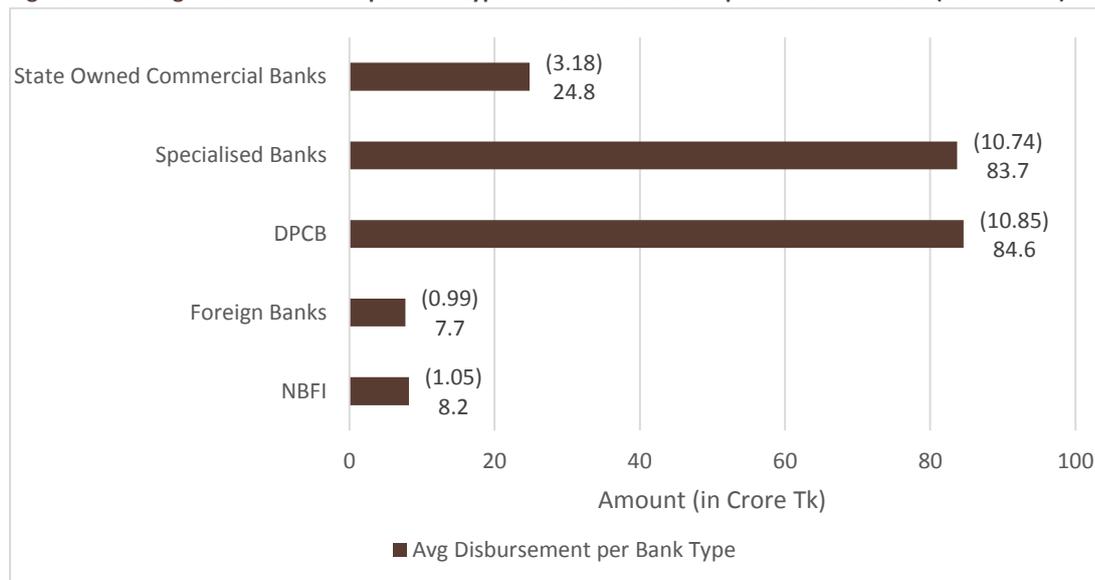


Source: Bangladesh Bank, 2015

84% of the lending to women owned enterprises is through Domestic Private Commercial Banks (DPCB)

Domestic Private Commercial Banks (DPCB) saw the highest average credit disbursement to women-owned SMEs per bank--Tk. 84.62 crore (USD 10.9 million) per year. This was closely followed by average disbursements of Specialized Commercial Banks, totalling Tk. 83.75 Crores (USD 10.8 million) per year. The lowest average disbursements were observed at Foreign banks and NBFIs', at Tk. 7.71 crore (USD 0.99 million) and Tk. 8.16 crore (USD 1.05 million) per year, respectively.

Figure 16: Average credit disbursed per bank type to women SME entrepreneurs in Tk Crore (USD million)

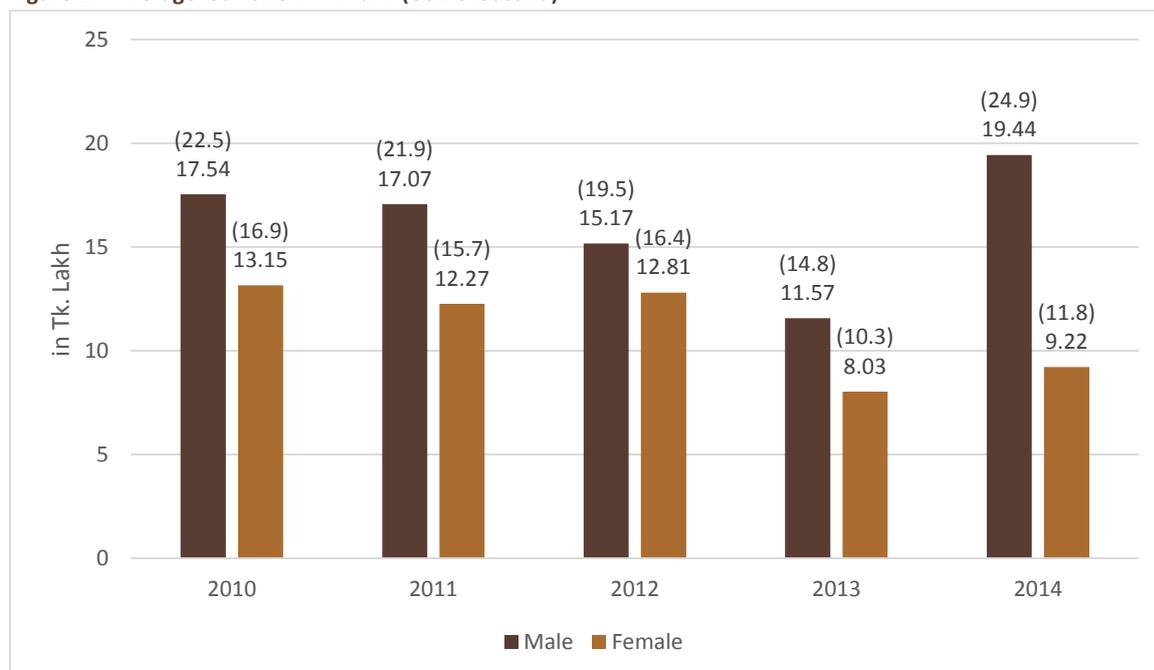


Source: Bangladesh Bank, 2015

Despite an increase in the total credit disbursed, the average loan size decreased at 7%, annually

The average loan size disbursed to women SME entrepreneurs in the SME sector witnessed a decline from Tk. 13,15,295 (USD 18.9 thousand) in 2010 to Tk. 9,21,776 (USD 118.7 thousand) in 2014. The average loan size for women-owned SMEs is 47% less than the amount financed for male enterprises, for 2014. It is interesting to note that during 2012-13, the period where women SME entrepreneurs received the highest amount of credit disbursement, the average loan size was the lowest – around Tk. 8.03 lakh (USD 10.3 thousand), a 37% decline over the previous year.

Figure 17: Average loan size in Tk. lakh (USD thousand)

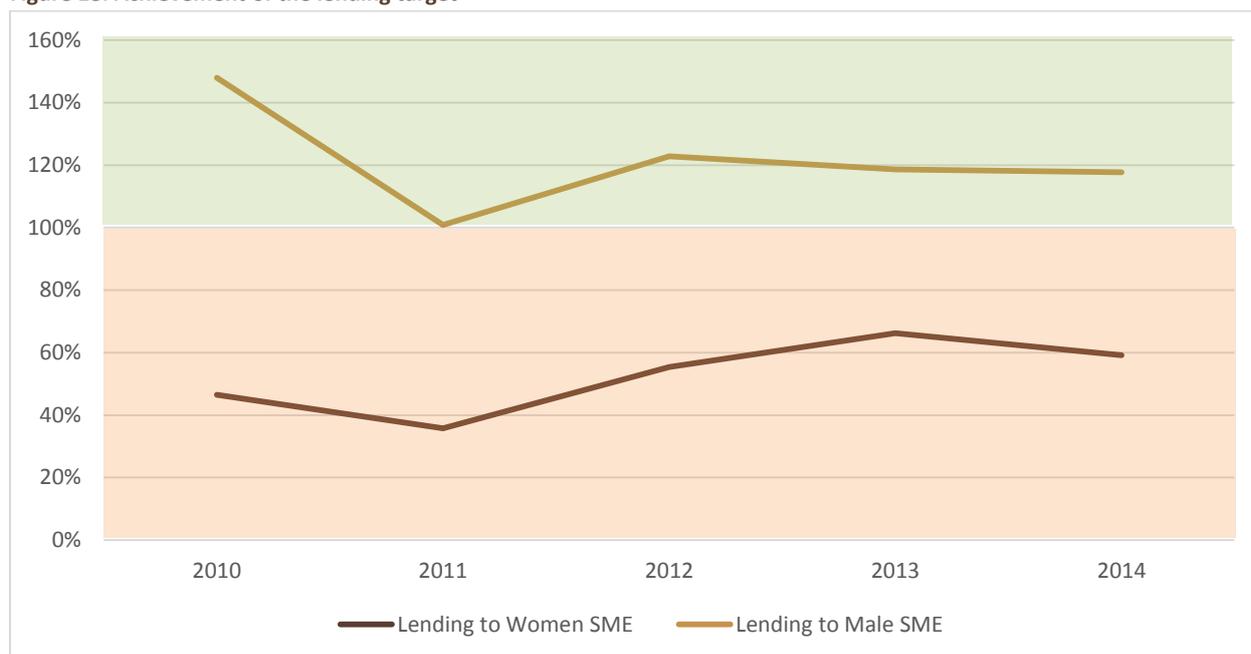


Source: Bangladesh Bank, 2015

Target-based lending to women-owned SMEs constituted only 7% of the SME lending target in 2014

Target-based lending to women-owned SMEs witnessed a CAGR of 11% during 2010-2015, vis-à-vis a 19% CAGR for male-owned SMEs. The total lending target for women-owned SMEs in 2014 was Tk. 6,660 crore (USD 0.86 billion). Analysis of the trend data reveals that banks never achieved their lending target for women. In 2014, only 59.14% of the target for disbursement to women-owned SMEs was achieved. Nevertheless, disbursement to male-headed SMEs was 117.73% of the target, i.e. 17.73% was disbursed over and above the target. A similar pattern is observed in the previous years (Figure 18):

Figure 18: Achievement of the lending target



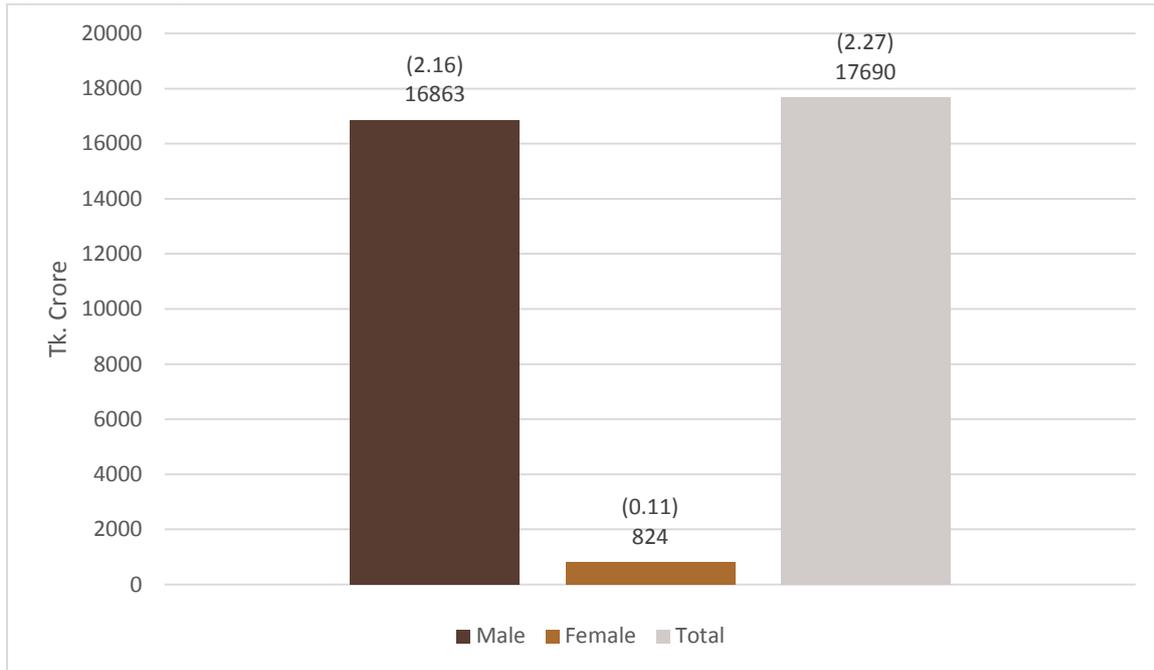
Source: Bangladesh Bank, 2015

Start-up financing remains a challenge for SMEs in Bangladesh. The problem is more acute for women-owned enterprises.

In 2014, a total of 84,270 new enterprises were financed and the total disbursement for start-up financing in Bangladesh was Tk. 17,690 crore (USD 2.28 billion). Start-up finance constituted around 18% of the total SME lending portfolio in 2014, and witnessed an annual growth rate of 28% during 2013-14.

Women-owned enterprises were unable to secure start-up loans to the same extent as their male counterparts. While 21% of the credit disbursed to women in 2014 was to start an enterprise, women-owned SMEs constituted only 5% of the total start-up finance disbursed to SMEs. Only 1% of the entire SME lending portfolio went towards financing women-led start-up enterprises, as against 17% for their male counterparts.

Figure 19: Start up finance for SMEs in Tk. crore (USD billion)



Source: Bangladesh Bank, 2015

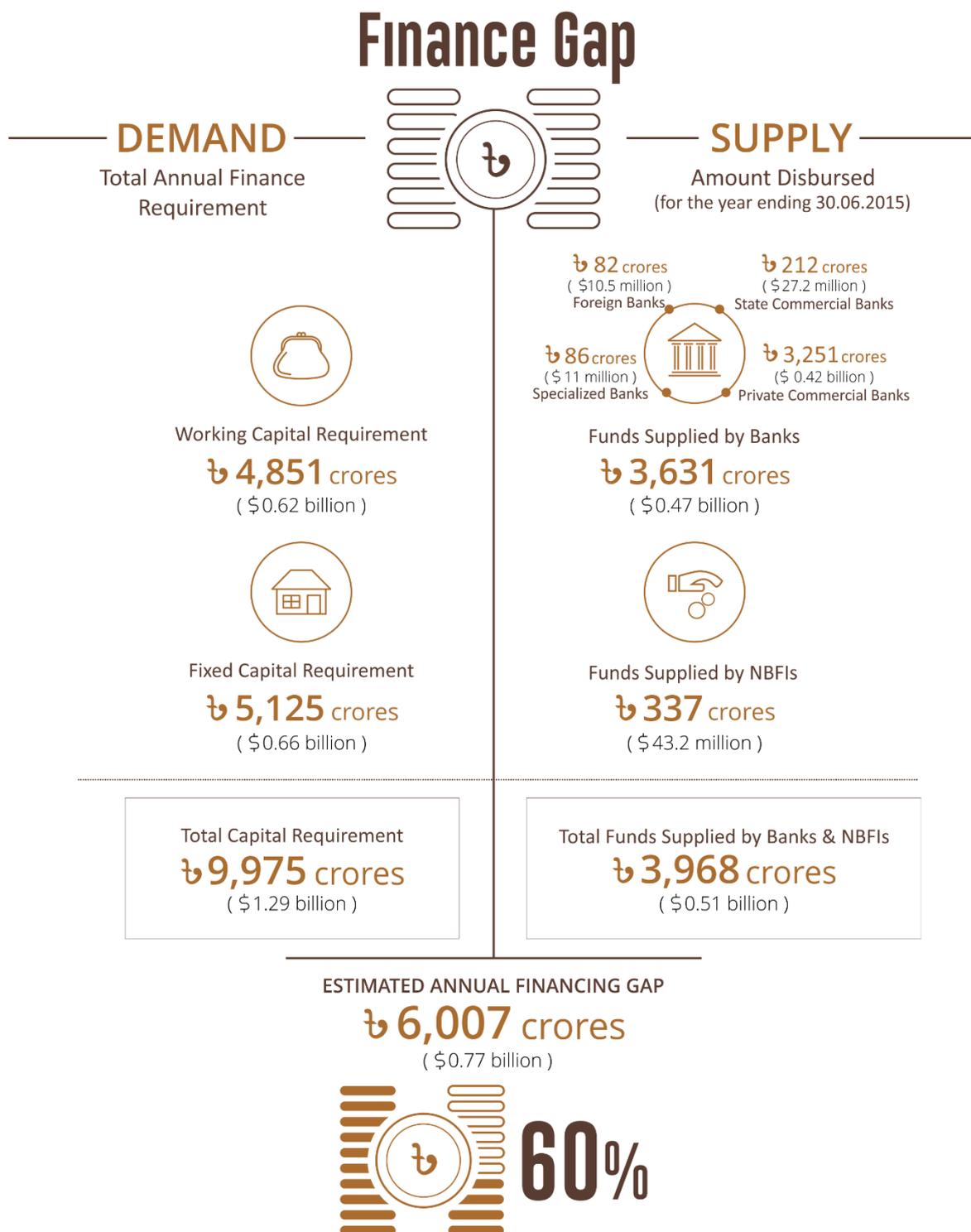
22% of women SME entrepreneurs received credit without collateral.

A half-yearly analysis of the credit data for 2015 revealed that more than 37,000 women-owned enterprises (around 22%) borrowed without providing any form of collateral. A total of Tk. 649.71 crore (USD 83.4 million) was disbursed without collateral to women enterprises and this constituted around 36% of the credit disbursement to women-owned SMEs in Bangladesh. This was significantly higher than the average collateral-free loan lending for the SME sector which stood at 12%. Compared to women-owned enterprises, only 11% of the credit disbursement to male-owned SME was collateral-free.

Subsector analysis indicates that women-owned enterprises in the manufacturing sector benefitted the most from collateral-free lending. Manufacturing enterprises led by women received 48% of the credit disbursement without showing any form of collateral, as against 24% for the trade sector.

2.3. Financing gap faced by women SME entrepreneurs

The overall financing gap in the women-owned SME sector was estimated to be Tk. 6,007 crore (USD 0.77 billion). The potential demand for external finance was estimated to be Tk. 9,975 Crores (USD 1.29 billion) while the total finance channelled by formal sources was at Tk. 3,968 Crores (USD 0.51 billion) for the year ending June 2015. This resulted in a financing gap of 60.2%, i.e. 60.2% of the women SME entrepreneurs' demand for finance went unmet by banks and NBFIs'.



3. Demand and Supply-side barriers to credit access

Findings from the previous section indicate that the finance requirement among women SME entrepreneurs in Bangladesh is enormously unmet. Only 31% of women could finance their current business requirements; those who did not avail a loan ultimately financed their requirements through personal and informal sources of finance. In the following section, an attempt has been made to understand the demand and supply-side constraints and challenges to explain the financing gap for women SMEs.

The analysis covers an evaluation of institutional, personal and socio-cultural factors that constrain access to finance. For purposes of this study, challenges have been classified under four broad thematic areas, namely:

- i) Awareness of loan products and schemes,
- ii) Risks perceived in lending to women SME entrepreneurs and corresponding contributing factors,
- iii) Process related challenges that constrain access and
- iv) Knowledge factors such as level of financial literacy and provision of non-financial services by banks.

The table below provides a summary of the challenges.

Table 5: Demand and Supply-side constraints

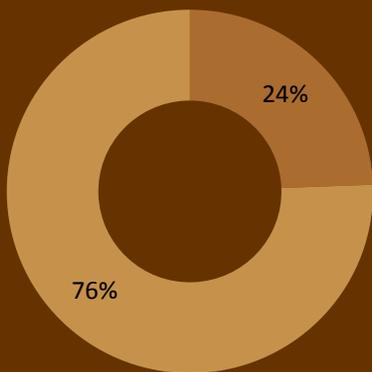
ISSUE	BORROWER	PROVIDER
AWARENESS	Awareness limited to products of concerned financial institutions	Manpower and resource constraints limit marketing efforts and disincentivize non-financial services. Lack gender sensitization
Nature of Challenge	Institutional / Systemic	
RISK	Lack collateral and financial documents. Negative sector and gender driven biases	Women SMEs perceived as high risk clients, given their inability to meet conventional appraisal requirements. Subjective refinancing by Bangladesh Bank increases bank's risks
Nature of Challenge	Socio – Cultural	
KNOWLEDGE	Limited financial literacy and awareness on availing finance. High dependency on male family members	High financial illiteracy increased loan administration costs. High manpower constraints disincentivised provision of non-financial services
Nature of Challenge	Personal	
PROCESS	Guarantor and collateral requirements, financial	Lack of credit histories and documentations entail greater back

ISSUE	BORROWER	PROVIDER
	illiteracy, banker's negative bias and high turnaround time impede the application process	checks with limited manpower and resources. Women entrepreneurs' dedicated desks viewed ineffective
Nature of Challenge	Institutional / Systemic	

Source: The IFC-Gender Finance Survey, 2016

The section begins with an analysis of each of the above identified issues, analysing the demand and supply-side constraints along with an illustration of how certain banks have addressed these issues.

3.1. Awareness



3.1.1. Borrower Analysis

The probability of availing a loan increases by 20% if a woman entrepreneur is aware of loan products and schemes offered by banks.

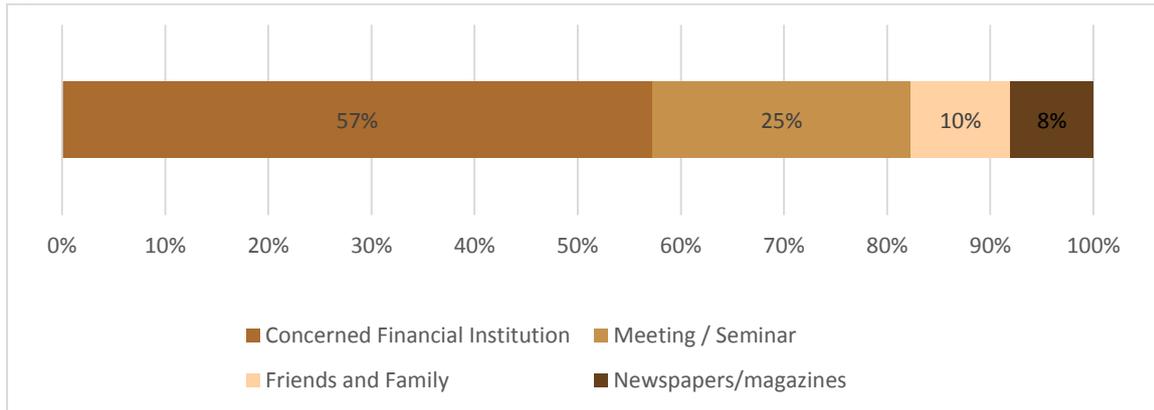
On evaluating the reach and uptake of schemes and programmes initiated by the Government and banks, only 24% of women SME entrepreneurs showed awareness. Of this, 77% were women SME entrepreneurs who had availed a loan. Women could indicate awareness of program features but were unable to recall the names of the schemes they were associated with. 98% of entrepreneurs who did not seek debt financing from formal sources were unaware of the financial benefits/incentives and products offered by banks; the lack of awareness in turn increased reliance on personal and informal sources of financing. Most women were heavily reliant on personal resources which, reduces scope for expansion and growth; as a result, only 31% of women could fully finance their business. Less than 20% of women indicated that the presence of women-specific or SME-specific loans were their reasons for choosing a particular institution to bank with or apply for a loan; this further points to a low level of awareness on potential benefits that could accrue to women entrepreneurs.

64% of women indicated they would like to learn more about financial assistance schemes. This requires emphasising on awareness generation activities.

57% of women cited financial institutions as a primary source of information on schemes.

A large proportion of women SME entrepreneurs who were aware of financial assistance schemes, indicated their respective financial institution as their source of information. This is a positive indication of the efforts undertaken by financial institutions to generate awareness on support schemes. However, it was observed that channels such as online media, which have a wider reach, did not feature as a source of information. It was noted that much of the information with respect to credit schemes on banks' websites were outdated. If website content was well organized and relevant, it would allow for quick and easy access to information.

Figure 20 Source of information



Source: The IFC-Gender Finance Survey, 2016

15% of women SME entrepreneurs indicated receiving financial support under a Government sponsored scheme.

The results of the primary survey indicate that only 15% of the respondents had utilized the support programmes. This indicates a low level of engagement with the institutional support system. This raises questions on accessibility, awareness and applicability of these programmes. Respondents were unable to recollect the specific names of the schemes and largely categorized them as 'SME loan schemes'.

Several women indicated that they did not find the schemes provided to be relevant to their business. Stakeholder interactions highlight that many of the bank-initiated schemes were often repackaged under the refinance scheme with no specific additional initiative from banks to cater to this segment.

Women specific branches perform poorly, with no uptake by women entrepreneurs.

Women specific branches are women run, with majority of employees being women. While they cater to men and women, they seek to increase comfort level of women customers. These branches were seen to have limited reach as none of the women who were interviewed had been a part of a woman-only branch. 82% of entrepreneurs sought loans from a regular branch, and the remaining, from an SME branch. As such, women-specific initiatives and programmes suffer from low uptake which is often attributed to its limited awareness.

3.1.2. Provider analysis

Banks lack interest in undertaking non-financial services such as organisation of exhibitions, training and awareness generation activities, owing to manpower and resource constraints.

Some banks undertake marketing activities such as distribution of leaflets, organisation of exhibitions, advertisements in magazines, however, most banks shared the view that the responsibility of raising awareness on

"Banks are profit making institutions. We neither have the resources nor the skills to extensively undertake non-financial services. However, we are ready to support any institution providing these services and assist our potential women entrepreneur clients"

- Banker

schemes and training women on how to apply for schemes rests with the Central Bank and NGOs. Their lack of interest stems from high manpower shortages within the banks, limiting resources for undertaking awareness generating activities that specifically target women SMEs. Smaller ticket size loans entail higher dispersion, which increases the strain on resources and administration costs for banks. Stakeholder interactions have highlighted that the typical loan size for women SMEs ranges between Tk. 5 lakh (USD 6.4 thousand) and Tk. 15 lakh (USD 19.2 thousand), as compared to other SMEs where ticket-sizes range between Tk. 50 lakh (USD 64 thousand) to Tk. 1.5 Crores (USD 0.19 million). It is interesting to note that the average loan size reported by Bangladesh bank was around Tk. 19.4 lakh (USD 25 thousand) for male entrepreneurs and Tk. 9.2 lakh (USD 12 thousand) for women SME entrepreneurs. Loan processing marginally differs for smaller size loans. Irrespective of loan-size, banks need to engage in formal and informal background checks; this is intensified in the case of women SMEs as banks are unable to identify genuine women-owned and managed enterprises. Consequently, banks incur high administrative costs disproportionate to the loan size on credit extended to women-owned SMEs. Given the lack of reliable credit histories, banks need to engage in more expensive credibility checks too. This was particularly intensified for newly established banks.

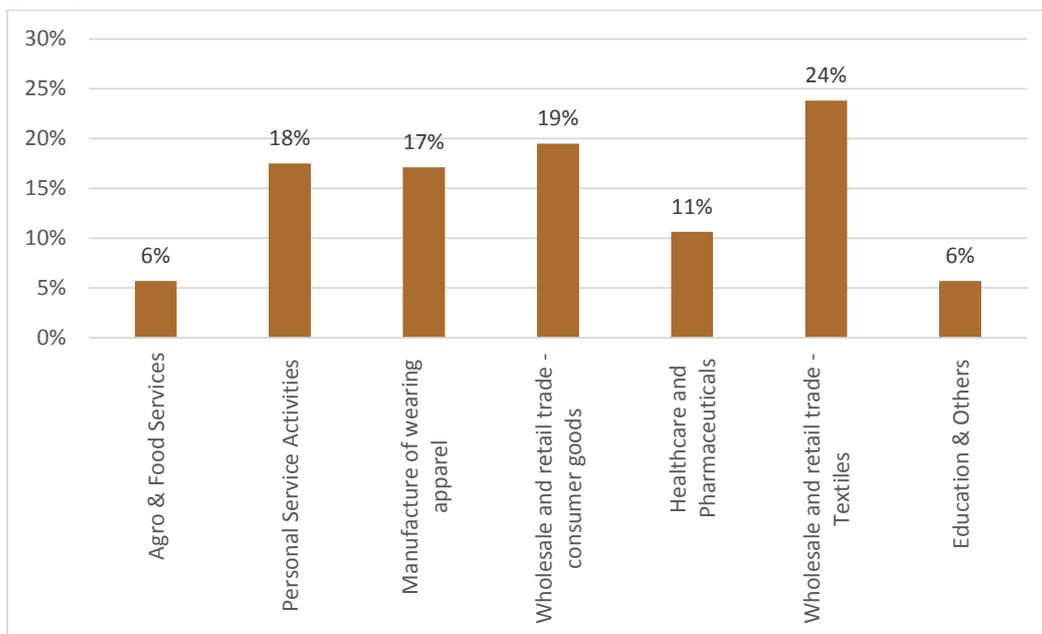
Top down approaches to seeking out women SME entrepreneurs have had converse effects, proving to be a challenge to bankers. Bankers lack awareness on the market potential in lending to women-owned SMEs.

As per recent government mandates, financial institutions must annually seek out 3 women entrepreneurs who have never availed loans. They must be trained on SME programs and at least one of them must avail a banking service. This policy has received lukewarm reactions from bankers, proving to be an implementation challenge. Provider perception shows that very few women approach formal institutions for finance and identifying genuine women entrepreneurs to advance loans to has been a challenge for most banks. Often, banks reach out to women SMEs in their network to clear the mandate and once the target is achieved, they make little effort to further increase access to credit to women. Most banks lacked self-initiated gender inclusive measures. Low levels of lending to women are not only due to the inability to identify genuine women SMEs but also due to preconceived notions about the ability of women SMEs. There is a general lack of awareness among banks on the potential presented by this segment and greater sensitization of bankers on the same is needed.

3.1.3. Sector insights on awareness

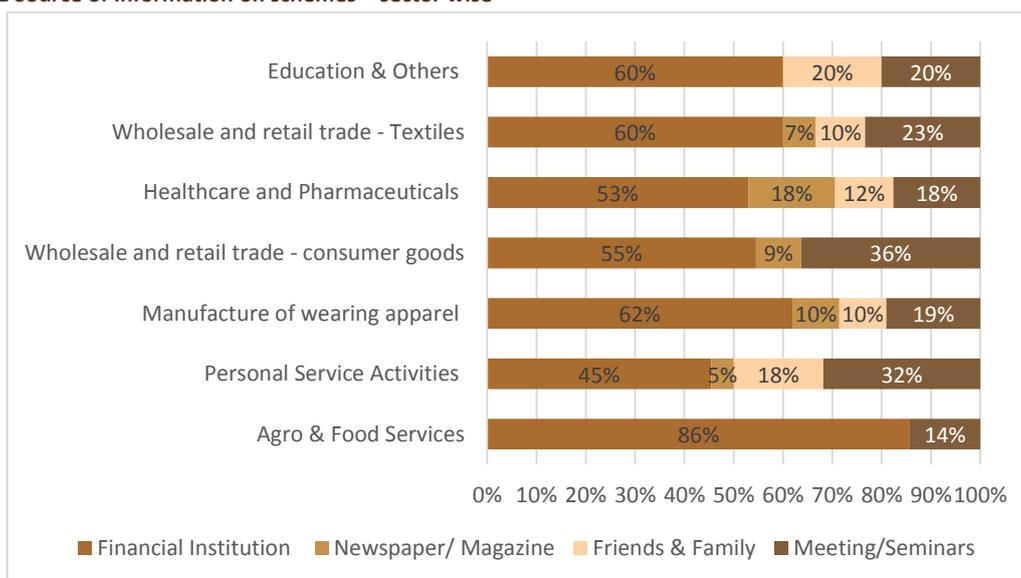
A demand side sectoral evaluation of women SME entrepreneurs' awareness of schemes and loan products reveals that entrepreneurs engaged in trade of textiles and garments were most aware about financial assistance schemes. Less than 10% of entrepreneurs in the agro-food processing and education industries were aware of loan schemes being offered by banks. Financial institutions were the primary source of information on schemes across sectors.

Figure 21: Awareness of schemes – Sector-wise



Source: The IFC-Gender Finance Survey, 2016

Figure 22 Source of information on schemes – sector wise



Source: The IFC-Gender Finance Study, 2016

Her Story...

Established in 1999, Saira runs her own fashion boutique in a busy Dhaka market. She calls herself a 'forced entrepreneur' as she had to start her business to earn additional income to support her family of five. The journey has not been easy as she does not have any prior experience and had no one to mentor her in her journey towards entrepreneurship. At the beginning of her business, she was not keen to access finance from any bank due to the requirement of spouse guarantee. "My husband didn't understand why I need so much capital to start my business and I feared that if he knew about my loan application, he will take the money from the business for personal use". However, since then, seeing the success of her business over the years, her husband has become supportive of her enterprise and sometimes helps her out in managing the day-to-day operations—mainly logistics planning, sourcing raw materials and delivery.

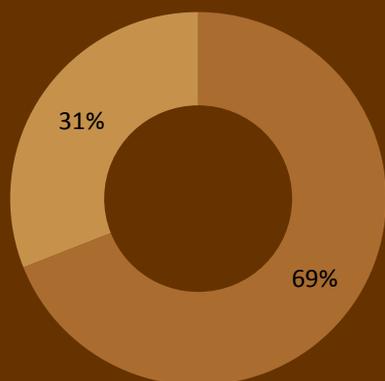
Gaining access to finance from a formal source has been a challenge. It was only recently that she succeeded in getting her trade license. The process was not very smooth and she felt harassed by the way the officials were treating her. "Some training would have helped me understand the requirements better and perhaps could have helped handle the officials also".

Saira dreamed of making her boutique more contemporary in look and feel by improving the styling of the store. To achieve her dream, she applied for a bank loan. Initially, she was instantly refused the loan and had to apply through a Multipurpose Institution. However, the loans were given out at extremely high rates of interest. "I am still paying off the loan amount which has put tremendous amount of pressure on my running capital". After working hard for 8-9 years, she finally approached a bank for loan to increase her running capital. "I had requested for Tk. 5 lakh but the bank only approved Tk. 1 lakh. I am not sure why they didn't approve my full amount. So, I need to prioritize".

For Saira, the biggest challenge is not finance. It is the lack of information regarding the changing market trends and innovations. "My industry has high concentration of women entrepreneurs and most of the customers are women. So, to be able to differentiate myself, I need to have a good understanding of the new designs, styling, materials and fashion".

This year, Saira's plan is to attend some national and international fairs to interact and network with customers, partners and competitors in Bangladesh, and hopefully, in India.

3.2. Risk



69% of women entrepreneurs faced challenges in meeting collateral requirements and credit appraisal processes.

3.2.1. Borrower analysis

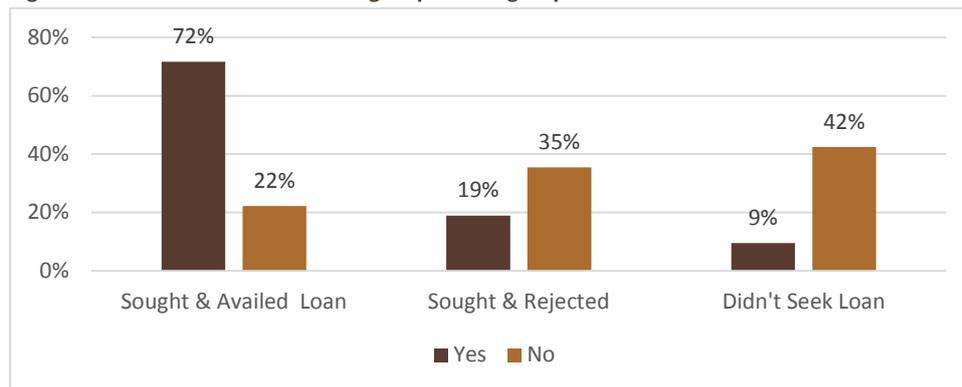
48% of women SME entrepreneurs have availed a loan from a financial institution. 27% sought a loan but were rejected and the remaining did not seek a loan. The average size of the loan availed is around Tk. 6 lakh (USD 7.7 thousand); as against the average requirement of Tk. 10 lakh (USD 12.8 thousand). Women SMEs constitute 3% to 4% of the total SME lending portfolio across public and private financial institutions. This is far below the share of 15% outlined in Bangladesh Bank's refinance scheme. The reasons for low level of coverage have been largely attributed to perceived risks associated with lending to women. Several of these factors that influence credit assessment processes and lending to women are discussed in this section.

Bangladesh Bank has noted that repayment patterns for women are better. Despite their good repayment records banks are risk-averse when lending to women.

Women continue to provide collateral for small ticket size loans despite policy mandates.

Perceived risks associated with lending to women necessitate provision of collateral-lowering chances of women to avail loans. SMEs, in general, are considered high-risk by bankers due to fears of business closure and non-repayment. However, this is intensified for women, due to the prevalence of gender stereotypes and their limited access to fixed assets. In a study on Women's Small Businesses in Latin America and the Caribbean, it was found that one of the most influential factors affecting women's ability to access credit was the gender differences in asset ownership (Powers & Magnoni, 2010). 69% of the women surveyed faced challenges in meeting collateral requirements. Provision of collateral was the most significant factor influencing loan sanctions. Among women SME entrepreneurs who availed a loan, 72% had access to collateral as against 19% who were rejected. 38% of loan applications were rejected on grounds of inability to provide collateral, despite smaller ticket size loans. It is to be noted that the average size of loans sought was under Tk. 10 lakh (USD 12.8 thousand). Bangladesh Bank guidelines encourage banks to provide collateral-free loans up to Tk. 25 lakh (USD 32 thousand) to women. Despite this and the institution of several schemes for provision of collateral free loans, banks continue to demand collateral for loans. Alongside this, 95% of the respondents were observed to have provided guarantors for loans.

Figure 23: Access to collateral among respondent groups

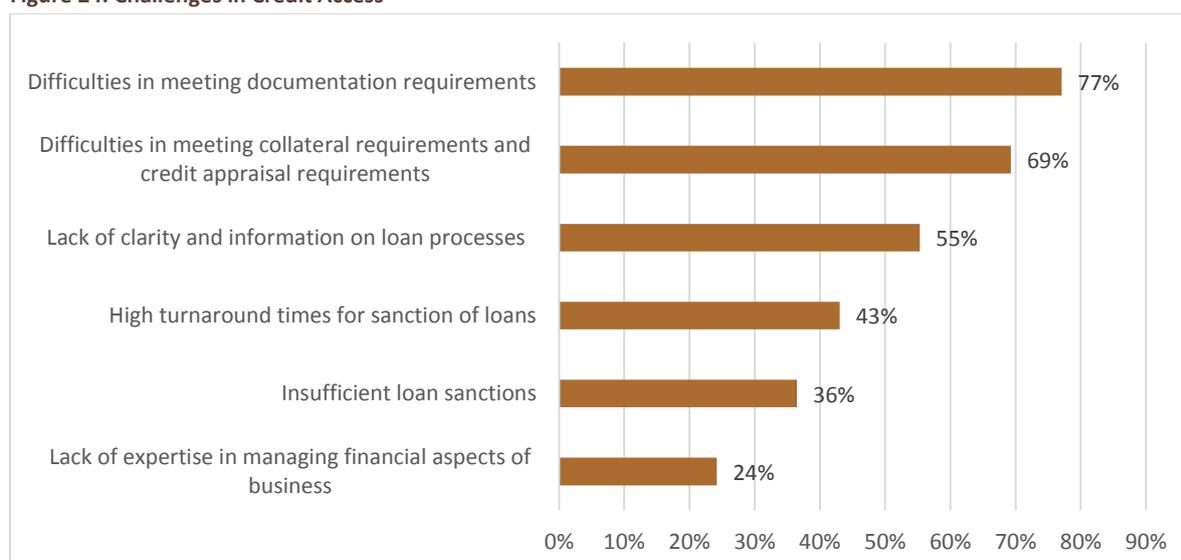


Source: The IFC-Gender Finance Survey, 2016

Only 50% of women SME entrepreneurs comply with the practice of generating financial statements. Hence, lack of documentation has been cited as the primary reason for loan rejection by 62% of respondents and cited as a challenge by 77% of women.

Inability to meet documentation requirements was noted as a reason for loan rejection by 62% of respondents. Women SMEs lack the practice of undertaking financial assessments and regularly generating basic financial statements. Incomplete business records make it hard for women to display credit worthiness especially under the traditional credit scoring methods. Many women lack trade licenses, as noted by banks. Therefore, women fall behind on essential credit assessment criteria, and banks refrain from engaging with them. Obtaining guarantor certificates was cited as a challenge for most women. Women are not seen to be using other financial services offered by banks. For instance, fewer than 15% of the women SME entrepreneurs utilised services such as credit cards, mobile and internet banking. Building non-credit relationships with banks are also important influencing factors. Further, credit and identity proofs that are required for loan application in the form of utility bills such as water, landline, and electricity bills often exclude women from accessing finance.

Figure 24: Challenges in Credit Access



Source: The IFC-Gender Finance Survey, 2016

Non-credit factors such as customer base, financial training are other factors also influence the probability of availing a loan.

Among other factors, customer base and having knowledge of financial aspects are useful in enhancing credit access. Regression analysis indicates that the probability of availing a loan increases if the entrepreneur is supplying to large corporates and multinationals. This, to a banker, stands testimony to the viability of the business, the commitment and capabilities of the woman entrepreneur, thereby reducing risks in lending. Furthermore, financial training and demonstrating knowledge of finance is a positive influencing factor that increases the probability of availing a loan by 14%. This, again, reassures the banker of the abilities of the entrepreneur. Women are unaware of the importance of these factors and their influence on credit access.

Other significant factors include the past business experience of the entrepreneur. Bankers insist that women should be engaged in the business for a minimum of 2 years or have equivalent experience to be eligible to avail loans. Most women SME entrepreneurs are first-generation entrepreneurs, unlike male entrepreneurs who usually lead established family-run businesses. Banks show a higher preference for lending to existing enterprises for purposes of growth financing; this is unfavourable to women looking for start-up financing.

36% of women SME entrepreneurs feel that discrimination needs to be reduced to enable greater access to finance to women.

Gender bias has been identified as a major constraint to financial access in several developing countries. Women are perceived as 'high risk' given their inability to meet credit assessment criteria, that stems from pre-existing gendered division of assets and the perceived role of women in society. Women are not recognized as economic agents. Entrepreneurship or any economic activity undertaken by a woman is not taken seriously and considered as only 'secondary' to other roles of women in the family and household. Hence, women's access to finance is impacted by prevalent biases of bank officials and society against women's capabilities and aspirations.

this is also substantiated by the fact that nearly 85% of women interviewed were required to provide male signatories as part of the application, further increasing their dependence on male counterparts.

34% of women indicate that banks are biased in lending to service-driven traditional sectors.

Women in high growth manufacturing sectors are also perceived negatively as it is assumed that the business may not be *managed* by women.

Negative bias against women SME entrepreneurs is also linked to their sectors of operation. 36% of women SME entrepreneurs indicated that the reason for loan rejection was the banks' unwillingness to lend to their sector – 68% of whom belonged to service industries. There is a greater concentration of women SME entrepreneurs in traditional sectors such as textiles, garments, beauty and wellness, handicrafts, etc. These sectors are not considered as high growth by bankers and are perceived to have higher risk of closure and non-repayment. Any lending bias against these sectors disproportionately impacts women, given their concentration in them. Furthermore, in interacting with the bankers, women operating in other sectors such as heavy manufacturing, automobiles, etc. are also not favoured by bankers as the probability of such a business being operated by the husband or other members other than the woman herself is high. This signals an overall bias in lending to women.

table 6 presents sector-wise reasons for loan rejection. The services sector faced greater degree of challenges in meeting banker requirements.

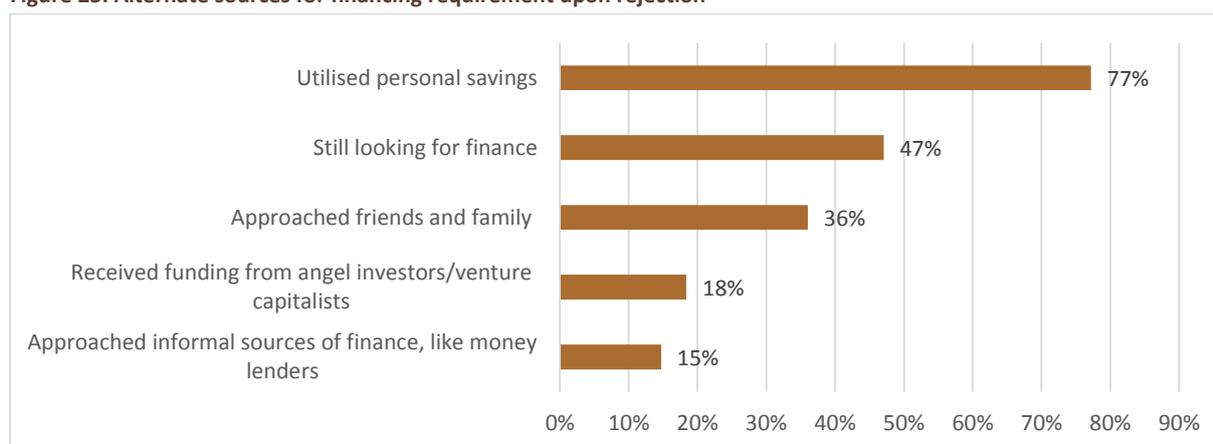
Table 6: Reasons for loan rejection – sector wise

Reasons	Manufacturing	Services
Bank is not supportive of field/ sector of business	32%	68%
Weak business plan	20%	80%
Low turnover / profits	41%	59%
Existing payables/liabilities are high	10%	90%
Inability to meet documentation requirements	39%	61%
Poor banking history	32%	68%
Inability to meet collateral requirements	48%	52%
Bank is averse to lending to women / single women	40%	60%

Source: The IFC-Gender Finance Survey, 2016

All the factors discussed above are driven primarily by socio-cultural dynamics and impede women’s access to credit, increasing the financing gap. This further increases women’s dependence on informal sources of finance. 47% of the rejected women, are still looking for alternate funding as seen in Figure 25.

Figure 25: Alternate sources for financing requirement upon rejection

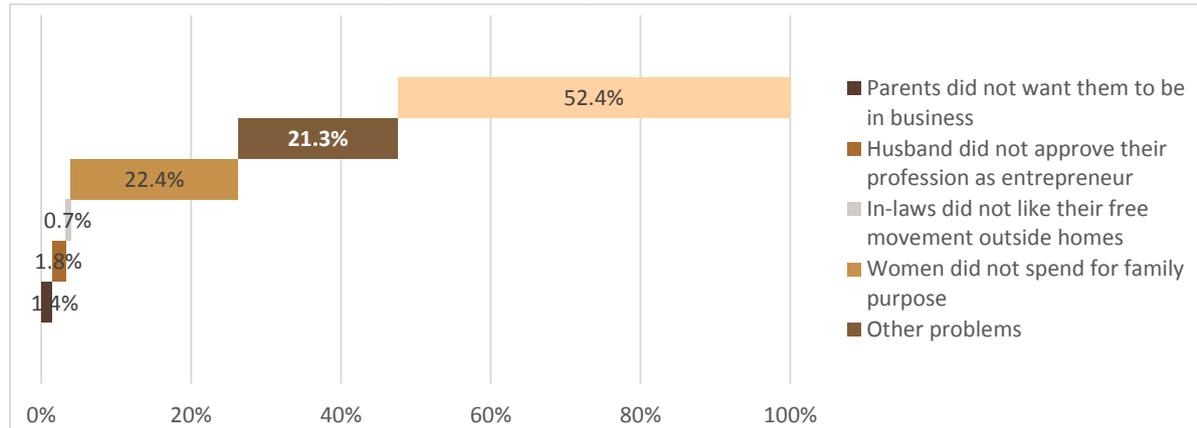


Source: The IFC-Gender Finance Survey, 2016

Women SME entrepreneurs faced greater constraints from society, when compared to concerns posed by family.

In a study conducted by MIDAS and the SMEF, 52.4% of the women SME entrepreneurs stated that they did not face any problems from their family. The nature of familial constraints posed to rest of the women SME entrepreneurs is captured in Figure 26 (MIDAS, 2009).

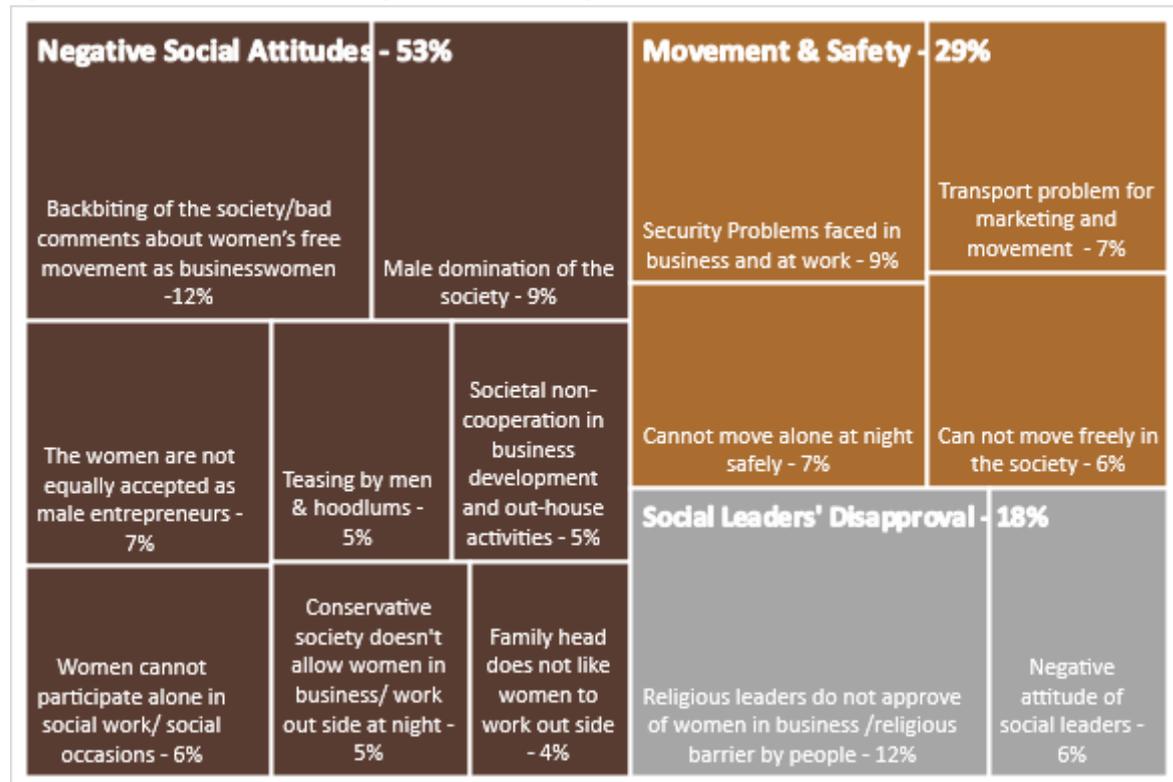
Figure 26 Familial constraints faced by women SME entrepreneurs



Source: MIDAS, 2009

The same study also explored societal constraints facing women SME entrepreneurs, and found that all of them faced some form of constraints. The social constraints cited by women SME entrepreneurs have been grouped into three broad categories to better understand their nature of influence – Negative Social Attitudes, Movement & Safety and Social Leaders’ Disapproval. The proportion of women SME entrepreneurs’ experiencing these constraints, and the corresponding issues cited under each group; this is illustrated below through a Treemap.

Figure 27 Societal constraints faced by women SME entrepreneurs



Source: MIDAS, 2009

On categorising the different constraints reported by women SME entrepreneurs into the three broad categories, as illustrated above, it was noted that most women SME entrepreneurs (53%) cited issues reflecting ‘Negative Social Attitudes’. Among the different constraints, the most

commonly cited constraint was that 'Religious leaders do not approve of women in business/religious barrier by people' and the 'Backbiting of the society/bad comments about women's free movement as businesswomen'. This is indicative of the potential impact and influence of social role models.

3.2.2. Provider analysis

Bankers had mixed opinion on the repayment patterns of women SME entrepreneurs.

Given the lack of gender disaggregated data on Non-Performing Loans by women SMEs, a divergence of views was observed among bankers on repayment patterns and trends among women SME entrepreneurs. Some of the banks believed women SME entrepreneurs have better repayment histories owing to their risk averse nature; the chances of fund diversion are low as compared to men. Others believe women are socially constrained by their familial duties and husbands which either compels them to divert funds or close their businesses, resulting in higher risks for banks in lending to women. Nevertheless, lending to women SMEs is low. Higher repayment risks were associated with service-driven sectors such as retail, food and beverage, etc.

"Branches hesitate to give loans to women entrepreneurs, as there are a lot of risks involved. One branch had a default case where a well-educated woman entrepreneur had availed finance, while her husband was working abroad. When her husband returned, he forced her to close the business."

- Banker

The lack of capacity among bankers to differentiate between less-risky and more-risky loan requests can be attributed to two key reasons:

1. Absence of gender disaggregated data on non-performing loans
2. Lack of institutions that help banks make this differentiation, such as credit information bureaus that will have records of various repayment histories.

Including microfinance credit histories will be useful in incorporating the gender dimension into credit assessment. Further, Bangladesh Bank must proactively collect and disseminate information on non-performing SME loans.

Women's performance on key credit assessment criteria is poor; banks are unwilling to take on the risks of lending to women. The gap in financing has been largely attributed to demand or borrower driven issues.

Key criteria for credit assessment include sector viability, women's financial literacy levels, banking history, age and experience of enterprise, viability and growth prospects of the enterprise and involvement of the women in management, among other financial factors. table 7 is a summary of how women perform on these factors:

Table 7: Women's performance on Credit Assessment

Factor	Performance and Opinion
Sector and Scalability	Women operate in service driven and cottage industries; viewed as unviable and unsustainable by bankers. Even in

	cases where the banks receive applications from other industries, the bank is averse to lending as the probability of that business being managed by the husband or someone else is high.
Age of enterprise	On an average, interviewees were 2-6 years into operation. Banks prefer growth financing to start-up financing and do not usually lend to businesses less than 2 years of age.
Women owned and managed enterprise	Sufficient background checks are undertaken by Bangladesh Bank to check if the enterprise is truly being managed by women. Only 15% of enterprises out of the 2,000 were truly managed by women. Identification of genuine women SME entrepreneurs is a big challenge.
Literacy levels and knowledge of business	Banks indicated that women who take to entrepreneurship and approach banks for loans are largely not highly educated and particularly lack knowledge on finance. This is perceived to be a testament to women's involvement in business and finance.
Marital status	Banks prefer lending to married women as their husbands would serve as guarantors for loans. Only 7 out of the 500 enterprises interviewed were run by single women with the rest being owned by those married with children.
Documentation	Most women who approach banks for loans lack a trade licence. Women are also seen to not generate financial statements and other key documents required for a loan application.

Source: The IFC-Gender Finance Study, 2016

Relationship Managers (RMs) are burdened with the entire responsibility of an account going bad; and are accountable to the Central Bank.

Relationship Managers are highly pressurized and held accountable for non-repaying clients and an account turning NPA. This discourages them from lending to women SMEs, who are perceived as high risk. Furthermore, Bangladesh Bank conducts a series of background checks of women SMEs being financed under the refinance scheme and if the enterprise is not managed by the woman and if an account turns NPA, the sanctioned loan will not be approved under the refinance scheme. Such measures deter bankers and reduce their risk appetite to lend to women.

As risk mitigation measures, banks prefer providing term loans or even personal loans than working capital loans or overdraft facilities. Other risk mitigation measures include incorporating selection criteria such as lending to SMEs who are at least 2 years into operation and deterring from providing start up finance.

Banks attempt to mitigate risk by enforcing gender-specific selection criteria, such as marital status of women.

In a traditionally patriarchal society, women are often faced with discrimination in all spheres of life. They are inevitably stereotyped as primarily care-givers to children and assumed to be secondary earners. In Bangladesh, banks perceive greater risks in lending to unmarried women SME entrepreneurs, as they are perceived to have little or no control over their enterprise's future. The continuance of the business is perceived to be in doubt. Banks perceive married women to be more credit worthy, as they could also rely on their husbands for loan repayment support.

"We are tying up with MFIs to lend to women – as 99% of women do not have trade licenses – without proper documentation it becomes difficult to lend to women."

-Banker

"Women's reputation is assessed as one of the first criteria in giving a loan – her neighbours are questioned on her ability to do business particularly if it is a non-traditional sector."

-Banker

"SME development model needs to be sustainable and profitable for a bank. The bank is ready to promote women entrepreneurship but the applicant needs to have a reliable guarantor with social credibility."

-Banker

Scheme-related inefficiencies deter banks from lending to women.

Maintaining asset quality is a significant challenge for bankers. When a loan applicant defaults, bankers are held highly accountable for it. Banks look at women as higher risk borrowers given their inability to meet documentation requirements, provide collateral and present business plans. Most banks position their lending products to women SME entrepreneurs under the refinance scheme. However, many banks had experienced delays in receiving the full refinance amount from Bangladesh Bank. Furthermore, approval under the refinance scheme is provided subject to the Bangladesh Bank's provision of refinance. Bangladesh Bank undertakes a series of background checks on the applicants financed under the scheme – if the applicants do not fit target beneficiary criteria or are not in the expectations of Bangladesh Bank, the refinance amount is not sanctioned. This deters bankers from lending to women-owned enterprises which may not be truly owned by women. Bankers also experience considerable delays in the scheme settlement periods. As a result, bankers often tend to exercise risk aversion by actively seeking collateral from women SME entrepreneurs.

"Bangladesh Bank closely monitors annual lending to women SMEs. In order to meet the present targets, mitigate risks and get refinance from Bangladesh Bank, many bankers give loan to women owned but not necessarily managed enterprises. Thus, a lot of male entrepreneurs who register their business on women's names are able to access loans. Bankers often feel that male entrepreneurs can handle business better than women, forming lower default risks."

- Banker

Banks also face a challenge in adhering to their lending targets for women-owned SMEs. Some banks mitigate for risks in lending to smaller women enterprises by lending to one or two women enterprises with large loan requirements, to effectively meet their lending target. Other banks were also noted to lend to women owned but not necessarily women managed firms to meet their lending target.

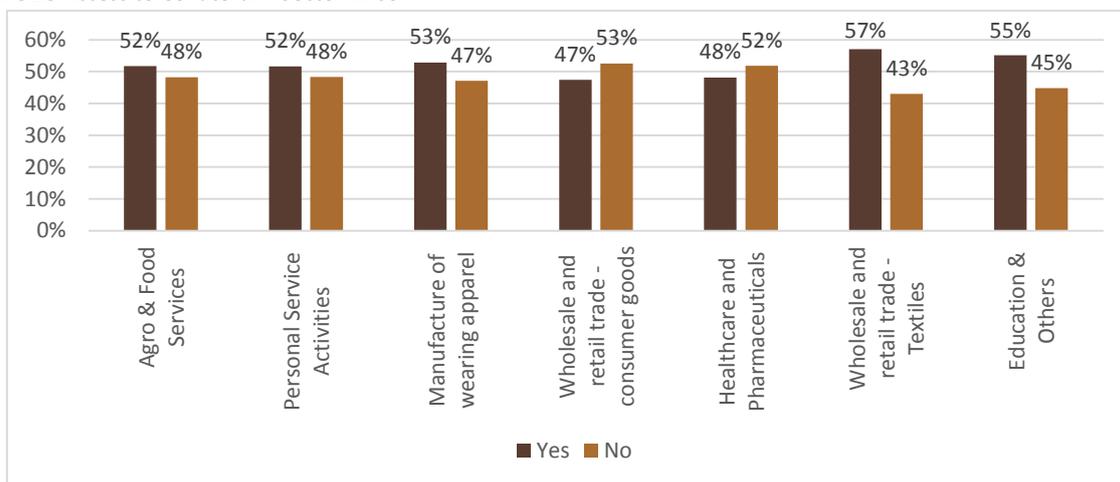
“To promote women-owned SME, we need to be benevolent. But a Banker or NBFIs cannot be benevolent. The Bank has a limited amount (Tk. 270,000,000) of money from Bangladesh Bank so it is impossible to sustain by undertaking benevolent activities.”

-Banker

3.2.3. Sector Insights on Risk

Figure 28 presents the findings on access to independent collateral across industries. It is seen that no specific industry exercises more control over assets and women’s access to collateral is limited across sectors.

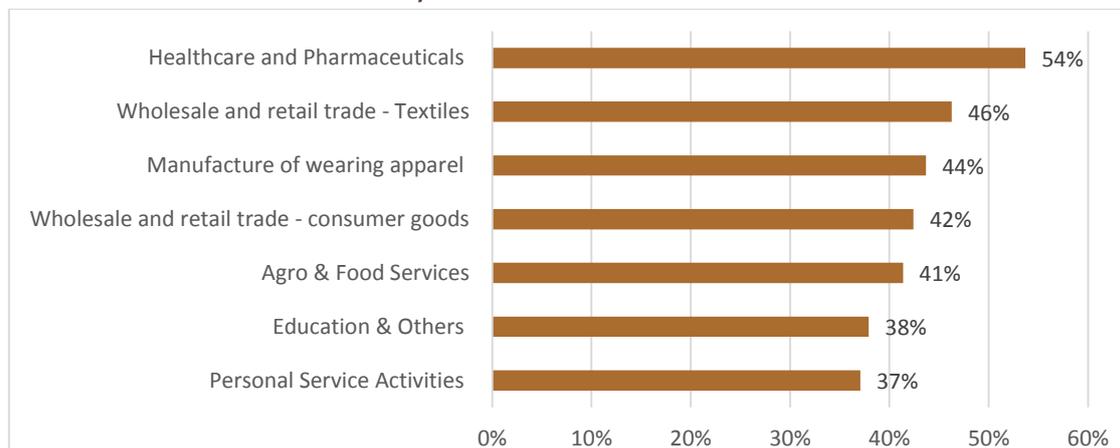
Figure 28 Access to Collateral – Sector Wise



Source: Enterprise Survey

The customer base or profile of an entrepreneur is an important credit assessment criterion that bankers adopt. On evaluating whether large organisations feature in women’s supply chains, it was found that the healthcare and pharmaceuticals sector had a relatively larger portfolio of customers catering to MNCs and firms in Bangladesh and abroad.

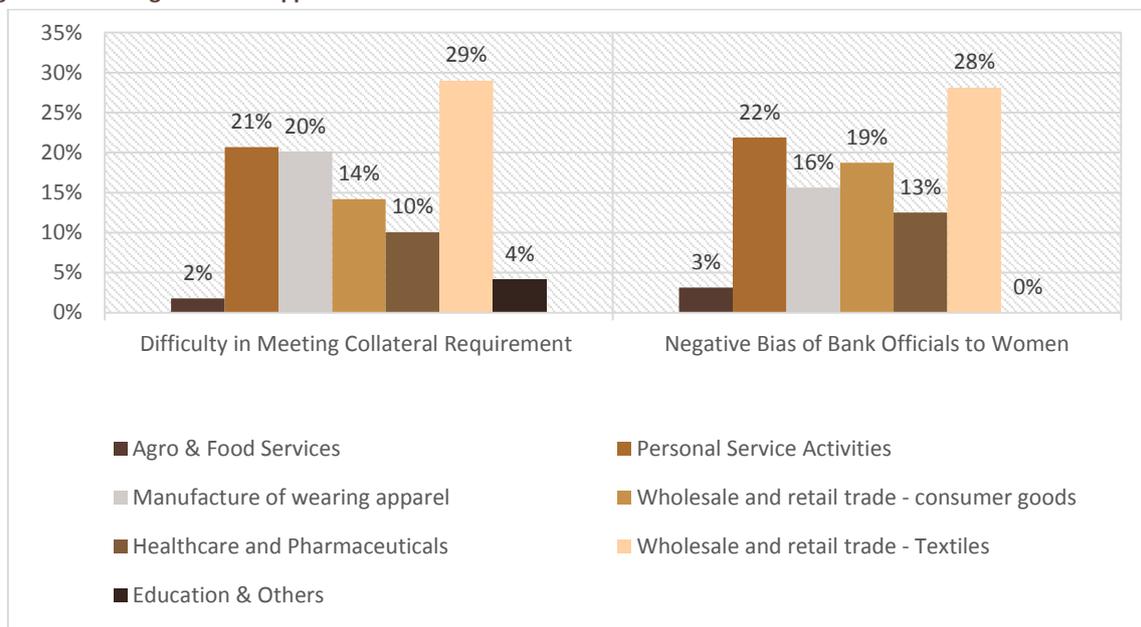
Figure 29 Women’s access to markets and buyers – sector wise



Source: The IFC-Gender Finance Survey, 2016

Figure 30 reveals sectoral challenges facing women SME entrepreneurs in meeting collateral requirements and instances of negative bias faced by women in making loan applications. Findings highlight that the textile sector faced a greater degree of difficulty on both factors.

Figure 30 Challenges in Loan Application – Sector Wise



Source: The IFC-Gender Finance Study, 2016

“Women have all valid legal documents, however some of the businesses they operate do not seem appropriate for women such as the tyre, rod or cement business. A bank is generally convinced if a woman comes up with mainstream business ideas like a boutique business or a fashion house business. These types of businesses seem comfortable for both the bank and the client. The loan approval process is easy and less time consuming for these types of businesses. However, if a woman comes to the bank for trading businesses like manufacturing, hardware or dealing with something that is totally new as a woman entrepreneur, the bank will be hesitant about giving a loan to that woman.”
-Banker

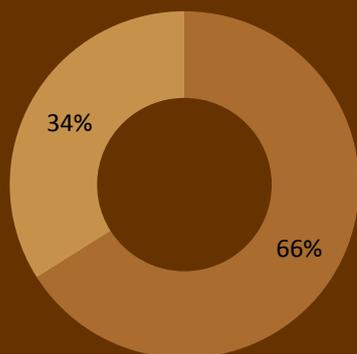
Her Story...

Ayesha, a Homeopathic doctor by profession, ventured into the space of healthcare with a motivation of doing something good to society. However, her entrepreneurial journey has seen some highs and lows. Unlike other women entrepreneurs in the retail segment who are concentrated in the handicraft, textile and garment sector, Ayesha chose to enter what is assumed to be a traditionally male dominated sector. The biggest challenge for her has been the discrimination she faces from her customers and other male entrepreneurs. She recalls the numerous instances when a customer would behave rudely and pass lewd comments. Despite these challenges, she has progressed and is proud that she has regular customers. Ayesha is slowly building a reputation for herself in the market through good services and quality products and has started getting good feedback from her patients for her diagnosis.

Starting a business was not an easy task on the personal front. While her family did not dissuade her from doing the business, their financial investment in the business has been low. However, an advantage of the sector is that it doesn't require too much capital investment and suppliers offer favourable credit terms. Hence she hasn't sought any loans from financial institutions. She is also wary about the terms and conditions of the financial institutions and accepts that finance and planning is not her strong forte. As her business grows, this will be a hurdle and she hopes to access some training or business development support to be able to access finance.

Ayesha has a unique idea of success. Unlike many others, she derives joy in working in her clinic with diligence and discipline. She says that her happiness lies in her having achieved financial independence in life and being able to walk hand in hand with the male contemporaries of her field. She considers that her achievement in life has been in working towards the welfare of society and for the wellbeing of the people.

3.3. Knowledge



66% of women entrepreneurs rely on male family members to manage financial aspects of business

3.3.1. Borrower Analysis

Increased financial literacy is an important factor to increase women’s access to finance.

Low levels of financial literacy prevent women SME entrepreneurs from adequately assessing and understanding different financing options, and from navigating complex loan application procedures. Research in the developing country context shows that financial literacy training increases the demand for banking services (Klapper and Zia, 2009). Additionally, behavioural studies, such as that by Goldsmith and Goldsmith (2006), have shown that men are perceived to have and had greater knowledge about finances than women.

Primarily, this can be attributed to two causes. Firstly, the traditionally lower access to education has disproportionately impacted women. The second cause relates to the effect of socioeconomic norms, which may restrict a woman’s educational choices.

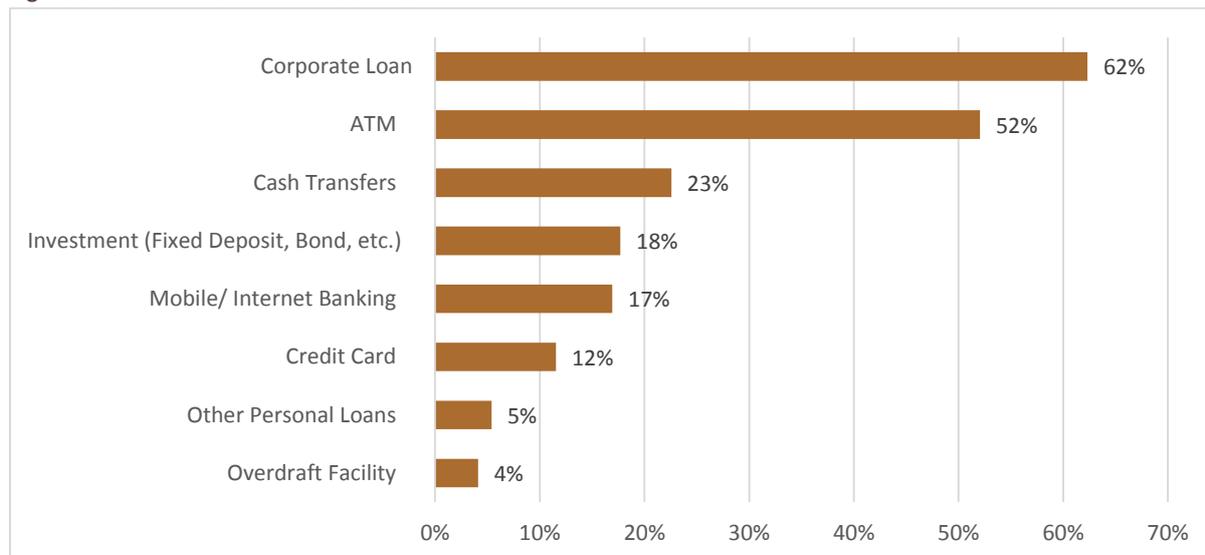
“There are a lot of educated women in Bangladesh but they are not skilled. They don’t even know how to start a business. They don’t have knowledge regarding trade license, TIN certificate, maintaining financial statements, type of assets and exact numbers of employees needed to run their businesses.”

-Business Association

Only 50% of the women undertake generation of financial statements, with none using financial software for the same.

Low level of awareness and knowledge of finance translates into non-practice and low utilisation of available financial services. Findings indicate only 50% of women interviewed undertake basic financial practices such as generation of financial statements, which are crucial documents that depict the financial stability of the enterprise. Low utilisation of financial services offered by banks and financial institutions were also noted. Consequently, 34% of women whose loan applications were rejected were on grounds of poor banking history. Weak business plans were also a common reason for rejection, an indication of low levels of knowledge on financial aspects of the business.

Figure 31 Utilisation of Financial Services



Source: *The IFC-Gender Finance Survey, 2016*

Limited awareness and understanding on loan application processes

55% of women reported a lack of clarity and information on loan processes, with 29% citing submission of a filled-up application form as challenging. Women SME entrepreneurs are unaware of and do not fully understand banks’ loan application processes. Respondents also stated that banks failed to provide all the information needed to make a full application.

66% of women rely on male members to manage financial aspects of business.

60% of women, who were in a partnership business, had male family members as partners. Heavy reliance on male members to manage finance related aspects of the business was noted among all women enterprises; irrespective of whether they were in a partnership or sole proprietors. Further, women SME entrepreneurs were found to rely substantially on advice from male family members, while evaluating finance options for starting and growing a business. 81% of women relied on family members in evaluating their financing options, followed by 42% who approached a financial institution for advice. Often women surrendered the business financial management decisions to their spouses or male members as they lacked confidence in managing finance or perceived finance to be a complex area. Husbands also influenced the choice of institution to bank with, with 49% of women citing this as the primary reason for choice of institution.

“Women entrepreneurs are not familiar with banking process. They usually belong to either of the two groups: 1) Those lacking basic education and 2) those who are educated but are unaware of required documents, loan approval process, manner of communicating with banks, etc.”

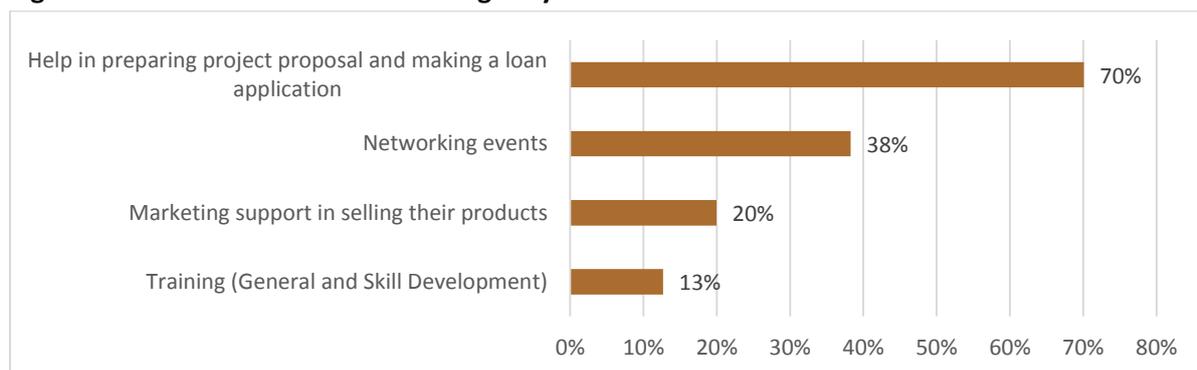
- Business Association Representative

Women indicated a need for non-financial services such as training and awareness generation on loan application processes.

37% of women sought training to manage their business and another 41% felt provision of training on financial aspects of business would improve their access to finance. This is indicative of women’s aspirations to learn and grow their businesses further, with almost all respondents indicating they would like to expand their business but are constrained by lack of financial resources. 53% of women were motivated by ‘pull’ factors such as drive to scale new heights. While a significant 47% are motivated by ‘push’ factors such as inability to find suitable employment and the need for independence, 81% of women perceive themselves as self-confident and 84% have a sense of personal responsibility among other positive behavioural aspects. Risk taking behaviour among women is still low, with only 10% of women interviewed associating themselves as risk takers, a common entrepreneurial attribute.

“Institutional rules and regulations often hinder women’s access to finance. They find interacting with bureaucrats, managing legal and financial documents like trade licenses very challenging and need support to do the same.”
-Stakeholder

Figure 16: Non - Financial Services Sought by WBEs



Source: The IFC-Gender Finance Survey, 2016

3.3.2. Provider Analysis

Most bankers perceived women to have very poor financial literacy, which increases their costs of administration and reduces their incentive to lend.

It has been observed that women SME entrepreneurs display lower financial literacy than men and are also less confident in their financial knowledge and skills. These gender differences in financial literacy are correlated to higher loan processing costs for banks as they need to extend additional assistance to women in identifying the financial products, developing the business plan and completing the documentation requirements. The viability and feasibility of extending such support is questioned due to limited bandwidth of banks.

Banks displayed lesser interest to offer Non-Financial Services such as training to women, and perceive this to be a responsibility of not-for profit institutions.

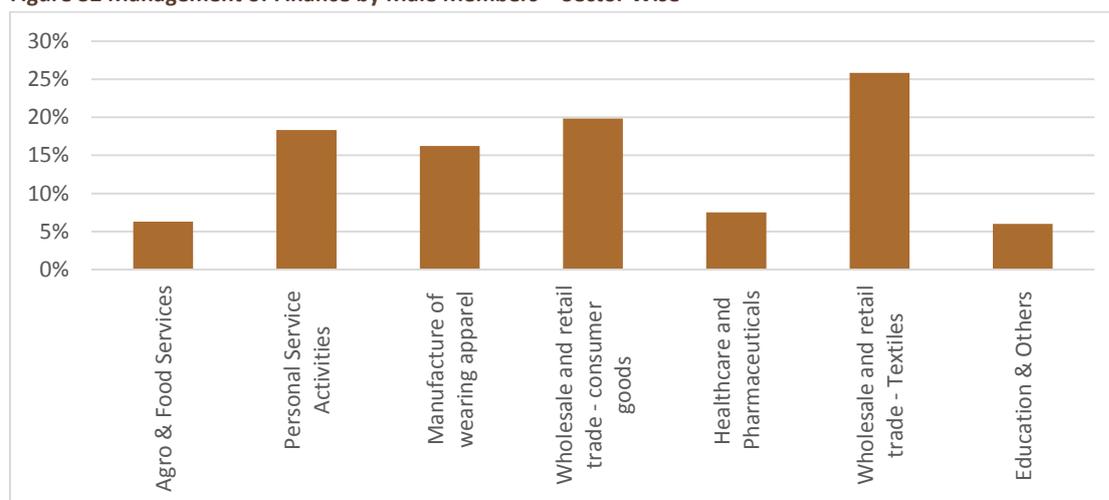
“On an average there are only 4-5 women bank accounts at the branch level, and women do not visit the bank every day. Thus, it is not cost effective to provide exclusive women dedicated desks at every branch. Business associations and NGOs would be in a better position to offer not only the non-financial services offered by the desk, but also other services.”
-Banker

High manpower challenges have restricted banks' ability to extend non-financial services to women SME entrepreneurs. Banks recognize that low financial literacy levels of women is a restraining factor, and yet, are hesitant to lend support to women and feel that this falls under the purview of not-for profit institutions and business associations.

3.3.3. Sector Insights on Knowledge

The section below highlights sectoral differences on financial literacy and knowledge factors. Higher dependence on male members to manage financial aspects of business is noted among entrepreneurs in wholesale and retail trade of textiles.

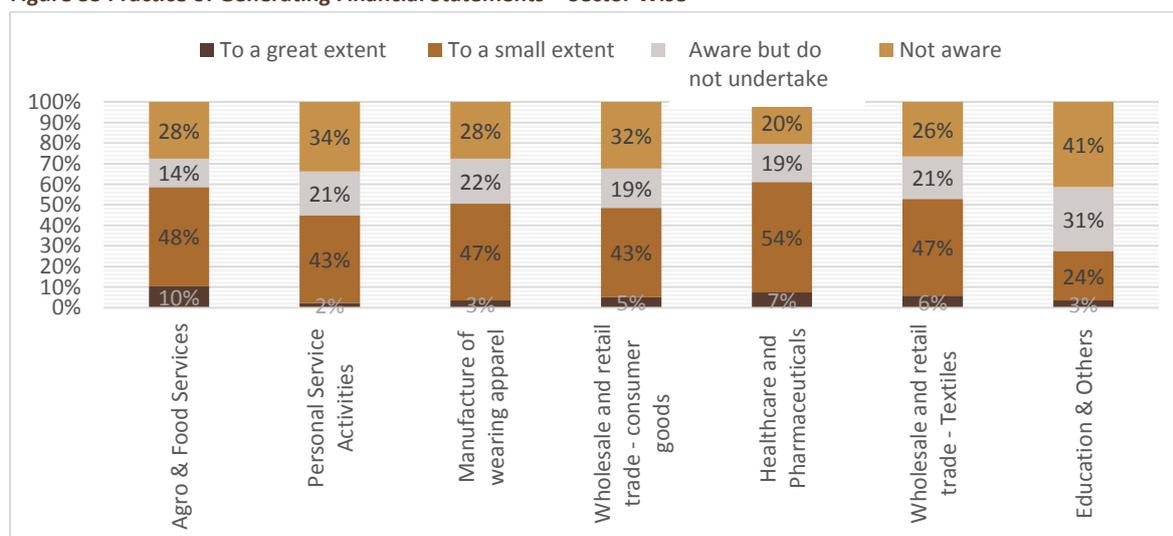
Figure 32 Management of Finance by Male Members – Sector Wise



Source: The IFC-Gender Finance Survey, 2016

Women are seen to undertake financial practices such as generation of financial statements only to a small extent. Nearly 72% of entrepreneurs in the Education sector do not generate financial statements; of which nearly 41% lack awareness and knowledge on how to do so.

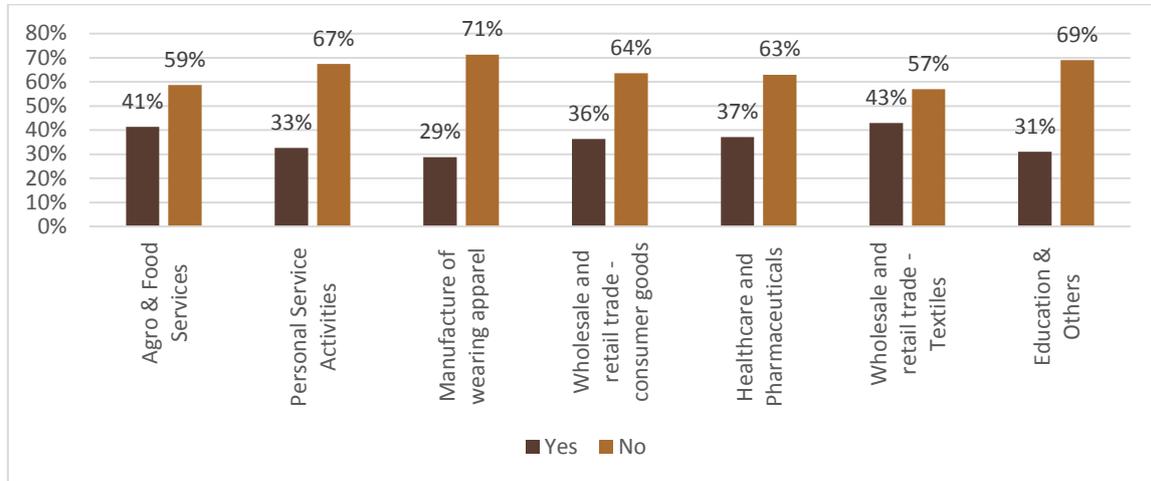
Figure 33 Practice of Generating Financial Statements – Sector Wise



Source: The IFC-Gender Finance Survey, 2016

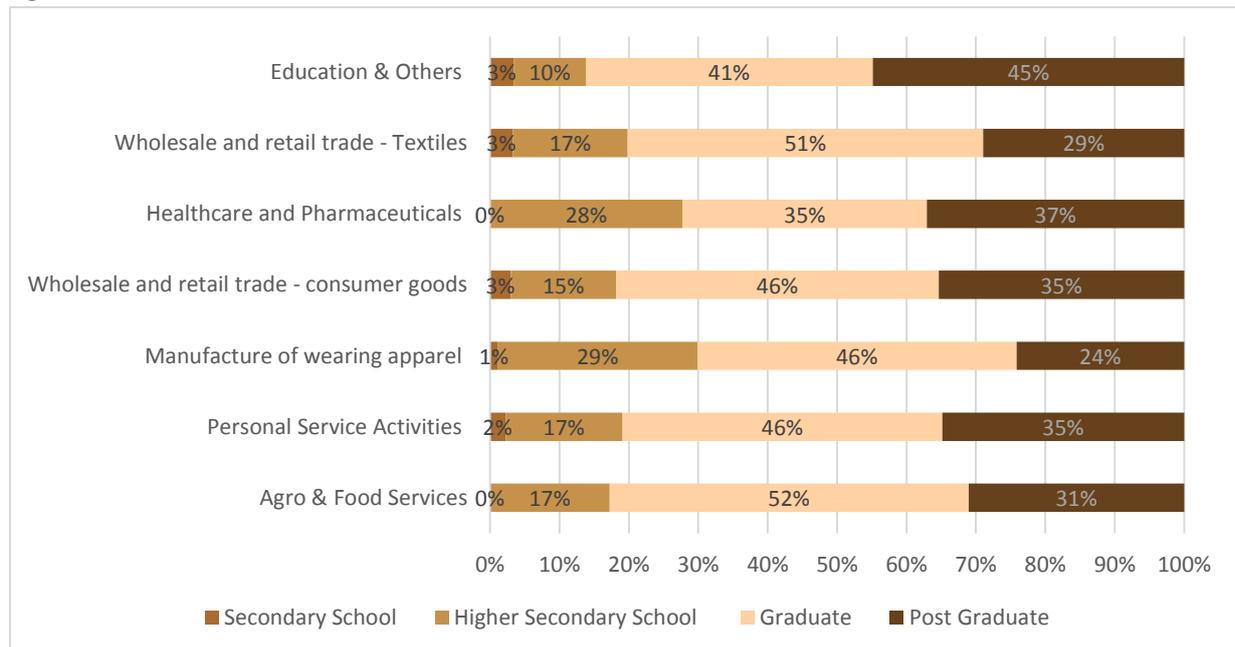
Banks, business associations and other stakeholders of the ecosystem offer non-financial services such as training to women on basic finance and loan application procedures. However, more than 60% of women interviewed do not avail of such services across sectors.

Figure 34 Training to Manage Finances – Sector Wise



Source: The IFC-Gender Finance Survey, 2016

Figure 35 Educational Qualification of Women – Sector Wise



Source: The IFC-Gender Finance Survey, 2016

Her Story...

Fatima started her handicraft business in 2000. She was initially operating her enterprise out of home. It was only after her training from a local NGO that she realized the importance of formalizing her enterprise and got a trade license. The training also helped her understand the process of opening and operating a bank account, applying for loans, developing a business plan, book keeping, and financial management.

In the beginning, Fatima managed all aspects of her business including marketing and sales. At that time, other male entrepreneurs would taunt her and say that it is not a women's job. However, Fatima was not discouraged by these comments. "I was making Tk. 5000-10000 a month and was able to send my children to school." Today, Fatima employs ten full-time women staff and is very proud that she is able to provide employment and income to others.

The training also made Fatima aware that banks provide collateral-free loans at 10 percent interest rate. The organization also helped her apply for a bank loan by informing her about the requisite papers and the ways to apply. Since then she has received a loan of Ten Lakhs Taka and she hopes she finds a trader who will help her export her products to foreign countries. She also wants to enrol in business and language classes to improve her English.

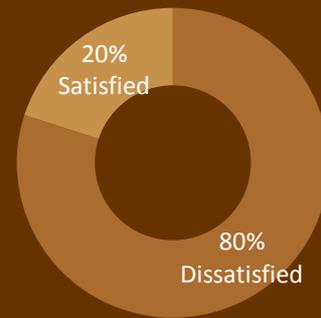
3.4. Process

80% of women entrepreneurs were dissatisfied with the loan application processes.

13 Visits for loan application

41 Days to complete application process

137 Days average turnaround time



3.4.1. Borrower Analysis

Loan application process is a challenge for all SMEs, however, financial illiteracy, guarantor requirements and indifference intensify these issues for women.

Women SME entrepreneurs on an average made nearly 13 visits to the bank, to get their loan approved, which delayed the entire application process. Drawn out application processes took almost 41 days to complete. Some of the reasons identified for delays and cumbersome processes are as follows:

- Requirement of male signatories and guarantors for loans: Nearly 90% of the women SME entrepreneurs seeking loan were asked to provide male signatories and guarantors for the loan – guarantor certificates were the most difficult document to obtain.
- Bank forms are complicated, with 55% of women reporting lack of clarity on processes and forms.
- 71% of women were unhappy with their interactions with bankers and complain of gender bias and indifference by bankers, impeding the loan processes.

"The bank has witnessed the mandatory spouse guarantee becoming risky for some female entrepreneurs to meet. When husbands come to know about the loan, they sometimes take control and divert the funds."

-Banker

High turnaround time was noted as a major challenge in accessing a loan, with nearly 62% the respondents expressing dissatisfaction over it.

As most entrepreneurs sought growth financing, high turnaround times for loan sanction proved to be an expensive challenge. The delay directly affected their production cycles, impairing their growth potential. Thus, entrepreneurs either miss the growth opportunity, or turn to informal sources of finance. Loan sanctions took an average turnaround time of 137 days.

3.4.2. Provider Analysis

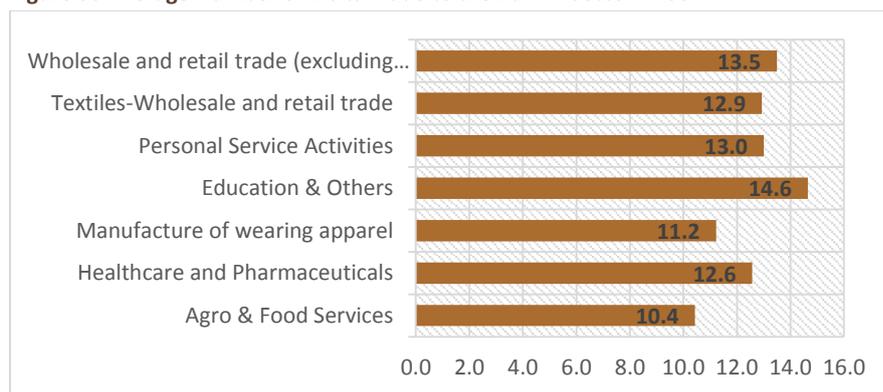
Bankers cited lack of credit histories and documentation, manpower constraints as a cause for delays in turnaround times. Women SME entrepreneurs' dedicated desks viewed as ineffective.

Processing of loans varies for each bank, with some following centralised processes and others decentralised where branch managers can approve loans up to Tk. 50 lakh (USD 64 thousand). Most banks indicated a turnaround time of 15-20 days for processing small loans, which is the case for most women SME entrepreneurs. Any delay in this process was attributed to the lack of financial literacy of the entrepreneur, lack of documentation and credit histories necessitating extended background checks of applicants. Delays were also attributed to manpower constraints and high costs associated with administering SME loans. Further, women SME entrepreneurs' dedicated desks deployed at branches have seen little traction with low footfalls of women SMEs and no dedicated resource personnel for the desks, which are usually manned by men. Banks recommended streamlining and simplification of SME loan processes. Some banks adopt a cluster financing model which also eases loan processing requirements.

3.4.3. Sector Insights on Processes

The section below analyses any sectoral differences in loan application processes. Findings indicate that entrepreneurs in the Education industry have to make the most number of visits to the Bank in applying for a loan.

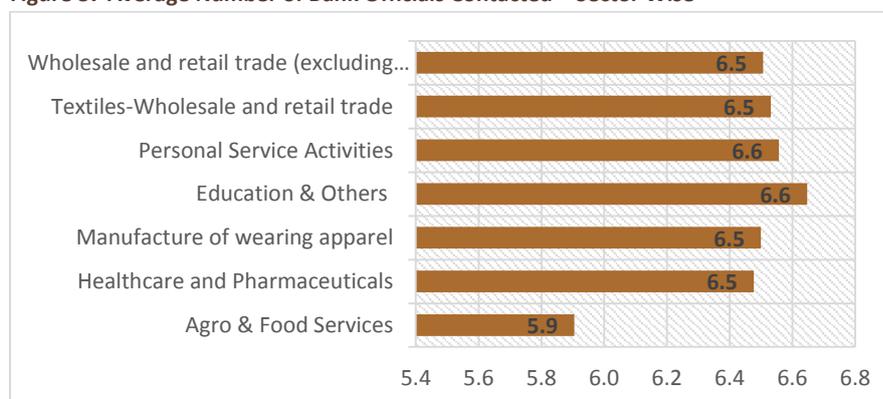
Figure 36 Average Number of Visits Made to the Bank – Sector Wise



The average number of bank officials contacted is around 6 for all sectors.

Source: The IFC-Gender Finance Survey, 2016

Figure 37 Average Number of Bank Officials Contacted – Sector Wise



Education Industry took the highest amount of time in completing a loan application.

Source: The IFC-Gender Finance Survey, 2016

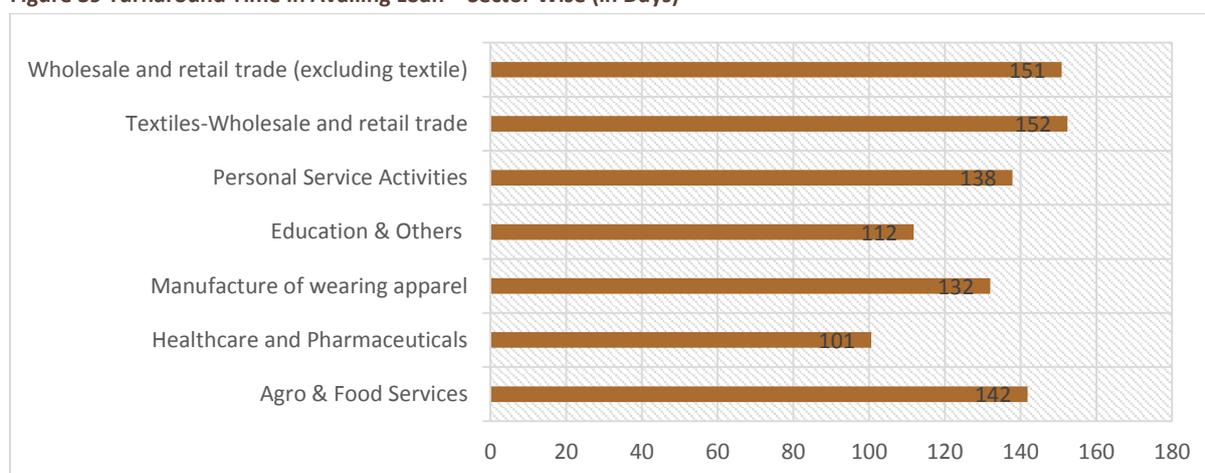
Figure 38 Time Taken to Complete Loan Application Process – Sector Wise (in Days)



The average turnaround time in availing a loan ranged between 100 to 150 days.

Source: The IFC-Gender Finance Survey, 2016

Figure 39 Turnaround Time in Availing Loan – Sector Wise (in Days)



Source: The IFC-Gender Finance Survey, 2016

3.5. Debt Ecosystem Satisfaction Index: How Satisfied are the Women SME entrepreneurs with the Financial Services?

Access to financial services plays a critical role in enabling small and medium enterprises, particularly women owned enterprises to start and grow their business. An inclusive financial system allows women SME entrepreneurs to build their assets and make entrepreneurial investments to improve their economic standing.

The 2015 IFC Index on the financial ecosystem attempts to answer a set of fundamental and interrelated questions: 1) Is the overall financial ecosystem in Bangladesh inclusive and gender friendly 2) What institutional factors influence women SME entrepreneurs’ decision to access formal finance and 3) Are there sectoral and geographical differences.

To answer these questions, an attempt has been made to analyse the demand-side indicators which measure the satisfaction of women SME entrepreneurs with the financial ecosystem in Bangladesh. Factors that lead to women SME entrepreneurs’ successfully raising capital from formal banking institutions are multiple. Institutional factors such as gendered institutions, ease of access to institutions and support systems, availability of information, the socio- economic culture prevalent in

the society, education etc. are among the key parameters. Hence, priority areas that influence women SME entrepreneurs' decision to seek formal finances were defined based on extensive secondary research, interviews with women SME entrepreneurs and feedback from the experts.

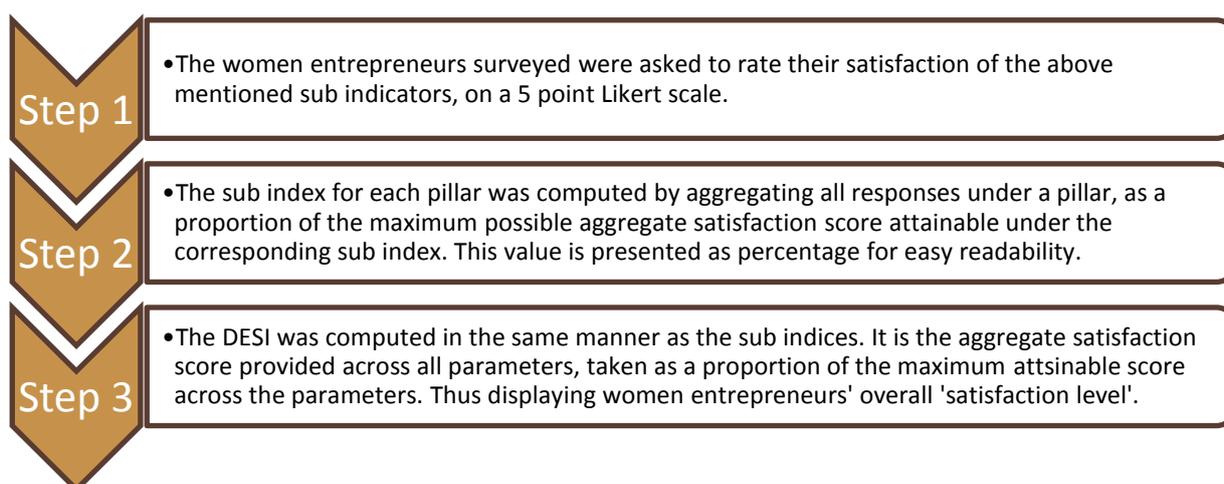
The index is unique in its approach as it combines individual level and institutional level into four main pillars: **Information, Process, Products and Access**. Scores are based on a total of 10 indicators distributed across four dimensions. The selected core set of indicators and sub-indicators is represented below:

Table 8 DESI - Parameters

Information	Process	Products	Access
Ease of access to information about the process/ products	Ease of loan application process	Interest Rate	Attitude of loan officers towards women
	Banking relationship with institutions	Repayment Terms	Requirement of collateral/ guarantors for loan
	Cost of application		Sanctioned amount
	Turnaround time		

Source: The IFC-Gender Finance Survey, 2016

The steps involved in computing the DESI are Outlined below:



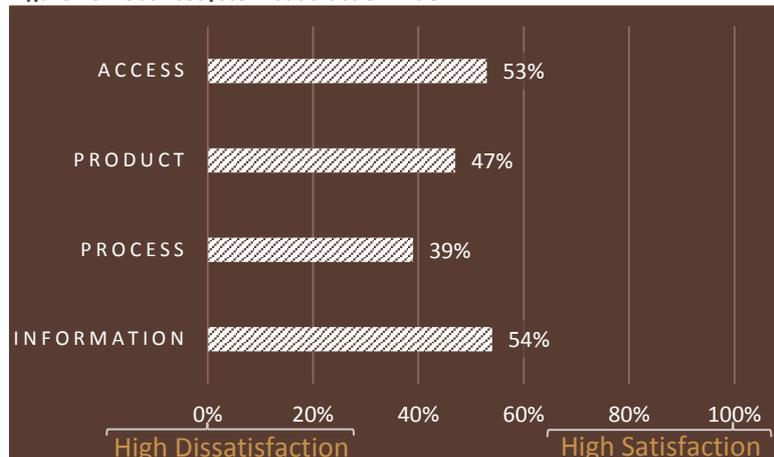
The index is a barometer of Bangladesh's Financial Ecosystem's performance in supporting women SME entrepreneurs. The index is meant to be a powerful tool for policy makers and other decision makers to identify priority areas in the financial ecosystem, construct and evaluate policies that need improvement to fuel the growth of women SME entrepreneurs. The index will also enable stakeholders to track progress to understand the effectiveness of any interventions.

Overall Ranking

Bangladesh receives a score of 46 on the 100-point scale of the newly constructed Debt Ecosystem Satisfaction Index. A higher score indicates that women SME entrepreneurs are highly satisfied with the debt ecosystem. Bangladesh's performance on process is relatively lower than other factors,

receiving a score of 39. The long-drawn-out loan application process and poor turnaround time in sanctioning loans are crucial elements in the financial ecosystems that are falling behind.

Figure 40 Debt Ecosystem Satisfaction Index



Source: The IFC-Gender Finance Study, 2016

Women SME entrepreneurs' satisfaction with the availability of information is the highest, receiving a score of 54. This could be attributed to interventions such as Helpline Outreach Centre for SME, activities of the women business chambers and banker's initiatives to educate the customers on various loan products and schemes. Note that our survey shows women SME entrepreneurs to not have high

awareness of different government schemes intended to help them access finance, nevertheless they are relatively satisfied with their access to information. This could indicate two aspects: (i) their satisfaction with access to information is misplaced, and pertinent information is not reaching them; (ii) as the score for 'information' is only relatively higher, with all four sub-indices reflecting moderately low satisfaction, there may not be a disparity in the results.

Industrial and Geographical Analysis

The overall level of satisfaction did not see much variation for geography (administrative divisions) and industry – ranging from 45 to 48. Sylhet and Rangpur were observed to have a marginally lower level of satisfaction – 45, just below the national average. In the case of industries, firms operating in 'Agro & Food Services' found the financial ecosystem to be marginally more conducive than the others, with a score of 48, just above the national average.

Figure 42 DESI by Geography

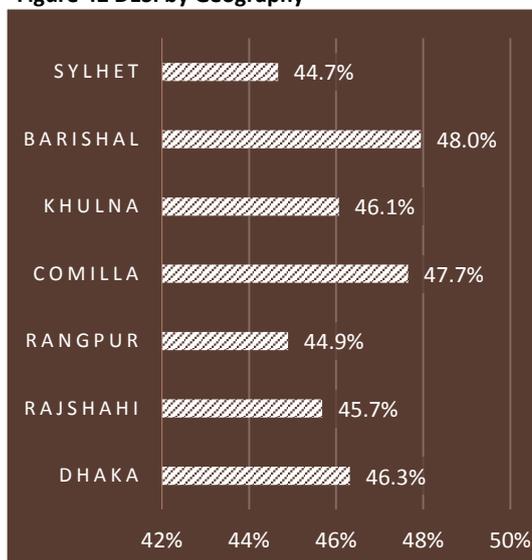
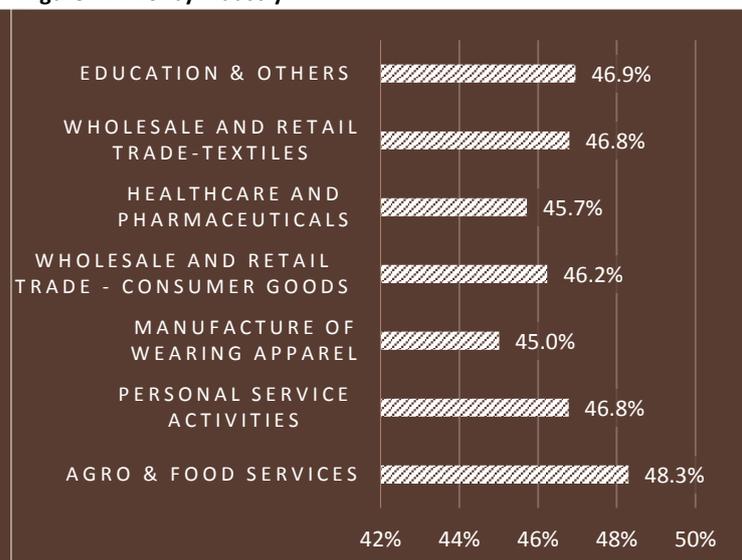


Figure 41 DESI by Industry



Source: The IFC-Gender Finance Study, 2016

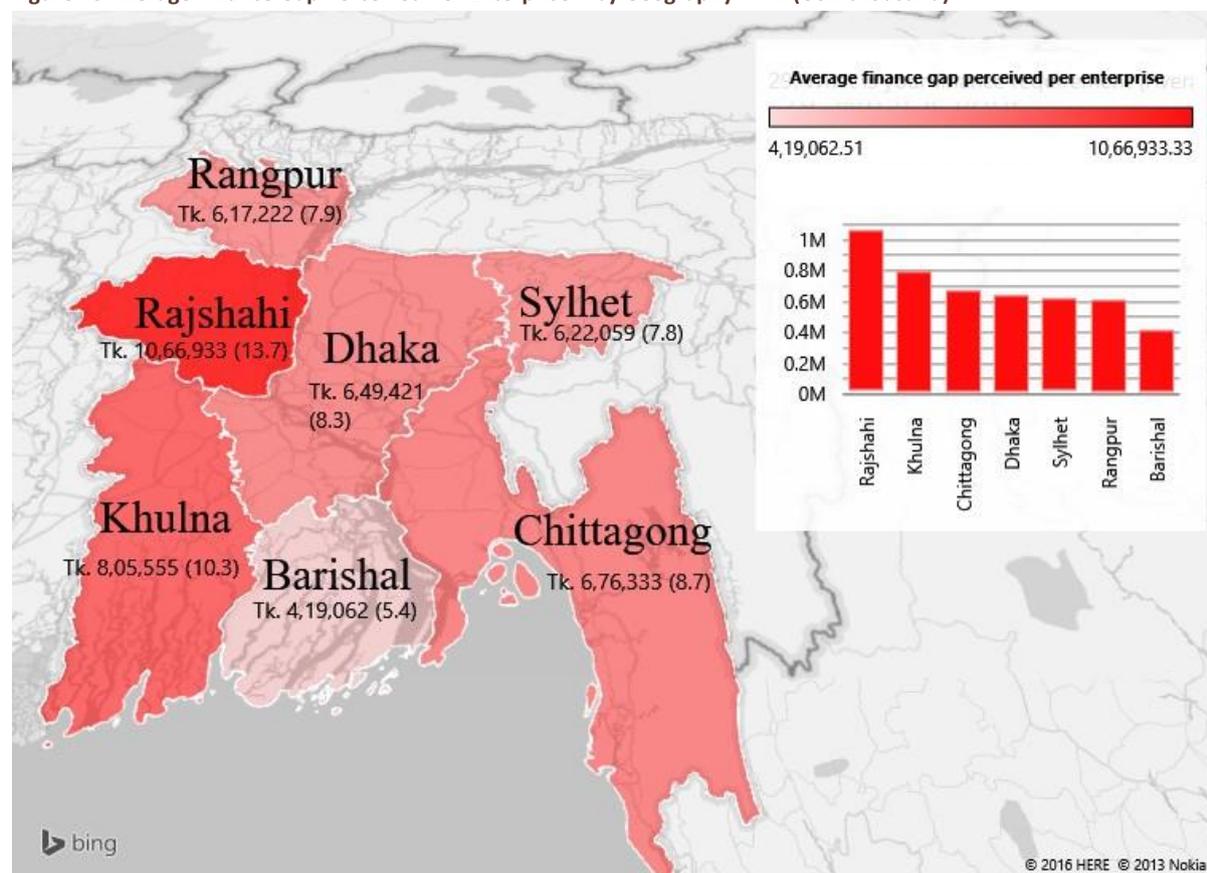
4. Mapping the Opportunity

This section maps financial characteristics of the 500 women-owned enterprises surveyed across the seven administrative divisions. It seeks to understand the needs, feasibility and outreach of industries as per their location to explore strategies for addressing their financial needs.

4.1. Women SME entrepreneurs' Need for Finance

Figure 43 captures the average unmet demand for finance, as perceived by the women enterprises surveyed in each administrative division. Enterprises in Rajshahi perceived the greatest gap in financing, averaging to Tk. 10,66,933 (USD 13.7 thousand) per enterprise. The lowest average financing gap was seen in Barishal, amounting to less than half the gap perceived by enterprises in Rajshahi.

Figure 43 Average Finance Gap Perceived Per Enterprise – by Geography in Tk (USD thousand)

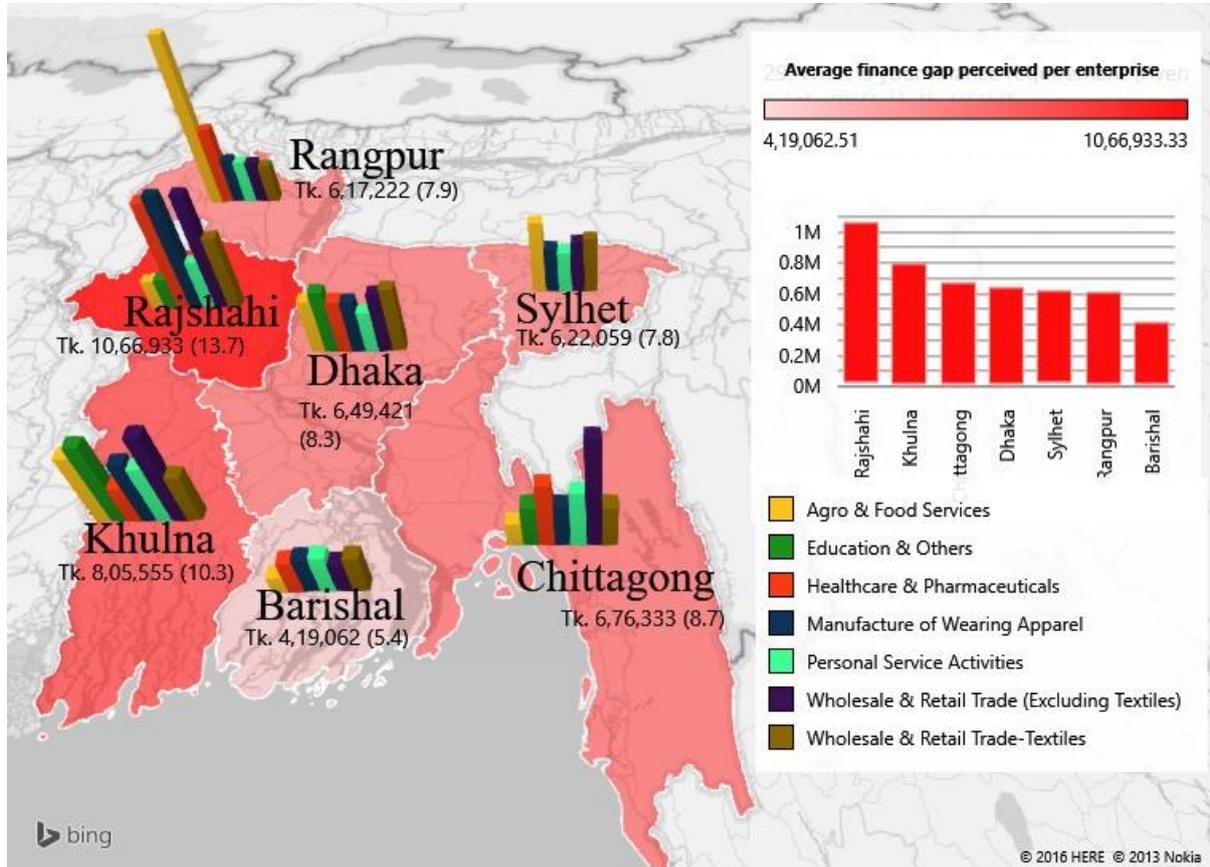


Source: The IFC-Gender Finance Survey, 2016

For a closer understanding of the entrepreneurial needs, the average perceived finance gap in each division was analysed as per the industry of their operation. This has been illustrated in the figure below. It is observed that the average perceived finance gap for Rangpur was skewed by the needs of the 'Agro & Food Service' industry in the region. A similar phenomenon can be noted in Chittagong, where the average perceived finance gap of the 'Wholesale & Retail Trade (excluding textiles)' industry was nearly double that of the regional average. Industries in Rajshahi saw two

distinct groups of industries, expressing considerably higher and lower needs for finance, when compared to the regional average. The high group comprised of enterprises engaged in ‘Healthcare & Pharmaceuticals’, ‘Manufacture of Wearing Apparel’ and ‘Wholesale & Retail Trade (excluding textiles)’. The remaining industries were in the low group.

Figure 44 Average Finance Gap Perceived Per Enterprise – by Geography and Industry in Tk. (USD thousand)



Source: The IFC-Gender Finance Survey, 2016

4.2. Enterprise Financing Feasibility

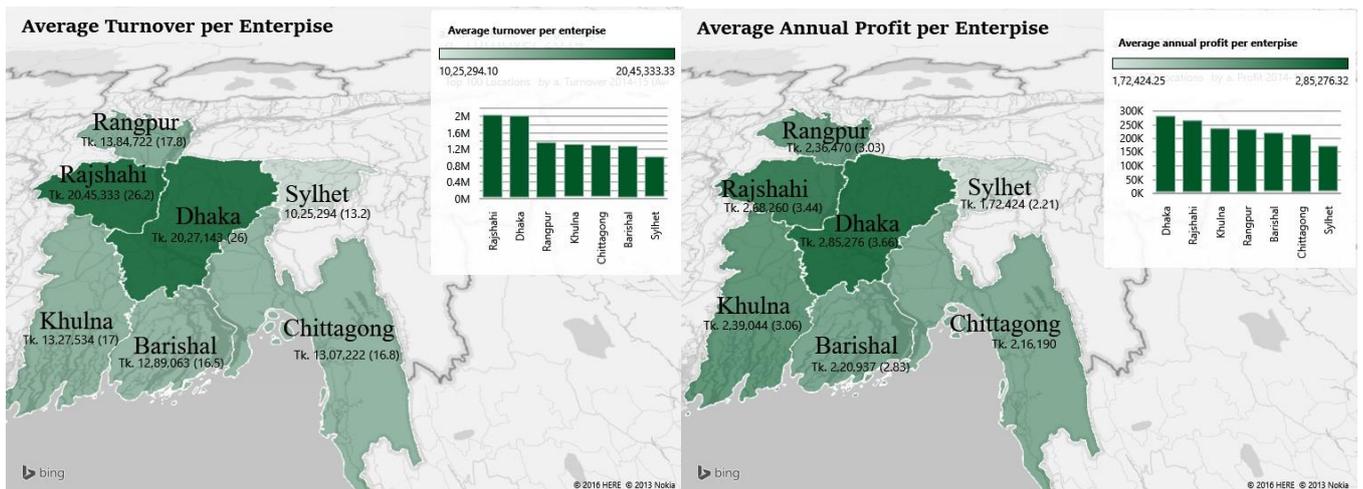
4.2.1. Turnover and Profit

In order to meet the finance gap, it is important to understand the feasibility of financing these enterprises. The below figures map the average annual profit and turnover of the enterprise as per their division of operation. A clear discord can be noted between these figures and the average financial gap perceived in the division. This particularly holds for Rajshahi. Despite reporting the highest average turnover per enterprise and the second highest average annual profit per enterprise, the division perceives the highest financing gap. This is indicative of the the feasible financing opportunity for women SME entrepreneurs posed by the division. A similar opportunity is observed in the Khulna division. Despite reporting the third highest profit in the region, it houses the second largest perceived finance gap.

It is important to understand an enterprise’s industrial characteristics, alongside its locational characteristics to gain deeper insights into its feasibility. For instance, the highest average profit per enterprise was noted for those enterprises engaged in ‘Agro & Food Services’, closely followed by those in the ‘Healthcare & Pharmaceutical’ industry. The figures below represent the average enterprise profit and turnover for the different industries surveyed, across the administrative divisions. Note that all industries represent varying turnovers and profits across the regions. The northern divisions reported a greater cocentration of women SME entrepreneurs in the Healthcare & Pharmaceutical industry (a conventionally non-traditional sector for women). These businesses not only displayed above average turnover and profits, but also an above average unmet demand for finance. Thus indicating the underlying opportunity in financing and developing the non traditional sectors.

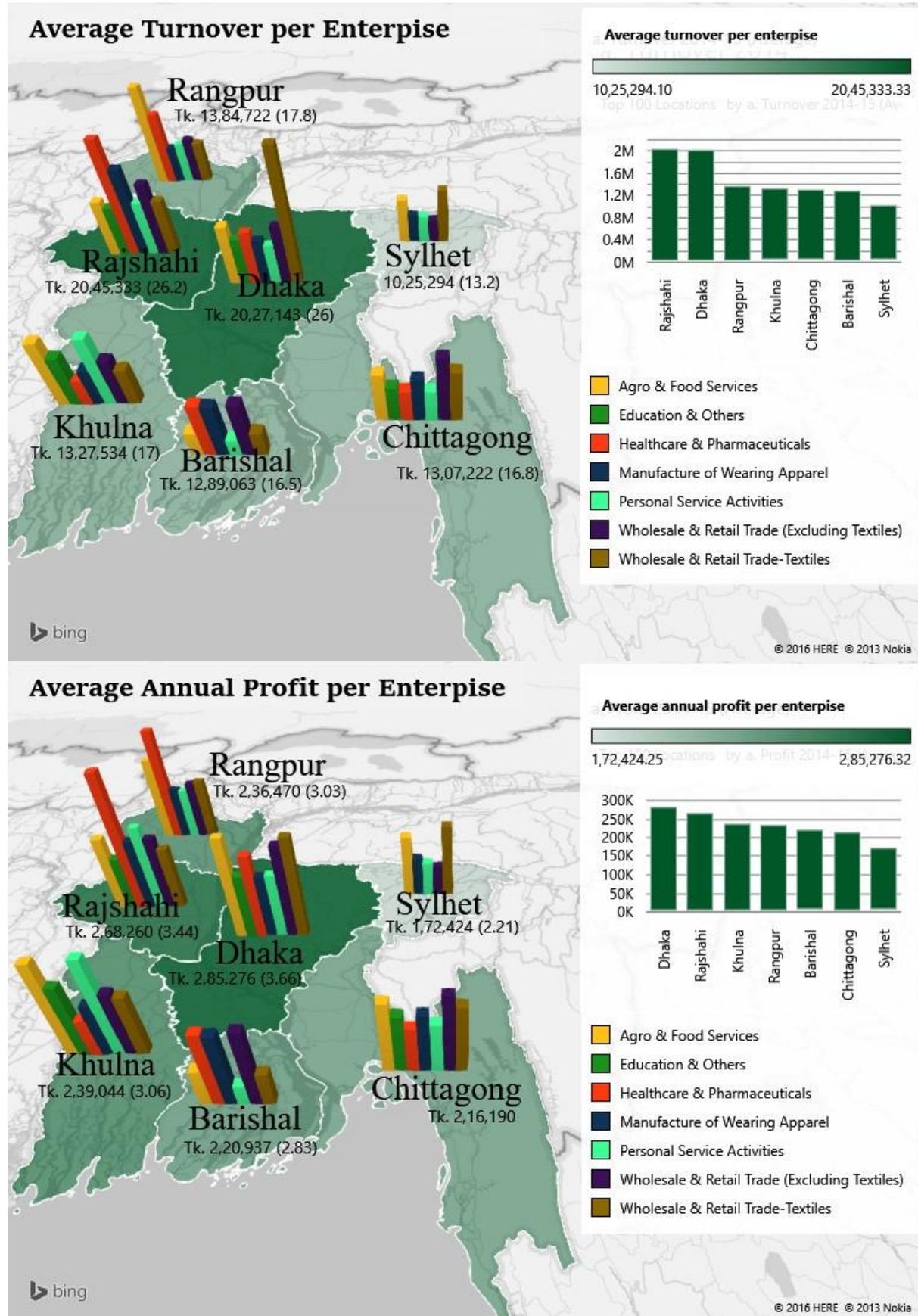
“Enough attention has not been given to empower women with business ideas and developments. No new sectors have been created except for boutique or beauty parlours.”
 -Banker

Figure 45 Average Turnover and Profit per Enterprise - by Geography in Tk. (USD Thousand)



Source: The IFC-Gender Finance Study, 2016

Figure 46 Average Turnover and Profit per Enterprise - by Geography and Industry in Tk. (USD thousand)

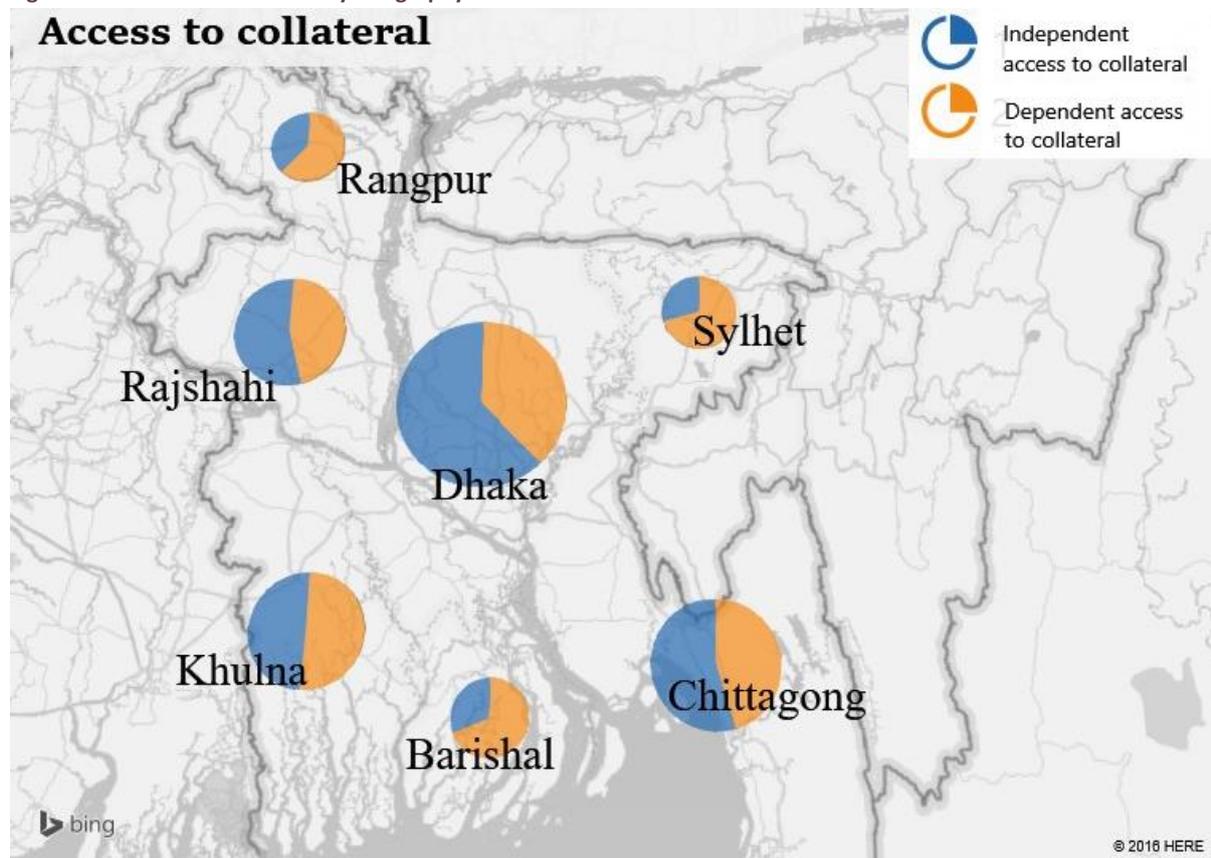


Source: The IFC-Gender Finance Study, 2016

4.2.2. Asset Profile

To evaluate the feasibility of financing an enterprise and to hedge against risks of default, it is important to understand the asset profile of the enterprises. This mostly comprised of furniture and machinery for all enterprises. Additionally, the women SME entrepreneurs surveyed saw limited access to collateral – a significant factor in availing a loan. For a better understanding of the women SME entrepreneurs’ access to collateral, a geospatial mapping was conducted (illustrated below). The pie charts are positioned in accordance to the location of their respondents, and sized in accordance to the number of respondents. Dhaka, Rajshahi and Chittagong were the only districts where more than 50% of the respondents had independent access to collateral. This indicates the potential for risk hedged financing in these divisions, particularly given that Rajshahi indicated an above average perceived finance gap. The most restricted access to collateral was seen in Sylhet and Barishal, with a meagre 29% and 31% of the respondents having independent access to collateral.

Figure 47 Access to Collateral – by Geography



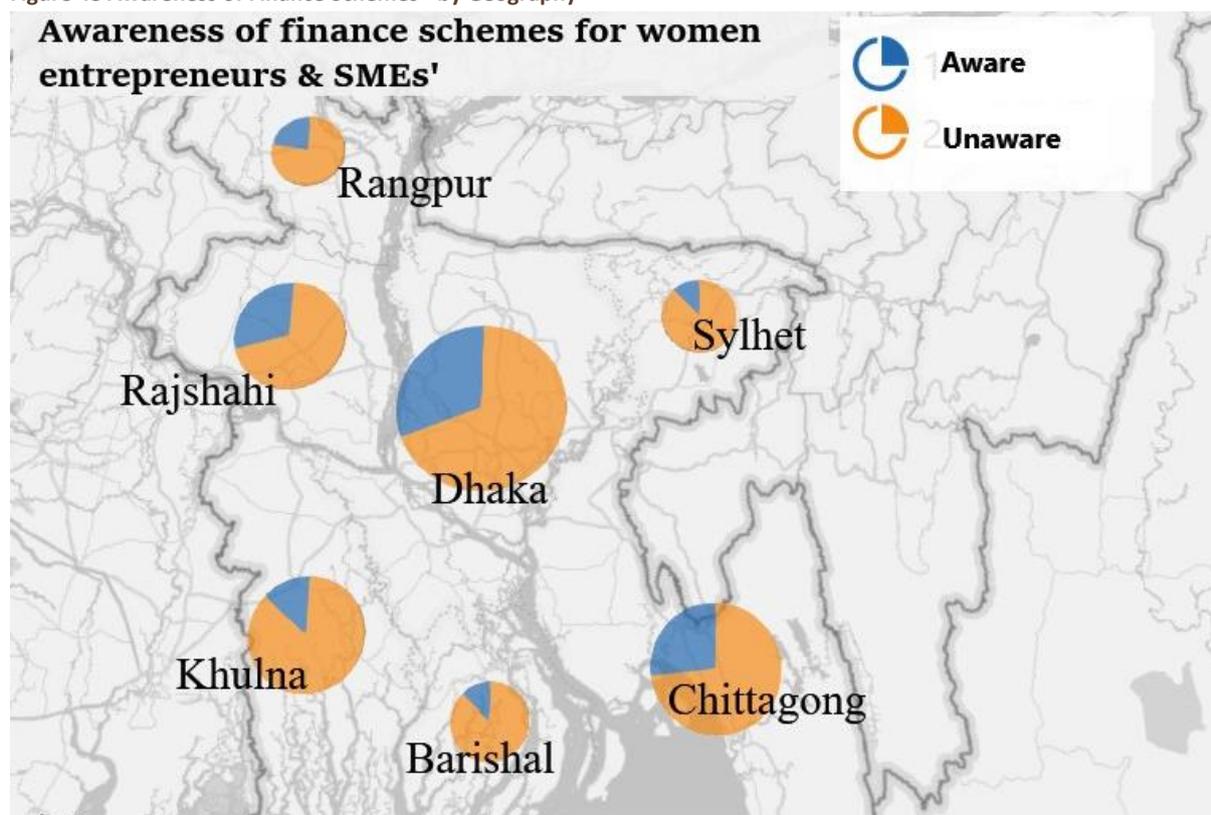
Administrative Division	Barishal	Chittagong	Dhaka	Khulna	Rajshahi	Rangpur	Sylhet
Independent access to collateral	31%	54%	63%	49%	55%	39%	29%
Dependent access to collateral	69%	46%	38%	51%	45%	61%	71%

Source: The IFC-Gender Finance Survey, 2016

4.3. Outreach

Awareness generation is a key mechanism for institutions to channel finance. Thus, the existing awareness on finance schemes play a significant role in designing a financial institution’s outreach strategy. For a more comprehensive understanding of the women SME entrepreneurs’ awareness on relevant schemes and products, a geospatial mapping was conducted (illustrated below). The pie charts are positioned in accordance to the location of their respondents, and sized in accordance to the number of respondents. The overall awareness level was low, with the awareness in Barishal, Sylhet and Khulna falling far below the country average.

Figure 48 Awareness of Finance Schemes - by Geography



Administrative Division	Barishal	Chittagong	Dhaka	Khulna	Rajshahi	Rangpur	Sylhet
1 Aware	13%	27%	31%	14%	29%	22%	12%
2 Unaware	88%	73%	69%	86%	71%	78%	88%

Source: The IFC-Gender Finance Study, 2016

5. Accelerating Access to Credit

The findings illustrate that women are often constrained in meeting lending requirements due to their limited financial literacy and awareness, along with socially constraining factors that limit their access to assets. Bankers, on the other hand, are challenged by appraising loans within existing risk models. The overall satisfaction of women with the financial ecosystem is 35 on a 100-point scale across all parameters of Awareness, Product, Process and Access. This is a result of, both, the banker's apathy towards understanding the needs and challenges of women SME entrepreneurs and the women SME entrepreneur's knowledge gap vis-à-vis banking requirements. To effectively accelerate finance to women, a redressal of both demand and supply side issues is necessary.

This section proposes comprehensive solutions that could deliver women SME entrepreneurs with the tools: access to finance, information and education to start and grow their business. The focus of the recommendations is on improving the capacity of banks in Bangladesh to better serve the women SME entrepreneurs by instituting responsible finance practices.

Key Issues

- A significant credit gap exists in financing women SMEs
- Women SMEs have multiple constraints in accessing finance due to lack of collateral, limited financial literacy, cumbersome loan application processes, limited access to information, lack of time and mobility
- Financial Institutions consider women as high risk and are not willing to lend to them, banks are unaware of the opportunity that this market presents to them
- Existing efforts by Financial Institutions are implemented on an ad-hoc basis with no understanding of the needs of the segment and no monitoring of impact

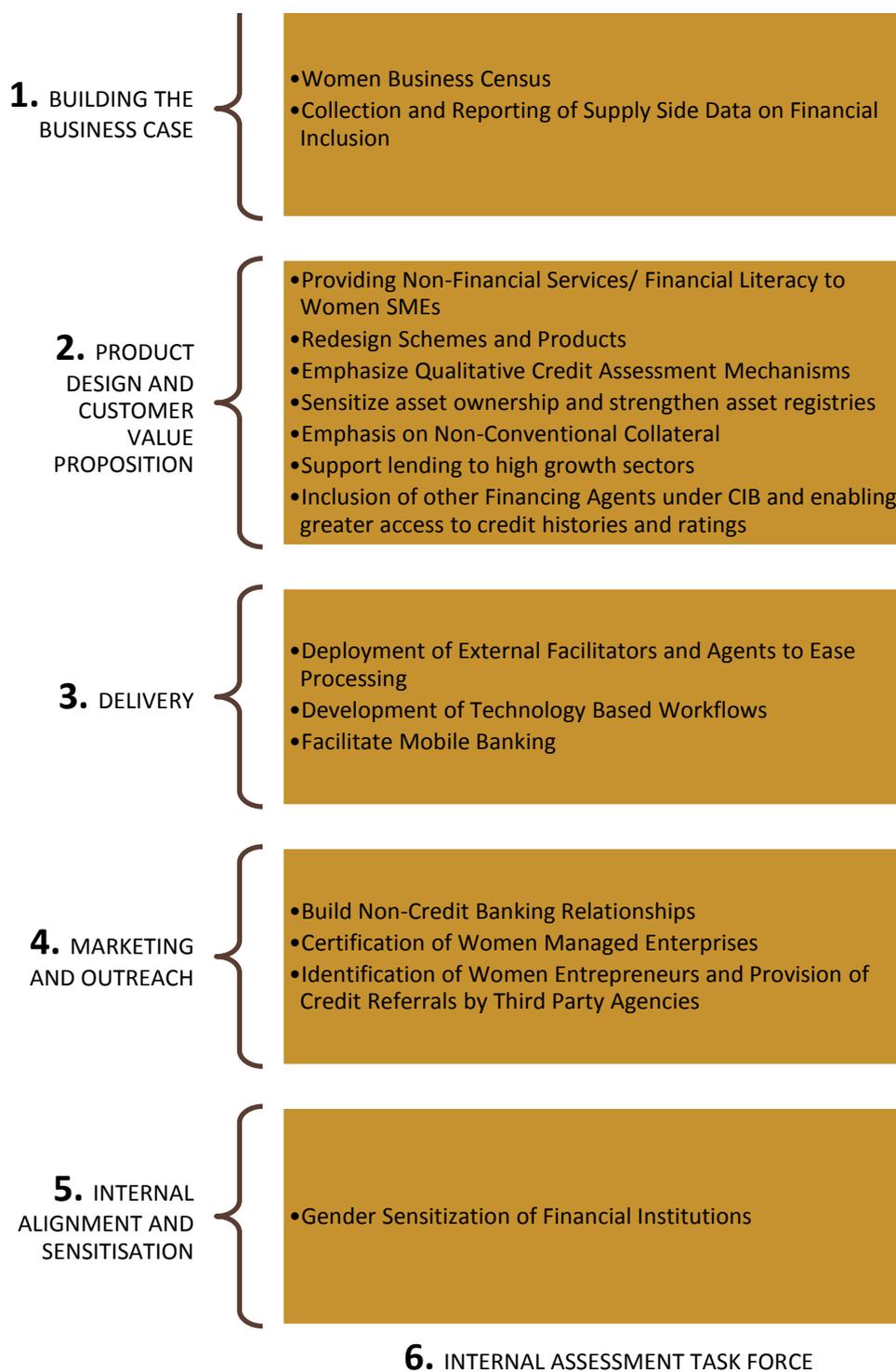
Gender responsive financial products and services that address both the demand and supply side constraints can make a difference in addressing these issues

5.1. Gender Responsive Financing Framework for Financial Institutions

The study outlines a framework for developing specially designed products for women, outlining specific aspects that are necessary to reach women SMEs, namely, adapting the products and outreach activities to women's needs resulting in responsible financial practices and greater access to credit for women. In this regard, a value chain approach has been adopted – starting with building a case for women SMEs, product design and conceptualisation, marketing and outreach, internal alignment and monitoring. The framework is in alignment with globally adopted best practices for gender responsive financing and responsible finance (adapted from Global Banking Alliance, Women's World Banking and others). The figure below maps the value chain of financing to be adopted for women SMEs and serves as a toolkit for bankers in catering to this segment. This Gender Responsive Finance tool presents the following value addition:

- Presents a dynamic approach to resolving financial inclusion issues rather than a static framework: Customisable tool for financial institutions facilitating 'on-the go' design of products and services
- Provides transparency in terms of replicability and scalability of solutions by a) continuous monitoring and reporting and b) adopts a 'spot and fix' approach to issues which in turn enables identification of replicable and scalable solutions

Figure 49 Gender Responsive Financing Framework



Source: The IFC-Gender Finance Study, 2016

STEP I: BUILDING THE BUSINESS CASE

Building the business case for women SME entrepreneurs involves developing an understanding of women's access to finance, how gender constrains access to finance and an evaluation of what exists and does not for women in terms of financial inclusion programmes. This study is a first step in this direction wherein the credit gap for women SMEs was estimated, women's issues in accessing finance were analysed and a market mapping exercise was undertaken to determine the high potential sectors, geographies and cohorts of women SMEs.

However, in Bangladesh, there has been no macro-level census of women SMEs and there is no data available publicly for financial institutions to make informed decisions on the design and delivery of products. In this regard, the study recommends the following:

<i>In furthering the development of a business case for women SMEs:</i>	
Issue	Recommendation 1
<p>Lack of reliable data and absence of gender disaggregated data on SMEs in Bangladesh that hinders informed decision making on solutions for women SMEs.</p>	<p>A. <u>Women Business Census</u> A business census of women owned business by the Government of Bangladesh is recommended that will provide accurate and reliable data on the status of women SME entrepreneurship. The Government with SME Foundation as the lead implementing agency could partner with multilateral agencies to build and publish a biennial census on women SME. This database would act as a valuable resource for the government, form the basis for future research and underline women owned business.</p>
<p>Stakeholder: Government of Bangladesh, SME Foundation</p>	
<p>Importance: High, longer term benefits</p>	
Issue	Recommendation 2
<p>Sex-disaggregated supply-side data is critical for building a business case for banks to serve women and thereby closing the financial inclusion gender gap. However very few banks have the internal capacity to collect gender disaggregated data that will help them better understand women's market. The key constraints include:</p> <ul style="list-style-type: none"> ▪ Lack of awareness of the value or importance of sex-disaggregated data ▪ Absence of systems or processes to capture the data. ▪ Lack of standardisation that affects the 	<p>B. <u>Collection and Reporting of Supply Side Data on Financial Inclusion</u> Investments are required to strengthen the capacity of the financial institutions to collect gender disaggregated data on credit, savings, insurance, pension and other financial aspects. Data mining will enable institution to develop understanding on risks, client base and customize its products based on this information.</p>

reliability and comparability of the data <ul style="list-style-type: none"> ▪ Poor dissemination and usage of data 	
Stakeholder: Bangladesh Bank, Financial Institutions	
Importance: High, longer term benefits	

Case Study

Şekerbank

Şekerbank in Turkey envisions becoming a “leader bank in financing the small enterprises”. It leverages market research to better understand women’s banking behaviour. This research was used to identify 11 sub-segments, clustered by similar attributes. A deeper understanding of these sub-segments was then used to develop customized value propositions for the women’s market.

Case Study

WESTPAC BANKING CORPORATION: Ruby Connection Programme

Westpac Banking Corporation in Australia seeks to build a brand as the financial partner for Women Business. Its proposition is to provide value added services for women in business through education, information and networking opportunities. One of its lauded programmes is the RUBY Connection Programme. Established as an interactive online community, the programme is designed to inspire, educate and connect women. The portal contains articles, case studies, guidance, ideas and opportunities to network with other like-minded women. The Ruby connection is branded like a lifestyle magazine to appeal to the large women customer (not just existing Westpac clients). Ruby Connection has exposure to over 2.3 million women customers on an ongoing basis.

STEP 2: PRODUCT DESIGN AND CUSTOMER VALUE PROPOSITION

Women’s financial needs are complex largely because of the way gender roles are defined in society. Financial Institutions in Bangladesh have primarily pursued a ‘Product-Led’ approach in catering to the women SME segment. Each bank has specially designed schemes for women that are either nationally funded or self- initiated by the bank. The characterizing features of most schemes revolve around interest rate deductions, sectoral allocations, and collateral concessions and are largely linked with the refinance scheme of the Bangladesh Government. Following a ‘product-led’ approach for the women’s market has been globally recognised as a failure (Global Banking Alliance). A Customer Value Proposition approach is recommended that combines access to financial services with information, education and networking opportunities. It includes a host of financial and non-financial services that can be offered to women SMEs- following a need based, holistic and sustainable approach to financing women. Including broad gender equity goals is of paramount importance in designing a programme.

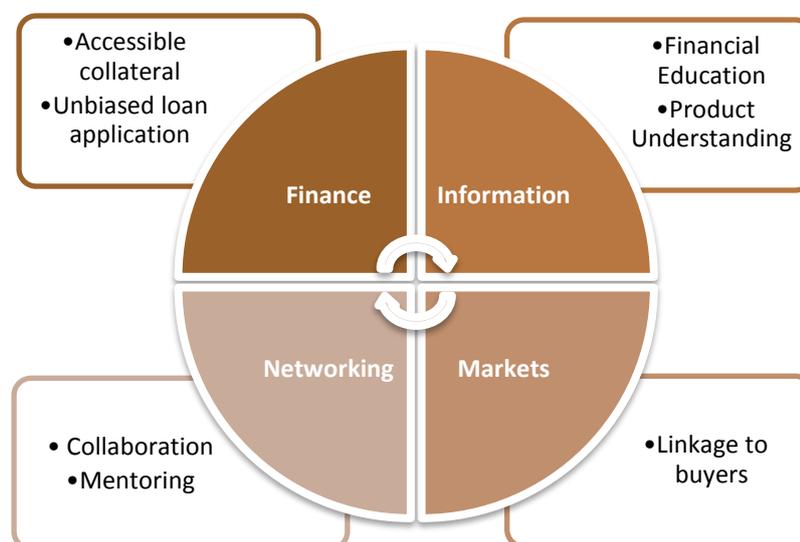


Figure: Customer Value Proposition Approach (Need Based Approach)

In pursuit of the above approach, banks need to play a leading role in strengthening their external value proposition as well. Banks can play a role in providing financial and business education for women, facilitate connections to meaningful networks, and develop social media platforms and partnerships with business associations, mentors and others, thereby building mutually beneficial relationships.

Specific recommendations and case examples in this regard have been detailed below.

Recommendations towards enhancing the Customer Value Proposition in terms of products and services:

Issue	Recommendation 1
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<ul style="list-style-type: none"> ▪ Limited financial literacy among women in Bangladesh ▪ Manpower and resource constraints – bankers unable to fund such initiatives ▪ Enhancing product knowledge and basic financial literacy among women is crucial 	<p>A. <u>Providing Non-Financial Services/ Financial Literacy to Women SMEs</u></p> <p>Financial institutions are encouraged by the Bangladesh bank to provide non- financial support to women borrowers. However, many banks are unable to extend quality NFS as it is not their core expertise. Hence it is important to explore means to strengthen the delivery of the NFS. These could include:</p> <ul style="list-style-type: none"> ○ Strengthening the internal capacity of the financial institutions to extend non-financial support services ○ Strategic partnership between Financial Institutions and Business Associations especially women business associations ○ Explore possibility of funding such activities by tapping into Bank’s CSR funds ○ Establishment of specialised training institute to provide education to entrepreneurs ○ Development of online toolkit that provides information on business planning, financial projections, inventory and stock management, marketing, branding, etc.
<p>Tips on Implementation</p>	<ul style="list-style-type: none"> ▪ Liaisons with Business associations, skill development agencies, government and NGOs ▪ Incorporate as part of Bank’s CSR mandate ▪ Create platforms for women to network and share learning opportunities
<p>Expected Impact</p>	<p>Increased financial literacy would facilitate women with greater financial independence and freedom to take independent decisions. Increased awareness and knowledge of existing support systems and processes in availing support. Increasingly bring women under the organised sector, alongside improving their financial credibility.</p>
<p>Ease of Implementation: Easy</p>	
<p>Criticality: High</p>	
<p>Stakeholder: Donor Agencies, SME Foundation, Business Associations, Financial Institutions</p>	
<p><u>Case Study - Westpac Banking Corporation’s Davidson Institute</u></p> <p>Through the establishment of the Davidson Institute, the Westpac Banking Corporation has been providing education and training in, both, personal finance and business management to women entrepreneurs. Its services to entrepreneurs include a free online learning centre, short courses, free local seminars and accredited courses.</p>	

<p><i>Recommendations towards strengthening of products and schemes</i></p>	
<p>Issue</p>	<p>Recommendation 2</p>

<ul style="list-style-type: none"> • Bangladesh Bank’s recent scheme of annually training 3 women per branch and providing any one of them a financial service has come under a lot of criticism, due to its blanket approach, many banks cited this scheme as a failure and reported issues in implementation of the same. • The Bank’s refinance scheme is also faced with certain drawbacks such as delays in repayment, unshared risks and a cap on the interest rate. • Findings from the study indicate that banks are not receptive to financing start-ups due to perceived risks of non-repayment and business closure, this is even lower in case of women. Lack of financing disincentivises women from setting up enterprises and often forces them to rely heavily on personal savings and informal sources of finance. 	<p>B. <u>Redesign Schemes and Products</u></p> <p><i>3 Women Per Branch Scheme:</i> It is advisable to anchor the targeted number of women to be trained to a certain parameter. This parameter must reflect the prospective beneficiaries in the region, such as population.</p> <p><i>Refinance Scheme:</i> Given the scheme’s potential it is recommended to revise the scheme for greater efficiency and reach to women enterprises by revising the scheme’s settlement periods and risk coverage. One potential measure for risk mitigation (as suggested by bankers) is creation of a credit guarantee fund that provides partial or complete guarantee to bankers when lending to women SMEs.</p> <p><i>Initiate Start-up Fund:</i> To bridge the gap in start-up financing for women SMEs, the Bangladesh Bank could set aside a pool of resources for financing start-ups through set up of a ‘start-up fund’. The fund would give impetus to the start-up community in Bangladesh, encouraging young women to be job creators rather than job seekers. Bangladesh Bank could initiate the process by set up of initial corpus of funds and by clearly defining a ‘start-up’ enterprise.</p>
<p>Expected Impact: Increased scheme efficiency and greater impact in financing women enterprises.</p>	
<p>Stakeholder: Bangladesh Bank</p>	
<p>Ease of Implementation: Difficult</p>	
<p>Criticality: High</p>	

Issue	Recommendation 3
<p>Women SMEs lack access to collateral, credit histories and information on the enterprise’s financial viability.</p>	<p>C. <u>Emphasize Qualitative Credit Assessment Mechanisms</u></p> <p>Non-conventional tools used by MFIs’ and NGOs’ in credit assessment have proved more effective in lending to women. Banks and NBFIs’ are encouraged to adopt similar tools-</p>

	<p>assigning greater weights to qualitative factors. These factors include:</p> <ul style="list-style-type: none"> ○ Relationship with the bank ○ Relationship with suppliers & customers ○ Technical knowledge of the borrower ○ Integrity of the borrower ○ Business ownership structure ○ Competitiveness
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Tips on Implementation:

Banks could modify their appraisal criteria, depending on their socioeconomic background to fit a working capital based portfolio rather than a fixed capital based one. Banks worldwide have successfully adopted alternate appraisal mechanisms such as psychometric tests which capture the borrower’s integrity and the firm’s management structure.

Expected Impact:

Qualitative credit assessment mechanisms will contribute in gender sensitizing the ‘back end’ loan appraisal process. This reduction in the inherent negative bias towards women will result in more inclusive access to credit.

Stakeholder: Financial Institutions

Ease of Implementation: Medium

Criticality: High

Case Study: Improving access to finance through Psychometrics

Research indicates that banks which implement the Psychometrics scoring model have been able to increase their lending to women owned SME by nearly 70%. This is usually done through an automated screening tool that accounts for the entrepreneurs’ honesty, intelligence, personality, among other qualities, to gauge their ability and willingness to repay (Klinger, Khwaja, & Carpio, 2013).

Bangladesh’s Agrani SME Finance Limited has recently incorporated a mandatory 3-day psychological training and test to their credit assessment mechanism. This exercise facilitated successful evaluation of the borrower’s commitment and integrity. It was further noted that the costs of this exercise were shadowed by the benefit of drastically reducing the number of defaults.

Recommendations towards exploring non-traditional lending models and expanding asset base

Issue	Recommendation 4
Inability of women to meet collateral requirements due to the nature of assets owned.	D. <u>Sensitize asset ownership and strengthen asset registries</u>

	<p>The government may encourage women’s access to property through tax incentives. The current asset registry system is under the Registrar of Joint Stock Companies (RJSC) and is restricted only to limited companies. This excludes most SMEs, as they are not registered as limited companies. The following is recommended:</p> <ul style="list-style-type: none"> — Generate awareness of women’s inheritance rights — Incentivise joint/women’s access to property — Create collateral registries for both incorporated and non-incorporated entities, unified by geography and by asset type, with an electronic database
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Expected Impact:
Increased asset creation among women. Strengthening of collateral registries could aid product diversifications. This is particularly helpful for women SME entrepreneurs who lack traditional collateral.

Stakeholder: Bangladesh Bank and Financial Institutions

Ease of Implementation: Medium

Criticality: High

Case Study:

The State of Delhi in India incentivised women’s property ownership by cutting stamp duty rate from 8% to 6% for women owners, and 7% in case of joint ownership.

In Bangladesh, Grameen bank and other NGOs encourage women’s asset ownership by requiring housing loans borrowers to register property in the woman’s name.

Issue	Recommendation 5
<p>Conventionally banks were noted to provide finance against immovable assets, particularly land. However, given the socioeconomic status of women in Bangladesh they were often seen incapable of providing collateral. It was in this light that the Bangladesh Bank sought to offer collateral free loans to women, through the refinance scheme. Nevertheless, the scheme does not share any risks, in case of default. Consequentially, bankers tend to actively seek collateral, to hedge themselves against the risk of a borrower defaulting. In the survey, most of the women SME entrepreneurs’ who availed a loan had also provided collateral.</p>	<p>E. <u>Emphasis on Non-Conventional Collateral</u></p> <p>It is advisable for banks to seek alternates to immovable assets as collateral. Given the nature of women owned businesses, non-conventional forms of collateral may include:</p> <ul style="list-style-type: none"> ○ Finance against receivables and movable assets ○ Credit insurance ○ Lease financing ○ Cash flow estimations <p>These forms of collateral are already globally recognised and accepted by many banks.</p>

Expected Impact: Acceptance of non - conventional collateral reduces the negative bias towards women SME entrepreneurs, ingrained in the eligibility criterion of any form of credit. This would in turn increase the advances to women owned enterprises.	
Stakeholder: Financial Institutions	
Ease of Implementation: Medium	
Criticality: High	

<i>Recommendations towards lending to non-conventional sectors</i>	
Issue	Recommendation 6
<p>Women SME entrepreneurs are generally concentrated in lower productive, less profitable sectors. In Bangladesh, women SME entrepreneurs are concentrated in retail, sales and service sectors in the textile and personal service industry with little participation in high growth sectors. However, a geo-spatial analysis highlights that women SME entrepreneurs operating in the northern divisions are entering male dominated sectors particularly in the Healthcare & Pharmaceuticals sector (a non-traditional sector for women).</p> <p>However, women in these sectors are not supported Financial Institutions and are perceived as high risk.</p>	<p>F. <u>Support lending to high growth sectors</u></p> <p>Stimulating female entrepreneurs’ entry into higher productivity and growth activities, often male dominated will be critical in narrowing the performance gap between male and female entrepreneurs. It is also important to increase exposure of women SME entrepreneurs to these sectors by using appropriate mentors, highlighting successful cases of women SME entrepreneurs in the sector and facilitating access to information relating to the market potential.</p> <p>On the other hand, it is important to increase the appetite of financial institutions to lend to women SME entrepreneurs in the high growth sectors. The primary survey data highlights that these businesses have higher than average turnover and profit, as well as a higher than average estimated demand for finance. There appears to be sufficient finance gap for banks to try to find other women SME entrepreneurs in that area, or to work with service providers who could work with potential women SME entrepreneurs in the Healthcare & Pharmaceuticals sector. The bankers however will need training on the key skills necessary to run a specific business and then to be able to assess for those skills in women SME entrepreneurs, particularly those</p>

	<p>entrepreneurs who are involved in business that have traditionally not had women at the helm in Bangladesh. Capacity building for financial institutions will focus on:</p> <ul style="list-style-type: none"> • Conducting cost effective due diligence of women SME entrepreneurs in non-traditional sectors to mitigate any perceived risk associated with technical know how • Improving bank staff knowledge on emerging role of women in high growth sectors
Stakeholder: Financial Institutions	
Ease of Implementation: Medium	
Criticality: High	

<i>Recommendations towards improving credit assessment mechanisms</i>	
Issue	Recommendation 7
<p>Bangladesh Bank established the Credit Information Bureau (CIB) to provide participants timely reports on credit information based on the enquiry/request about loan applicants. The participating institutions only include banks, Financial Institutions, HBFC, and ICB. Given their nature of operations, credit histories of most women SME entrepreneurs are not captured by these institutions. Their often perfect payment histories with MFIs, NGOs and SHGs go unrecorded.</p>	<p>G. <u>Inclusion of other Financing Agents under CIB and enabling greater access to credit histories and ratings</u></p> <ul style="list-style-type: none"> • Expanding the CIB database, by including other financing agents such as MFIs, will enable bankers to better assess credibility of women SME entrepreneurs. • Further, an independent measure, borrowers can take to establish credibility is through a credit rating by an independent rating agency. However, given its price, enterprises seldom avail it. Gender friendly subsidies⁷ in this regard will aid acceleration of credit to women SME entrepreneurs, given their constrained access to other forms of credit appraisal requirements.
Tips on Implementation:	

⁷ Special subsidies for women, as compared to their male counterparts.

<ul style="list-style-type: none"> • Inclusion of MFIs as a participant to the CIB • The government could extend gender friendly subsidy for SMEs to attain independent credit ratings. • Offering bureau or registry credit scores as a value-added service to help banks and financial institutions assess creditworthiness of borrowers
Expected Impact: <ul style="list-style-type: none"> ✓ Expanded Credit Information Bureau Database. ✓ Increased affordability of credit ratings for women enterprises. ✓ Facilitate bankers and borrowers with more comprehensive credit assessment options.
Stakeholder: Bangladesh Bank
Ease of Implementation: Medium
Criticality: Medium
<i>Case Study: Performance and Credit Rating scheme</i> The Ministry of MSME, Government of India has instituted the Performance and Credit Rating scheme that subsidises up to 75% of the rating fee for MSMEs. This greatly aids SMEs' in establishing their credibility while seeking finance.

STEP 3: DELIVERY

Women in Bangladesh are constrained by socio-cultural factors that constrain their mobility and time. The way services and products get packaged and delivered to women customers is an area that is often overlooked by financial institutions. Loan application processes have been cited as a major area of difficulty by women; indicating high documentation requirements and long turnaround times. Credit processes beginning with assessment of applicants to disbursements of loans need to be streamlined in the interest of all SME applicants and gender sensitized to include alternate delivery models.

Recommendations to this end are given below.

<i>Recommendations towards easing processing of applications and enhancing service delivery mechanisms</i>	
Issue	Recommendation 1
<ul style="list-style-type: none"> ▪ Limited awareness on loan application procedures among women ▪ Cumbersome processes and high turnaround time ▪ Mobility and time constraints among women ▪ Supply side manpower issues 	<p>A. <u>Deployment of External Facilitators and Agents to Ease Processing</u></p> <p>The most efficient manner of reducing processing costs for financial institutions is through innovations in the existing distribution channels. External facilitators or business correspondents (BC) can aid in reducing manpower constraints particularly in SME banking. Given the limited internet connectivity, these external facilitators or BCs' form an ideal channel for mobile banking, particularly in rural areas.</p>

	The functions of the external facilitators or BCs' may be extended to include collection of deposits, providing guidance and conducting initial checks for loan applications.
<p>Tips on Implementation:</p> <ul style="list-style-type: none"> — Banks could recruit more women BCs to ensure greater comfort levels for their women customers — BCs could help women borrowers in the application process and educate them on financial management — Given the predominant presence of relationship managers in the banking model of Bangladeshi financial institutions, banks could consider extending the function of certain relationship manager to optimize costs 	
<p>Expected Impact: Financial institutions will foresee reduced manpower costs alongside increased information dissemination. Borrowers will have access to financial literacy alongside a simpler application process.</p>	
<p>Stakeholder: Financial Institutions</p>	
<p>Ease of Implementation: Medium</p>	
<p>Criticality: High</p>	
<p><u>Case Study:</u> As of November 2013, Brazil had the largest banking agent network, with nearly 400,000 banking correspondents. Central Bank of Brazil allowed banks in 2003 to contract with 'bank correspondents' to provide ten basic banking services including deposits, withdrawals, bill payments, new account openings, money transfers, insurance, airtime top-up and government benefit and pension receipts. Bank correspondents play a critical role in expanding the supply of banking services in Brazil. Partnership with SME suppliers and service providers located in areas where there is no bank presence or areas of strategic importance, to provide banking services allow banks to offer services to SME sector with little investment/ cost.</p>	
<p>Issue</p>	<p>Recommendation 2</p>
<p>High turnaround time and manpower costs</p>	<p style="text-align: center;">B. <u>Development of Technology Based Workflows</u></p> <p>Technology has come to play a pivotal role in reducing operating costs in any sector. This also holds for credit assessment in the SME sector, where small ticket sized loans otherwise increase credit assessment costs. Technology enabled workflows could streamline loan approvals, by easing movement of applications between employees. It would also provide applicants a simple and effective medium for enquiring the status of their application.</p>

Tips on Implementation:

- Bangladesh Bank could issue guidelines on online credit assessment and approval mechanisms-highlighting credit limits, maximum processing and maximum turnaround time
- Checklists of loan documentation requirements to be made available on bank online platforms

Expected Impact:

Reduced turnaround time and lower manpower costs for financial institutions. Simplified and more convenient credit approval process for borrowers.

Stakeholder: Financial Institutions, Bangladesh Bank

Ease of Implementation: Medium

Criticality: Medium

Case Study:

SME operations at Eastern Bank Limited in Bangladesh are conducted independent of its other retail and corporate operations. With its independent technology based loan approval mechanism for SMEs', Eastern Bank seeks to attain a turnaround time of 5 days.

Issue	Recommendation 3
<p>Accessing banking services in Bangladesh can be challenging for women SME entrepreneurs especially in the rural areas. Women face additional obstacles to access as they often need permission from a male family member to open a bank account, can suffer from discrimination in the allocation of loans, and are on average less educated on handling finances.</p> <p>The key demand side barriers that restrict the greater use of digital financial services among women SME entrepreneurs are</p> <ul style="list-style-type: none">▪ Lack of awareness among women how digital financial services can improve the performance of women owned business by increasing access to insurance, reducing risk of theft and lowering administrative and disbursement costs▪ Women have greater risk aversion and apprehensions to using technology	<p>C. <u>Facilitate Mobile Banking</u></p> <p>Proliferation of Mobile technology and the emergence of mobile financial services have generated considerable attention as a means of addressing gender gap in finance. Bangladesh is an ideal nation to embrace digital financial inclusion. Mobile subscription in the nation reached 40% at the beginning of 2014 and it is expected to grow to 50% by 2020 (GSMA Intelligence, 2014). In Bangladesh, 46% of women own a phone and 13% of Bangladeshi women have used mobile money (The Economist, 2015).</p> <p>Mobile banking will become a power tool for financial inclusion, which will allow women to access services such as electronic transfers, payments and savings. The main effects of banking, either, through the brick and mortar branches/agents or mobile phones are the financial discipline gained transacting through the formal financial channels. The digital footprint also allows for alternative methods of assessing the creditworthiness of women who do not have traditional credit assets or a financial transaction history.</p>

<ul style="list-style-type: none"> ▪ Lack of financial literacy ▪ Absence of government issued id cards to meet the Know your customer norms 	
<p><u>Tips on Implementation:</u></p> <p>As the first step for digital financial inclusion, the following steps are recommended:</p> <ul style="list-style-type: none"> — Behaviour study to understand women’s needs, preferences and usage of current products, services and channels. — Digital financial identification system to address the absence of documentation that is required to meet the KYC norms. India’s Aadhaar programme is an initiative that can be examined as it uses biometric authentication to create a central database of its citizens. — Developing alternate scoring methods that can use the data derived from mobile phone use and digital payments. For example, Hong Kong-based AMP Credit Technologies provides a service that allows financial institutions to offer short-term loans to small business owners through the borrower’s electronically verifiable cash flow – such as credit card payment activity – and other available data — Ensuring strong customer support services to women to help clear confusions and complications in the process of application 	
<p>Expected Impact: Greater digital financial inclusion of women</p>	
<p>Stakeholder: Financial Institutions</p>	
<p>Ease of Implementation: Medium</p>	
<p>Criticality: Medium</p>	

STEP 4: MARKETING AND OUTREACH

Uptake of products and services offered by banks in Bangladesh have been limited by both demand and supply side constraints. On the demand side, women lack awareness on financial schemes and products available for financing their enterprise. Gender responsive financing does not stop with development of well-designed services, it is critical to communicate and market the benefits of financial offerings by institutions. A well-articulated marketing strategy needs to consider every aspect of customer experience that includes; products, price, promotion and placement. On the supply side, banks are constrained by manpower and noted issues in identification of genuine women enterprises that are owned and managed by women. To address the demand and supply side constraints in outreach and marketing, the below outlined steps are recommended.

Recommendations towards enhancing outreach and marketing activities	
Issue	Recommendation 1
<p>The study indicated that women with banking histories were more likely to avail loan than others. However, the importance of this factor is unknown to women. A meagre 26.5% of women aged 15+ had bank accounts.</p>	<p>A. <u>Build Non-Credit Banking Relationships</u></p> <p>Financial institutions establish an individual's credibility based on a host of factors, including the individual's non-credit relationships with the bank. This forms a relatively easier credit assessment criterion for women to fulfil, as against providing collateral or guarantors. Establishing a banking relationship increases the comfort factor for bankers and borrowers, reducing risks in lending.</p>
<p>Tips for Implementation:</p> <ul style="list-style-type: none"> — Encourage recruitment of local relationship managers, enabling greater outreach — Increasing awareness on the importance of opening bank accounts and establishing banking relationships, through marketing campaigns and external agents — Encourage women loan applicants to create deposits and lend after a minimum period to address issues of risks in lending 	
<p>Expected Impact:</p> <p>Relationship Managers would have a better understanding of their clients and their businesses, facilitating better risk assessment and monitoring. Non-credit banking relationships would not only increase women's probability of availing a loan, but also increase their awareness and knowledge levels.</p>	
<p>Stakeholder: Financial Institutions and Women SME entrepreneurs</p>	
<p>Ease of Implementation: Easy</p>	
<p>Criticality: High</p>	
Issue	Recommendation 2
<p>One of the most common challenges cited by bankers was identifying genuine women SME</p>	<p>B. <u>Certification of Women Managed Enterprises</u></p>

<p>entrepreneurs. Bankers often came across enterprises which may have been women-owned but not necessarily women-managed. Male entrepreneurs would often avail the trade licence in their wife's name to benefit from the lower interest rates for women.</p>	<p>The Government could enter partnerships with certification agencies that certify woman managed enterprises, such as WEConnect International. It could also extend this function through SME foundation or encourage reputable business associations to do the same.</p>
<p>Tips for Implementation:</p> <ul style="list-style-type: none"> — Government could subsidise these certificates as they are often heavily priced — Financial Institutions could make certification a part of the selection criteria to ensure lending to genuine women enterprises 	
<p>Expected Impact: Avoids misuse of subsidies and programmes meant to benefit women. Identification of genuine women-owned enterprises equitable and inclusive access to finance.</p>	
<p>Stakeholder: Government of Bangladesh, SME Foundation, WEConnect International</p>	
<p>Ease of Implementation: Medium</p>	
<p>Criticality: High</p>	
Issue	Recommendation 3
<ul style="list-style-type: none"> ▪ Identification of genuine women enterprises ▪ Banker apprehensions in lending to women SMEs with limited documentation 	<p>C. <u>Identification of Women SME entrepreneurs and Provision of Credit Referrals by Third Party Agencies</u></p> <p>Business associations and NGOs' could institute a credit referral system which would aid in connecting viable women owned businesses with financial institutions. These associations and NGOs' could additionally support women SME entrepreneurs by evaluating their business plan and documents, alongside providing undertakings in case of defaults.</p>
<p>Tips for Implementation:</p> <ul style="list-style-type: none"> — Partnerships can be brokered among financial institutions and different business associations/NGOs, where the preliminary evaluation of loan proposals is undertaken by the association/NGO. The financial institution would continue conducting the final evaluation and approval. — Post loan approval the associations and NGOs can assist financial institutions by monitoring the repayment status of women SME entrepreneurs. — Different methods of collective risk sharing can be explored 	
<p>Expected Impact: Facilitate increased access to credit to women SME entrepreneurs through existing networks. Bankers exhibiting greater willingness to lend, given shared risks.</p>	
<p>Stakeholder: Financial Institutions and Business Associations</p>	
<p>Ease of Implementation: Medium</p>	

Criticality: High

Case Study: Central Bank of India's Matsakanya Scheme

This scheme targets fisherwomen who are members of either All India, State level, local Fishermen or Local Fisher Women associations. The bank issues credit cards to members of these associations against guarantee from any other member and a letter of undertaking from the association-to help the bank in recovery/ monitoring the account.

STEP 5: INTERNAL ALIGNMENT AND SENSITISATION

Most banks in Bangladesh have instituted gender sensitive measures such as women's desks largely in fulfilment of Bangladesh Bank's mandates and guidelines. Financial Institutions in Bangladesh lack a broader vision, mission and goals towards accelerating finance for women SMEs. Financial Institutions also lack gender inclusive institutional measures such as men to women employment ratios and no gender sensitisation training of employees. Gender sensitisation of staff and obtaining internal-buy in from key decision makers and board members within financial institutions is an important step towards implementation of gender responsive measures. This may begin with internal communication effort and set up of a dedicated team within the bank to drive the project. Key performance indicators to track and measure progress internally could be developed.

Towards gender sensitization of financial institutions:

Issue	Recommendation
Women SME entrepreneurs often complained of bankers having predisposed perceptions on their operations. These often induce a gender bias in all operations of the financial institution. This creates an increasing need to sensitize bankers, particularly those involved with front end operations, on how to engage with women SME entrepreneurs. It is important to understand that Women SME entrepreneurs operate differently from male entrepreneurs, creating different financial needs than that of men.	<p><u>A. Gender Sensitization of Financial Institutions</u></p> <ul style="list-style-type: none">— Gender sensitisation trainings and toolkits for male and female loan officers. Prior research indicates that women officers are more unlikely to be gender linguistic; personal questions, such as marital status, were posed more often by women than men.— Financial Institutions could set and monitor internal targets to accelerate women's access to credit at all levels— Despite lower default rates, women are perceived as higher risk clients. Dissemination of information on women's credit profile and repayment records by financial institutions will aid in correcting banker's perception. <p>Bangladesh Bank and Central Ministries could introduce specific polices to evaluate gender based financial and social performance of financial institutions. These benchmark measures would serve as the minimum that industry stakeholders could use to track and improve their gender performance.</p>

Stakeholder: Bangladesh Bank, Financial Institutions

Importance: High, longer term benefits

IMPACT ASSESSMENT TASK FORCE

Regular monitoring and assessment of credit processes and portfolios allows financial institutions to consistently assess if they are reaching their outreach goals. Successful monitoring depends on establishing a clear set of Key Performance Indicators. MIS dashboards could then enable bankers to produce actionable reports in a timeline fashion. These reports would indicate if an institution is serving women. However, collecting and tracking gender performance cannot be performed in isolation. The following points need to be considered prior to tracking of performance:

- Ensure that there is alignment across the entire organisation on the need for integrating gender and secure institutional and internal buy in on the same. Setting of a mission will aid in setting of strategic priorities and goals that can be measured
- Institutions must agree to collect and analyse data that supports their commitment to serving women. This would also aid in data quality improvements and appropriate use of the data.
- Training of staff on collecting data and communicating the value of the same

Implementation: A Task Force of external and internal members could be instituted to include donor agencies, senior members of Bangladesh Bank, and respective Financial Institutions. The Task Force will set targets, review progresses, conduct research on issues important to women business owners towards financial inclusion and inform Government's strategy and policy action with respect to responsible finance. Specifically, the task force would be responsible for:

- Developing gender sensitive financing measures (as detailed in the previous sections)
- Ensure regular monitoring and evaluation of activities along the credit value chain and suggest corrective action

A sample set of Key Performance Indicators to track and monitor include:

Area	Category	Indicator
Customer	Outreach	Women borrowers as percent of total borrowers
Customer	Products / Services	Portfolio at risk by gender
Customer	Products / Services	Average number of transactions by gender
Customer	Service Quality	Client satisfaction score by gender
Customer	Products / Services	Percent of women clients who attended financial education programmes
Institutional	Institutional composition	Percent of women staff
Outcomes	Economic and Social Empowerment of Women	Percent of women who registered a profit or growth in their enterprise

6. Conclusion

The increase in the role of women in economic development and their limited access to finance calls for investigating the various dimensions of women’s entrepreneurial activity in the context of accessing finance. In this light, the study mapped the current financing ecosystem for women SME entrepreneurs in Bangladesh. A nationwide financing gap of 60.2% was estimated, i.e. 60.2% of the women SME entrepreneurs’ demand for finance was unmet by financial institutions.

Both, demand and supply-side challenges contributing to the financing gap were identified and investigated. All results from the investigation and other lines of evidence collected during the study were combined to develop a gender responsive financing framework. This adopts a value chain approach – starting with building a case for women-owned SMEs, followed by, effective product design and conceptualisation, marketing and outreach and internal alignment and monitoring. The recommendations developed have been summarized in the table below.

Recommendations		
STEP I: Building the Business Case for Gender Responsive Financing	1. Initiate a Women Business Census to generate data on the status of women entrepreneurship in Bangladesh	Lack of gender disaggregated data on women SMEs limits understanding of the women SME market and subsequent design of solutions
	2. Collect and report supply side data on financial inclusion thereby creating more transparency in transacting with women SMEs and adopting responsible finance practices	
STEP II: Product Design and Customer Value Proposition	3. Provide non-financial services such as financial literacy training to women SME entrepreneurs to strengthen their awareness and internal capacities to manage their business and finance their enterprise	76% of women lacked awareness on finance schemes
	4. Redesign 'Three women per branch scheme' and Refinance scheme for greater efficiency and outreach	
	5. Expand Credit Information Bureau's database to include other financing agents thereby providing bankers greater access to credit histories and ratings of women SME entrepreneurs	
	6. Modify credit appraisal criteria to include Qualitative Credit Assessment mechanisms based on factors such as relationship with bank, competitiveness, etc.	
	7. Strengthen asset registry systems to be more inclusive of SMEs. Creation of collateral registries could strengthen product diversification and increase asset creation among women.	

	8. Consider non-conventional forms of collateral such as receivables and movable assets, credit insurance, etc.	69% of women face challenges in meeting collateral requirements
	9. Support lending to high growth sectors now seeing increasing participation of women. Conduct cost-effective due-diligence of women SMEs in non-traditional sectors to mitigate perceived risks associated with technical know how	
STEP III: Delivery: Ease processing and enhance service delivery mechanisms	10. Deploy external facilitators and agents to ease loan application processing and spread awareness on loan products to women	88% of women were dissatisfied with loan application processes. On average, women made 13 visits to the bank
	11. Introduce technology-based workflows for small ticket loans thus reducing operating costs, manpower constraints and turnaround time	
	12. Strengthen mobile financial services as a tool for greater digital financial inclusion of women	
STEP IV: Marketing and Outreach	13. Build non-credit banking relationships by recruiting local relationship managers	Identification of 'genuine' women SME entrepreneurs was a challenge for all bankers
	14. Certify women 'managed' and owned enterprises to ease issues in identification of genuine women SME entrepreneurs	
	15. Develop third party credit referral systems through business associations; connecting viable women businesses with financial institutions	
STEP V: Internal Alignment and Sensitization	16. Gender sensitize financial institutions through trainings, setting of internal lending targets, policies to evaluate gender and social performance of financial institutions	Pre-conceived notions on the role of a woman as primary caregiver limits their access to formal sources of finance
Set up of a BANKING / IMPACT ASSESSMENT TASK FORCE to set targets, review progress, monitor and evaluate activities against pre-determined performance indicators and aid financial institutions to develop gender sensitive financing measures.		Limited collaborative effort towards financial inclusion and monitoring of interventions

The exhibit below provides the immediate steps and activities in the longer run that could be taken up by the IFC for greater financial inclusion of women SMEs. Several programmes and initiatives exist in Bangladesh for improving financial literacy and access to credit for women, however these programmes lack an institutionalised and sustainable approach towards accelerating finance to women. Many programmes are found to be ad-hoc in nature with limited understanding of the demand and supply side constraints. The approach suggested below is aimed at building collaborative and sustainable action towards financial inclusion, taking into perspective views of all

stakeholders in designing and implementing the interventions. The approach also incorporates a Monitoring and Evaluation component.

6.1. Way Forward

WAY FORWARD	
Immediate [Next 3 Months]	<ul style="list-style-type: none"> Initiate creation of a Banking Task Force. The role of this task force in the immediate term would be to build consensus among public and private banks, NBFCs and other financial institutions on the importance of lending to women and secure their buy-in towards participating in activities leading to greater financial inclusion of women. The task force will further prioritize recommendations/actions and identify possible funding sources. The IFC along with best performing financial institutions (in terms of lending to women) could present a case to the Government of Bangladesh to formalise and institutionalise the process of building a business case for women SMEs by initiating a Women Business Census and necessitating mandatory publishing of data on lending to women and repayment rates of women. This has greater implications in the longer run and would involve engaging with Bangladesh Bank and the Government of Bangladesh on a regular basis in the immediate and long run. <u><i>[List of activities as outlined in the previous table under Building the Business Case for Gender Responsive Financing]</i></u> <p>Key Stakeholders: IFC, Financial Institutions and Bangladesh Bank</p>
Short Term [3-6 Months]	<ul style="list-style-type: none"> Begin gender sensitisation trainings of financial institutions, wherein the importance of lending to women and recognising their distinct needs is understood and accepted by employees of a financial institution. Engage with financial institutions to gather their perspective on the feasibility of adopting gender responsive practices or activities that realign their business models from a product-centric to a customer-centric approach. Options for financing and sustainability of initiatives should also be discussed at this stage. <u><i>[List of activities as outlined in the previous table under Internal Alignment and Sensitization]</i></u> <p>Key Stakeholders: IFC and Financial Institutions</p>
Mid Term [6 Months – 1.5 Years]	<ul style="list-style-type: none"> Support financial institutions to set internal targets and goals towards ensuring greater financial inclusion

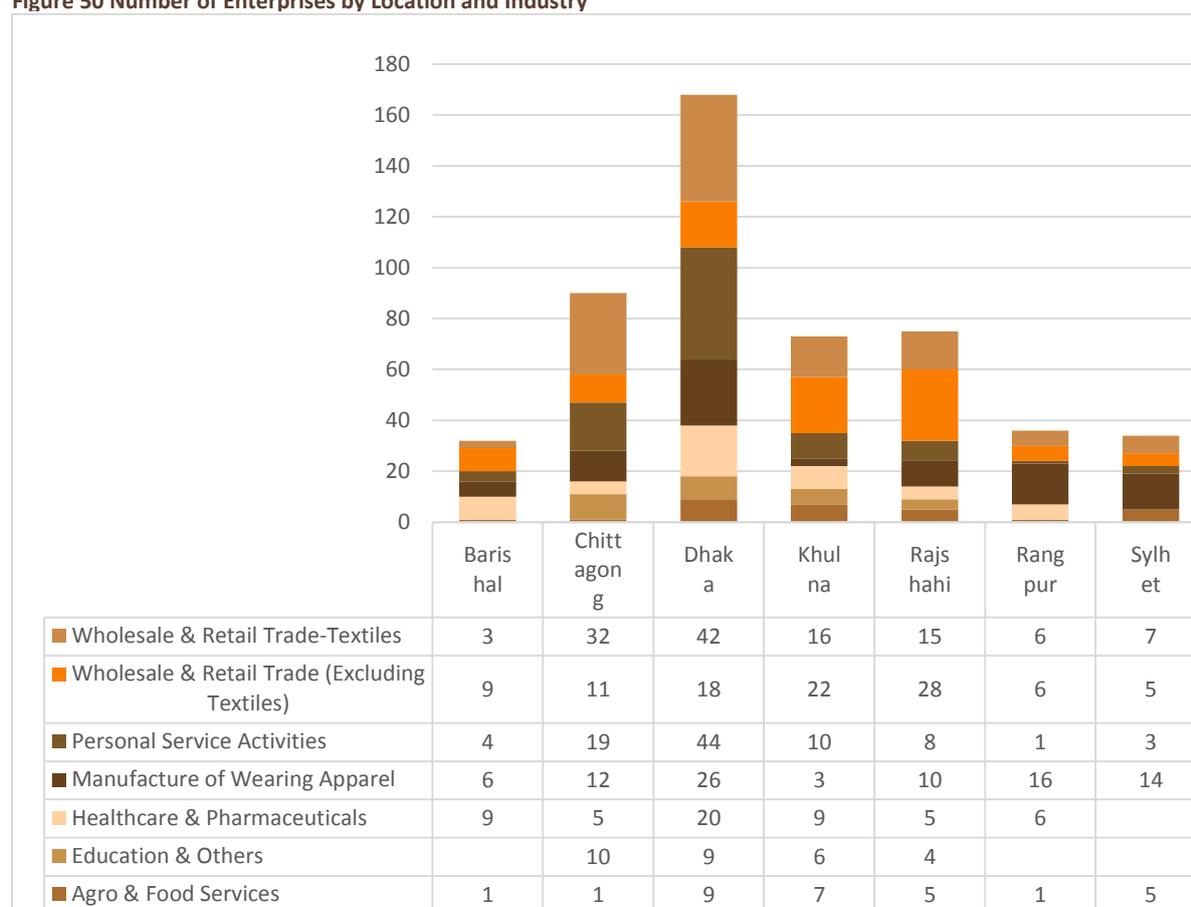
	<ul style="list-style-type: none"> • Support financial institutions to finalise list of activities / strategies to be adopted towards achievement of goals/ targets. <u>[List of activities as outlined in the previous table under Customer Value Proposition, Delivery and Marketing]</u> • Support financial institutions to develop programme-specific implementation plans. Coordinate with Bangladesh Bank to secure any authorizations. <p>Key Stakeholders: IFC, Financial Institutions and Bangladesh Bank</p>
Long Term [2 – 5 years]	<ul style="list-style-type: none"> • Develop a list of Key Performance Indicators to regularly track progress of financial institutions in meeting their targets • Provide necessary support to financial institutions in implementation of interventions • Recommend necessary course correction in activities / interventions based on evaluation results. <u>[List of activities as outlined in the previous table Impact Assessment Task Force]</u> <p>Key Stakeholders: IFC and Financial Institutions</p>

Appendix

A. Addendum: 'At a Glance' Report for Financial Institutions

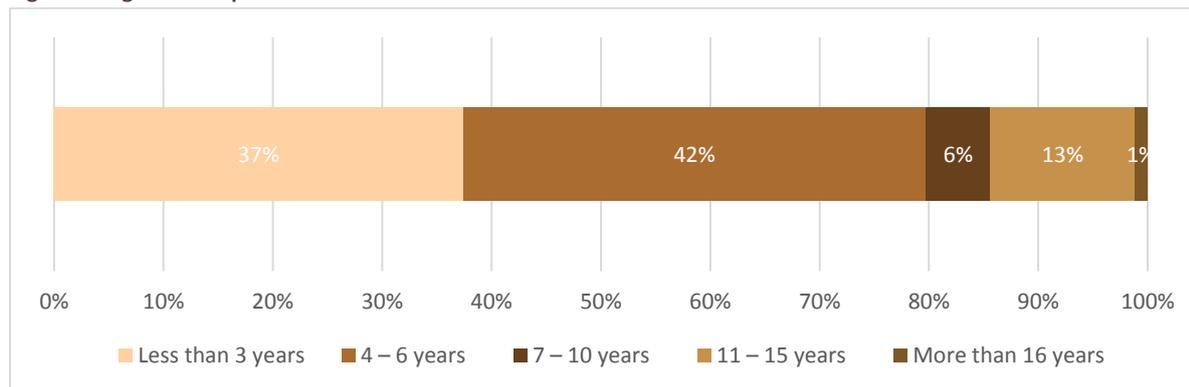
The sample size of 508 women owned and managed enterprises does not allow for an in-depth analysis but does provide a bird's eye view of the industrial divide by location. Therefore, the enterprises interviewed across seven administrative divisions offer an 'at a glance' visual of how the various industries are distributed across the divisions.

Figure 50 Number of Enterprises by Location and Industry



Source: The IFC-Gender Finance Survey, 2016

Figure 51 Age of Enterprise



Source: The IFC-Gender Finance Survey, 2016

Many of the enterprises interviewed have been in business for quite some time. However, nearly 37% are below 3 years (190 respondents) and another 42% had been in business for 4 to 6 years. Just one enterprise was noted to be operating for more than 30 years. Additionally, almost all the respondents (99%) were small enterprises. It is also interesting to see how the enterprises are distributed across the country.

Figure 53 Enterprises by Location

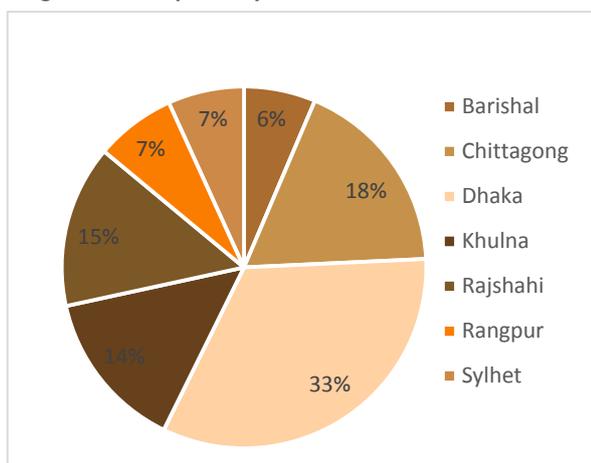
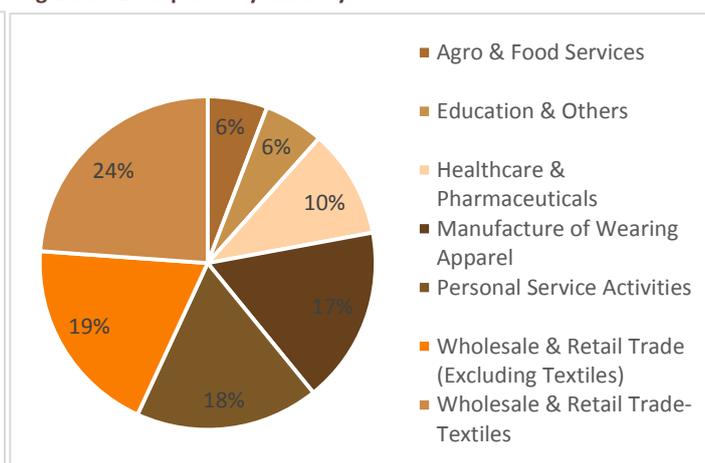


Figure 53 Enterprises by Industry



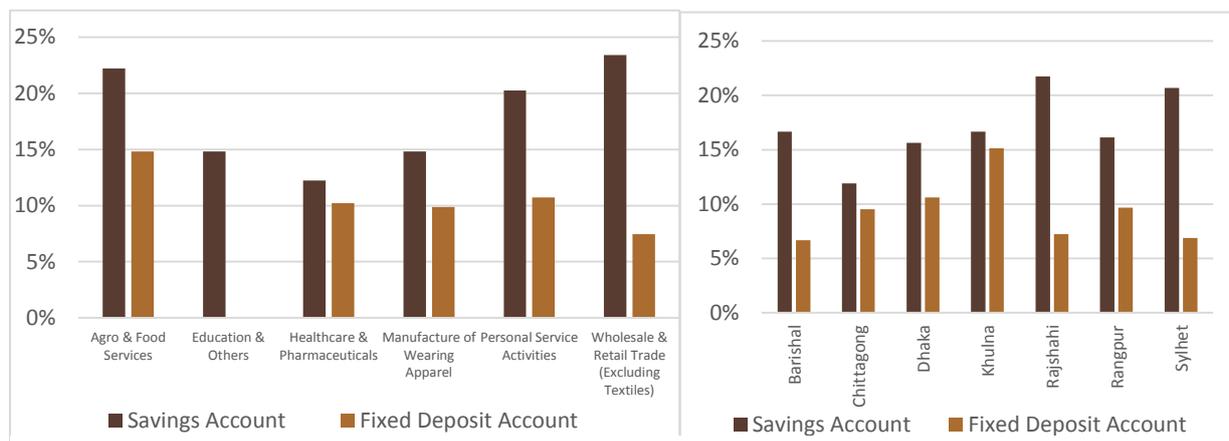
Source: The IFC-Gender Finance Study, 2016

The respondent selection was based on the most exhaustive database of women SME entrepreneurs, made available by the SME Foundation. The location of the small enterprises corroborates what one would have intuitively expected, i.e. fewer business in the northern part of Bangladesh and heavy concentration in Dhaka followed by Chittagong, Barishal and Khulna divisions. In Sylhet, a more conservative religious area and where there is high remittance income, there are the fewest number of women owned and managed enterprises.

Also, corroborating expectations is the 43% concentration of the respondents in retail trade. This has been segregated and observed for Textiles (24%) and Others (19%). This is closely followed by personal service activities (including beauty parlours) and Apparel Production. This was followed by the non-traditional sector of Healthcare and pharmaceuticals, which included pharmacies, diagnostic centres, and homeopathy, dental and physiotherapy clinics.

Banking Services Used

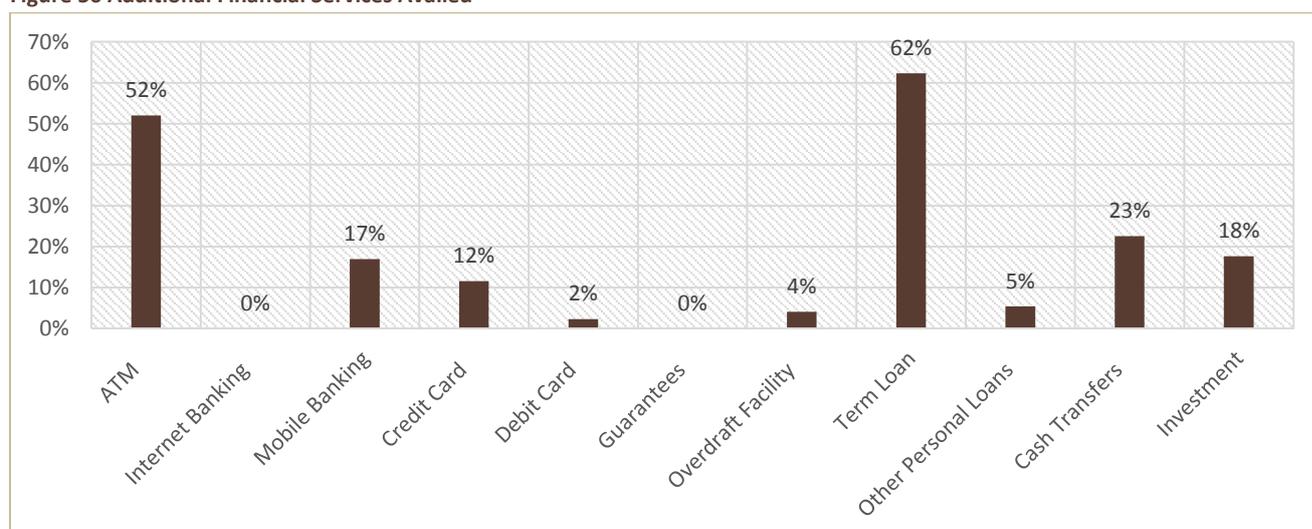
All the businesses have seen ups and downs and have been able to access financial services to varying degrees of success. While some have accessed financing, some have not been granted financing and others have chosen not to for a variety of reasons. These have been explored in other parts of the report.



Source: The IFC-Gender Finance Study, 2016

All the enterprises interviewed had current accounts with banks and some had additional accounts such as savings accounts and fixed deposit accounts. The willingness of these entrepreneurs to open multiple accounts signals a change of the thought process and an increasing understanding on the importance of opening bank accounts. The banker interactions undertaken as part of the study, further indicated increased comfort levels in lending to pre-existing customers. In cases where an existing customer is a prospective borrower, the bank can avail first-hand information on their cash flows from their multiple accounts. This should encourage the financial institutions to develop appropriate savings instruments that can be marketed to these types of businesses.

Figure 56 Additional Financial Services Availed

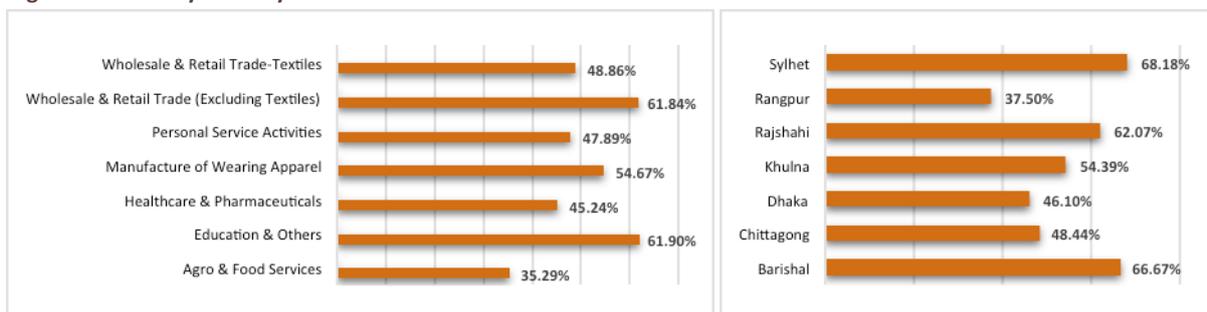


Source: The IFC-Gender Finance Survey, 2016

The respondents are also using other banking products and the proportion of banking services being used across the seven industry types identified in this survey is presented here. For each of the services presented, the presentation is by industry and by division. Based on this, the financial institutions interested in developing relationships with these types of small enterprises can market these services first as a means of adding value to their customers. The usage data then generated can be used to develop products targeting these segments and thus gain comfort about a customer's business before beginning a lending relationship with them.

It is particularly interesting is that none of the respondents are using internet banking or guarantees. This is may be due to the types and sizes of business involved and the level of education of the entrepreneurs or their customers.

Figure 57 ATM - by Industry & Division

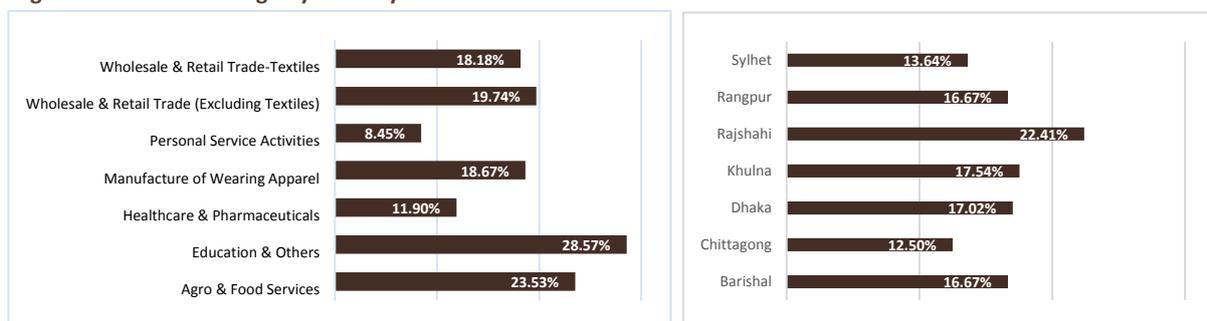


Source: *The IFC-Gender Finance Survey, 2016*

The percentages presented here refer to the proportion of responders that use ATM as an additional banking service. For example, 68.18% of all responders in Sylhet availing additional banking services, stated that they used ATMs. Similarly, 61.84% of all responders who are engaged in the business of Wholesale & Retail Trade (Excluding Textiles) and availed additional banking services stated that they used ATMs. This is again useful as a track record of financial transactions that can be used to ascertain the enterprises' cash flow and by association, revenues and expenses. The ATMS may also be used as cash-out points for those using mobile banking services.

Mobile Banking

Figure 58 Mobile Banking - by Industry & Division



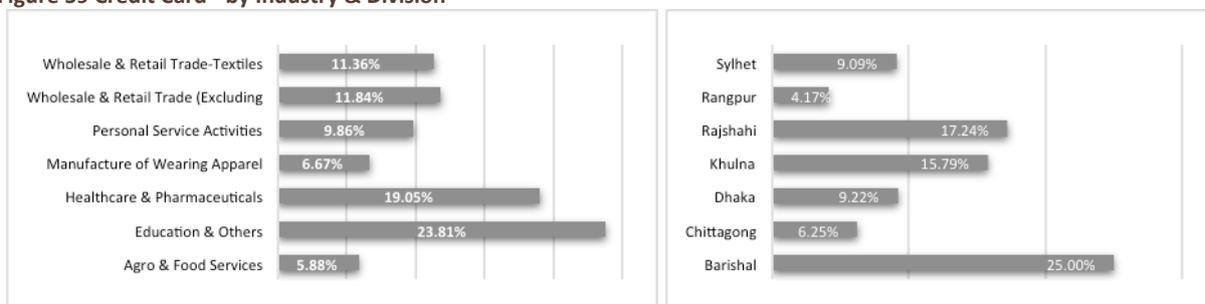
Source: *The IFC-Gender Finance Study, 2016*

Mobile banking services are being used across all geographies and industries, appearing to be a growth area for the financial sector. Enterprises across the different segments have demonstrated their comfort in using mobile payments services being offered in the market. This is most likely for

facilitating payments and funds transfer. In any case this offers a formal track record of financial transactions that can be used to ascertain the enterprises' cash flow and by association, revenues and expenses.

Credit Card

Figure 59 Credit Card - by Industry & Division

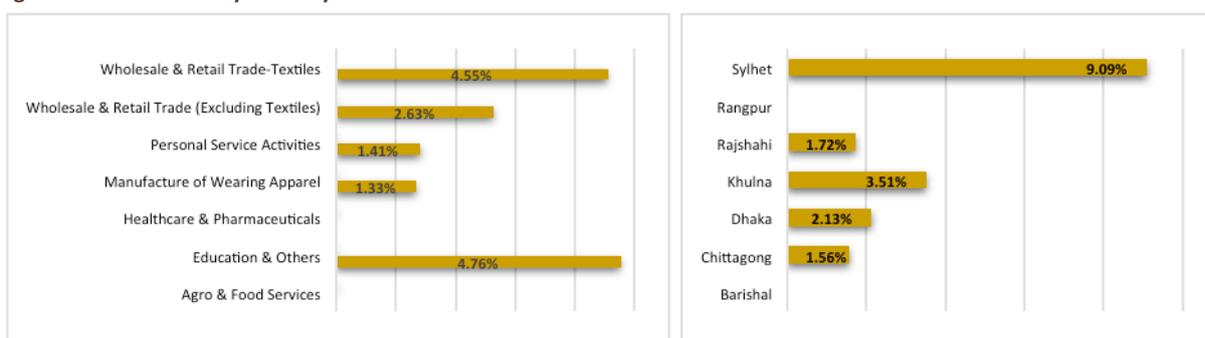


Source: The IFC-Gender Finance Study, 2016

The percentages presented here refer to the proportion of responders that use credit card as an additional banking service. It needs to be noted here that credit card acceptance and usage is very limited outside Dhaka. Only 45 responders out of the 508 used a credit card. There were 13 credit card holders from Dhaka, 6 from Chittagong and surprisingly 10 from Rajshahi. This is an area that can be explored especially with the development of SME friendly offers as well as creating awareness about the potential for increased sales if the entrepreneur accepts credit cards.

Debit Card

Figure 60 Debit Card - by Industry & Division

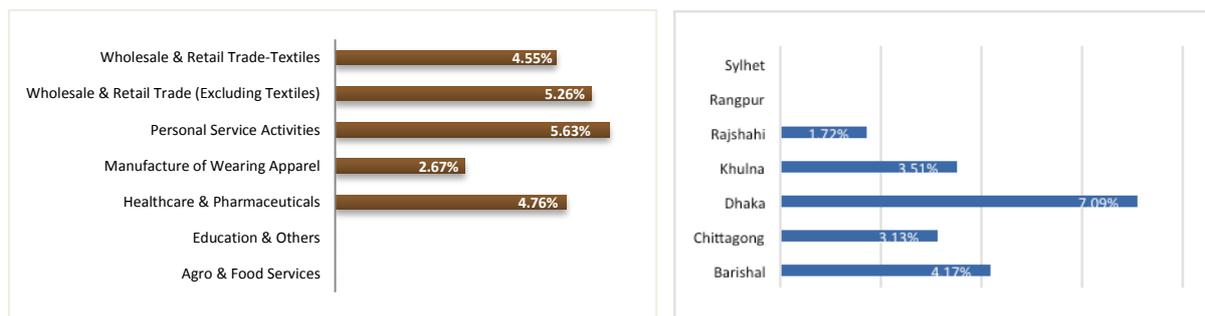


Source: The IFC-Gender Finance Study, 2016

The percentages presented here refer to the proportion of responders that use debit card as an additional banking service. Like credit cards, there is even less usage of debit cards outside Dhaka. Only 9 responders out of the 508 used a debit card. The introduction of mobile banks and agent banks may limit the growth of the debit card usage across Bangladesh.

Overdraft

Figure 61 Overdraft - by Industry & Division

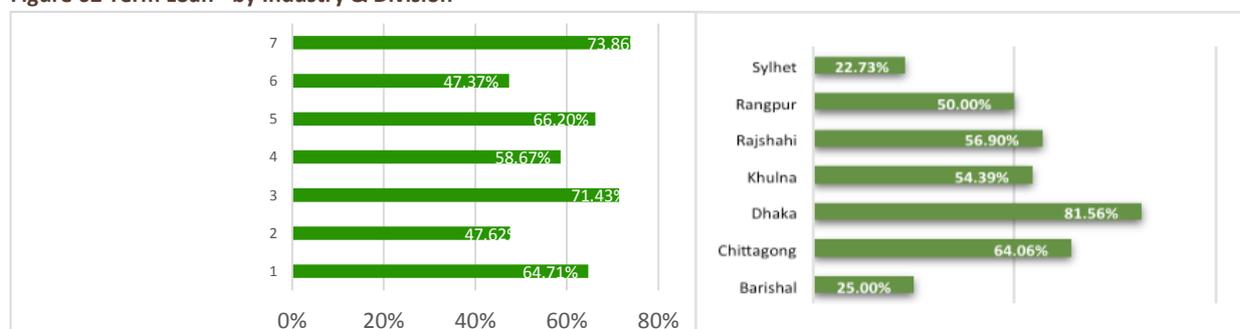


Source: The IFC-Gender Finance Study, 2016

An overdraft account has always been the preferred financing instrument by businesses because of the flexibility it provides. However, recent developments in banking practices have made this facility unavailable to most small enterprises and particularly those that do not have any property to pledge. As can be seen from our respondents, most small enterprises don't have access to overdraft facilities. Only 16 of the 508 respondents had availed it. Nonetheless, it is interesting to note that all the 16 entrepreneurs were successful in availing a loan. This dismal number and their success in availing loans was partially explained through discussions with the various financial institutions. They indicated that the difficulty in monitoring these accounts were relatively higher. Leading to increased reluctance and risk aversion amongst bankers in offering overdraft accounts.

Term Loan

Figure 62 Term Loan - by Industry & Division

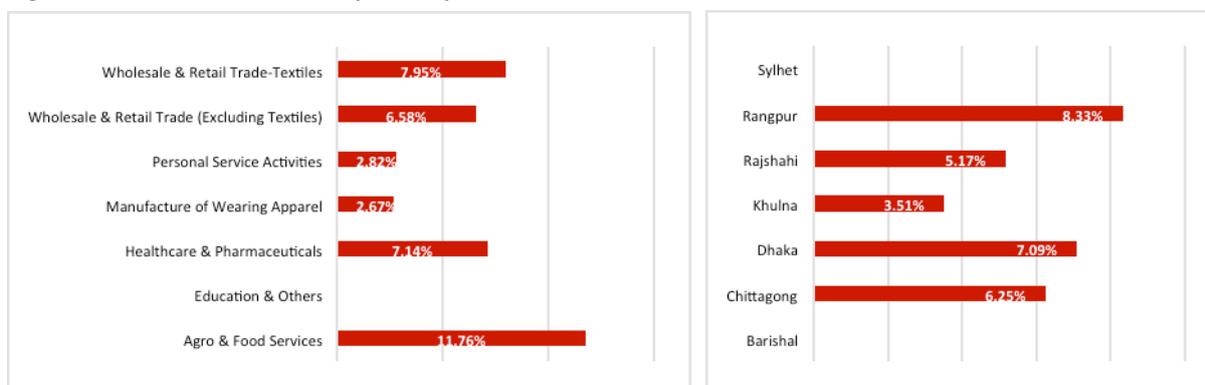


Source: The IFC-Gender Finance Study, 2016

Term loans are the most used financial instrument in Bangladesh for SME finance even though most of the businesses surveyed had very little fixed assets. The focus has been in extending term loans, even for working capital purposes. For example, only 38 out of the 244 respondents who have availed loans have done so for fixed asset financing whereas 145 loans have been extended for periods between 18 and 120 months. This is an area that needs to be looked at by the banking community as short term financing needs should be met with short term facilities. When a borrower is offered a loan for 24 months and their cash cycle is 90 days, it is likely that the borrower will use the money for other things that may not be business related and as such not revenue generating. This is likely to get the borrower into trouble over time, should they not be able to repay the loan. Revolving time loans may be a better option although it is presently very unpopular among the

businesses. Awareness creation about responsible financing would prevent both the lenders and borrowers from making these types of mistakes.

Figure 63 Other Personal Loans - by Industry & Division



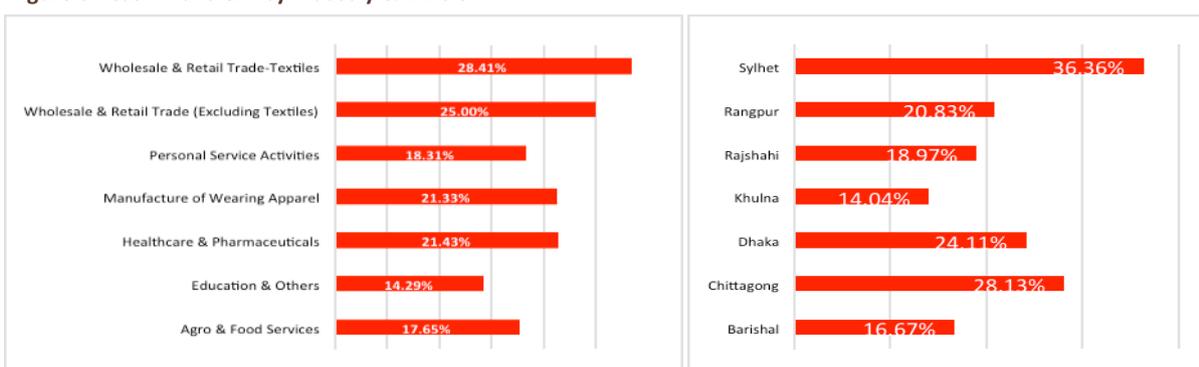
Source: The IFC-Gender Finance Study, 2016

Other Personal Loan

Amongst the enterprises that had availed financial services, 5.4% had availed finance under personal loans. This comprised of 21 enterprises from the total 508 enterprises interviewed. The highest adoption rate for this was seen in the Agro & Food Services sector, with 11.76% having availed personal loans. Some of the women SME entrepreneurs surveyed cited instances of bankers encouraging borrowing under personal loan, at a higher interest rate, as they were not eligible for a corporate loan. This is indicative of the scope for financial institutions to accelerate women SME entrepreneurs' access to finance by incorporating qualitative credit assessment criteria.

Cash Transfer

Figure 64 Cash Transfer - by Industry & Division

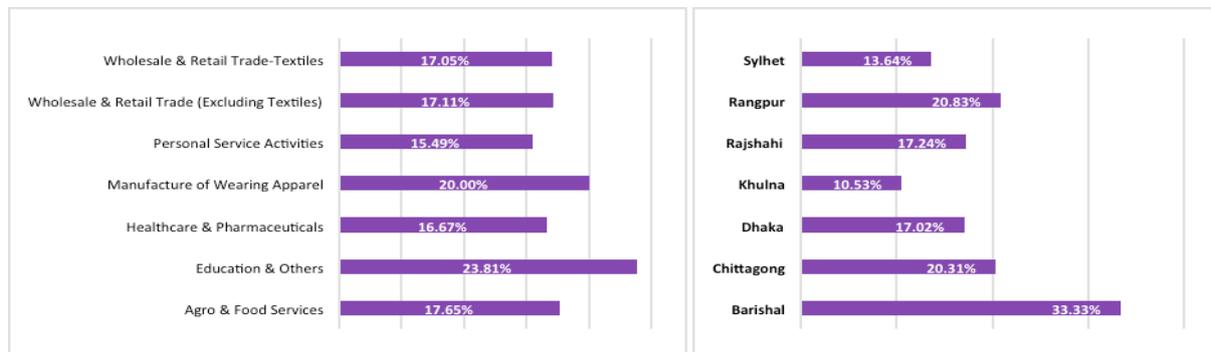


Source: The IFC-Gender Finance Study, 2016

The percentages presented here also refer to the proportion of respondents that use cash transfer as an additional banking service. For example, 36.36% of responders in Sylhet who use additional banking services use cash transfer service offered by the banks. This accounts for only 8 of the 88 respondents across the country who use cash transfer service. Competing with this service are the mobile banking services within the ambit of formal finance. However, there are also informal transfer mechanisms that have taken hold, such as courier services in the absence of an appropriately priced bank service.

Investment (Fixed Deposit, Bonds, etc.)

Figure 65 Investment (Fixed Deposit, Bonds, etc.) - by Industry & Division

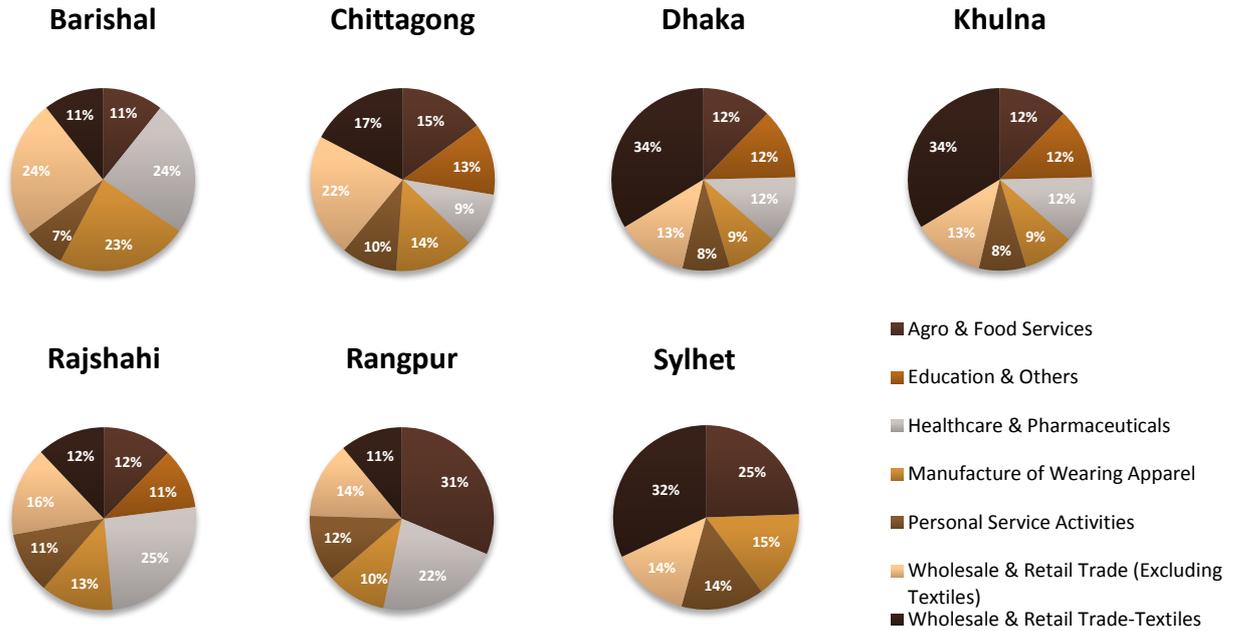


Source: The IFC-Gender Finance Study, 2016

There were only 69 respondents out of 508 who stated that they have invested in fixed deposits, savings bonds, etc. This is typical of the entire banking sector that has only recently been focusing on developing deposit and investment products that target SMEs. This is an area with significant potential that financial institutions need to capitalize on. It not only offers the opportunity to increase the banks' deposit base but also bring more financial service customers into the bank. The formal track record that these businesses develop over time will generate more business for the banks while allowing the businesses to access the financial services they need.

The breakdowns by industry and division are intended to help financial institutions identify banking services that may help them gain a loyal customer base and to be able to gain a better understanding of the financial transactions and fiscal behaviour of the industries that the responders have been involved in. The variations across the divisions are also useful in targeting appropriate banking services in each of the divisions.

Figure 66 Average Total Sales - by Industry & Geography



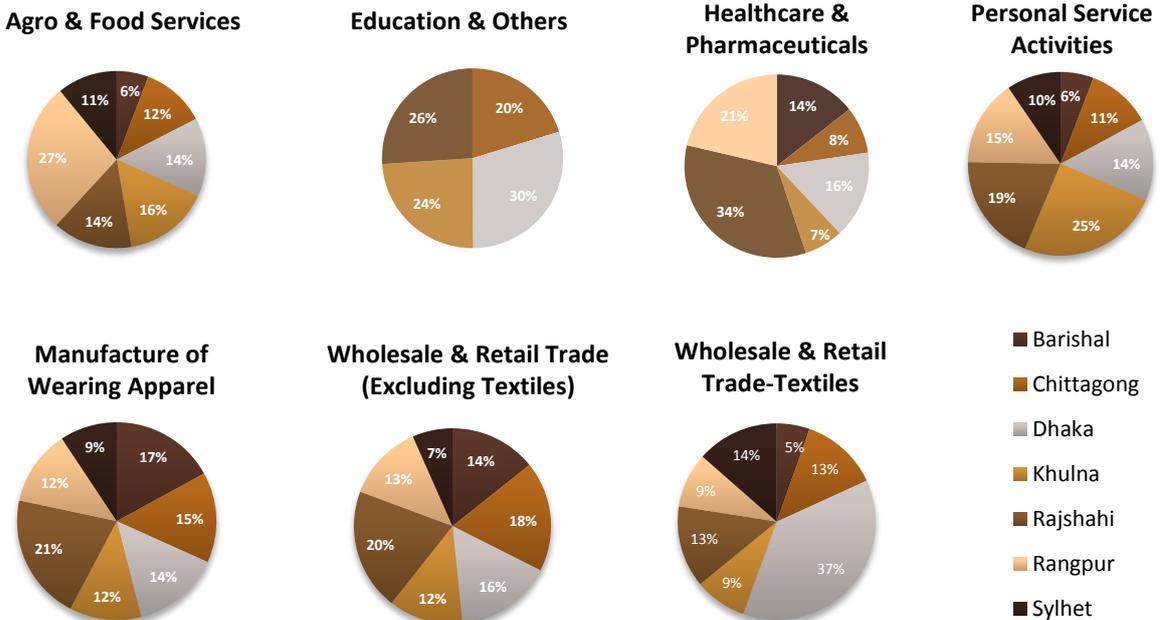
Source: The IFC-Gender Finance Study, 2016

Percent Contribution of Average Total Sales by Industry by Division

The percentages show the relative size of the industries in terms of sales across the divisions. For example, in Sylhet, the Wholesale & Retail Trade – Textiles account for the highest sales as a percentage of the total sales of all the respondents from Sylhet.

Percent Contribution of Average Monthly Operating Expense by Division

Figure 67 Average Monthly Operating Expense by Division



Source: The IFC-Gender Finance Study, 2016

The percentages show the relative amount of operating expenses for each of the industry segments surveyed. Higher percentage means higher the fund requirement to manage their operations. This can be used as a measure to determine the biggest industry segments in terms of operating expenses.

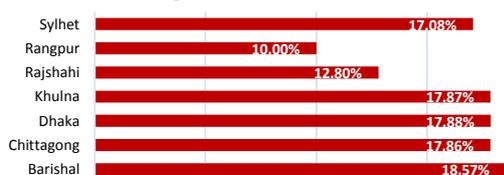
These percentages are useful for prioritizing the industries to target across the divisions.

Operating Profit by Industry

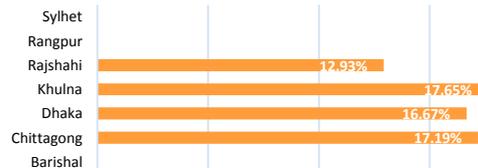
Figure 68 Operating Profit by Industry & Geography



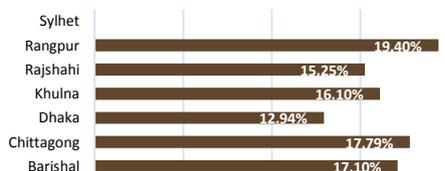
Agro & Food Services



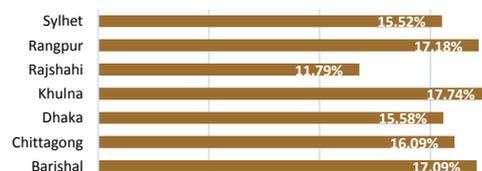
Education & Others



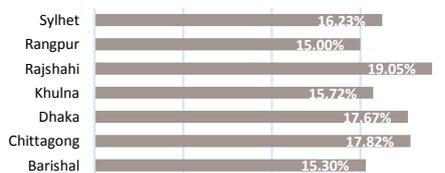
Healthcare & Pharmaceuticals



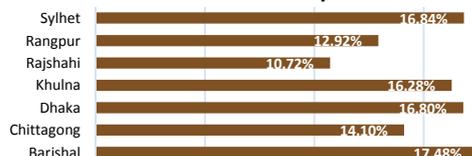
Manufacture of Wearing Apparel



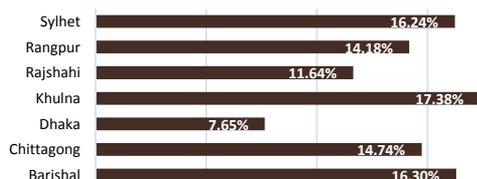
Personal Service Activities



Wholesale & Retail Trade (Excluding Textiles)



Wholesale & Retail Trade-Textiles



Source: The IFC-Gender Finance Study, 2016

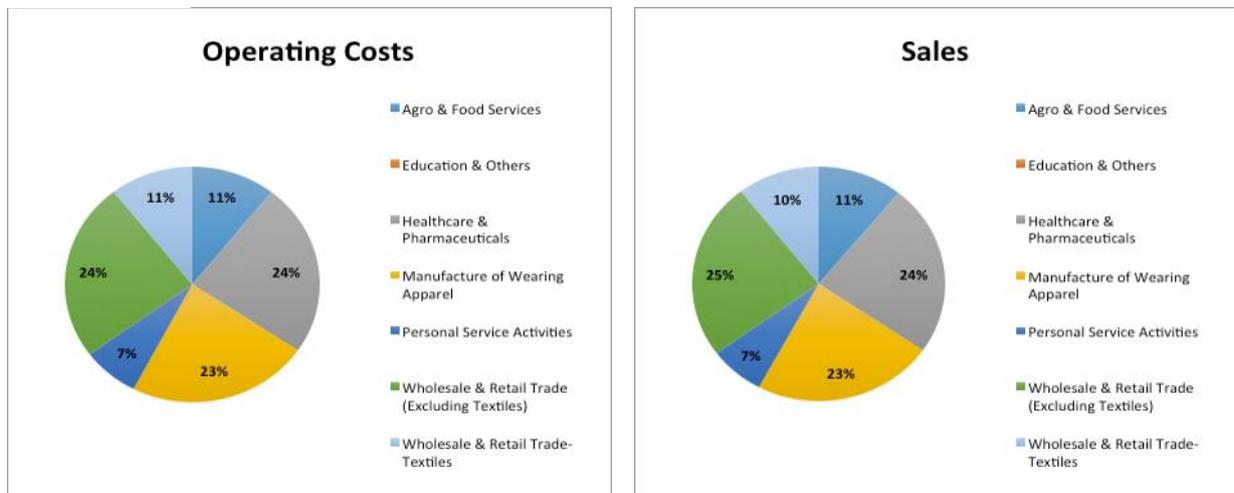
The operating profits of each of the industries in which each of the women SME entrepreneurs are engaged is presented at the top of this section. This represents the average operating margins of each of those industries across the country.

The latter graphs show the operating profits industry wise for each division. This is very useful as a benchmark of the performance of the industries in each division. Unfortunately, due the limited number of respondents in this survey, some of the divisional operating profits are not represented for certain industries. However, the average operating margin for the industry can be used.

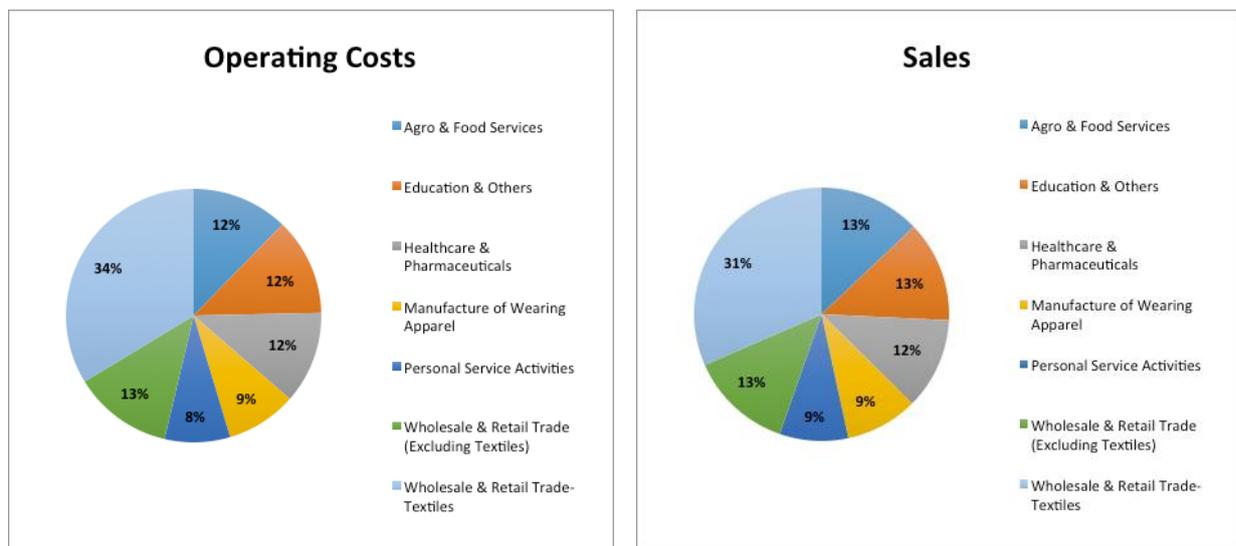
Operating Expenses and Sales by Industry for each Division

Figure 69 Operative Expenses by Industry for each Division

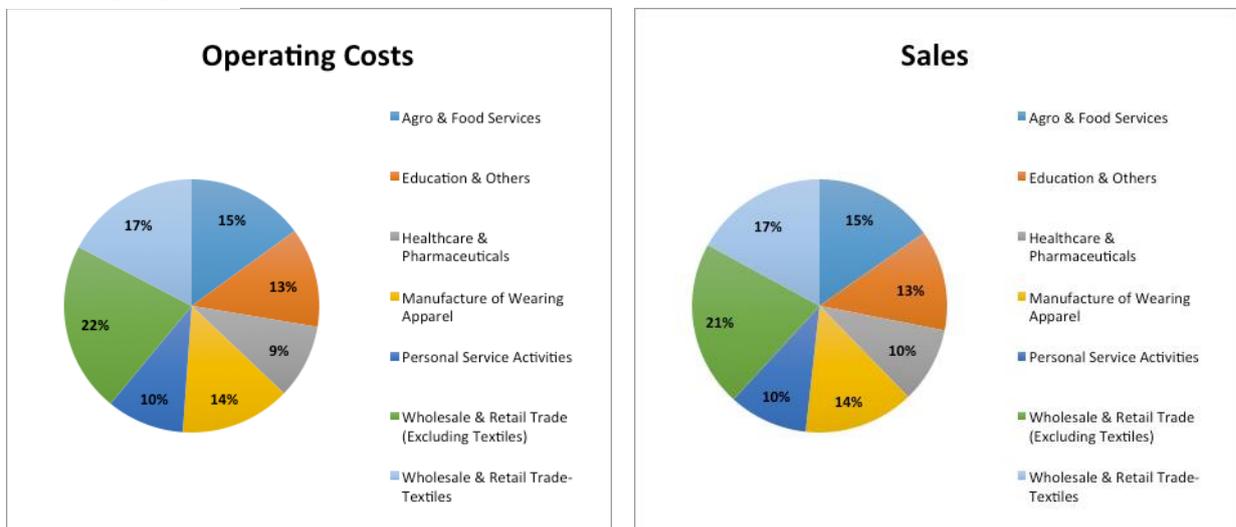
Barishal



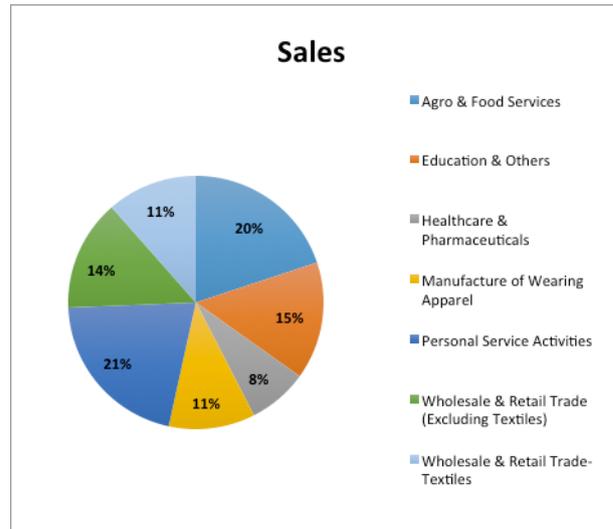
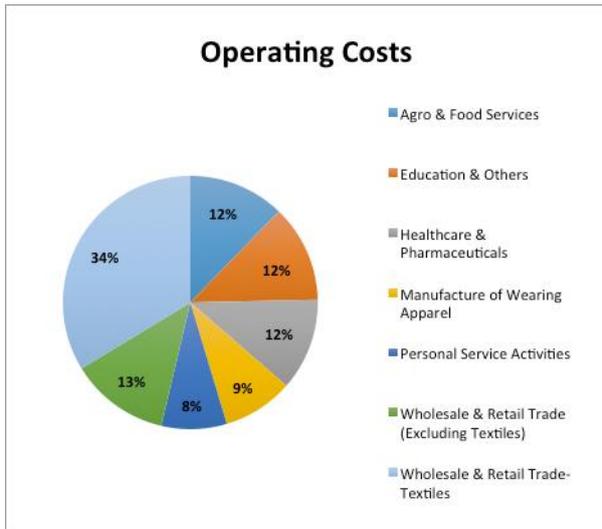
Dhaka



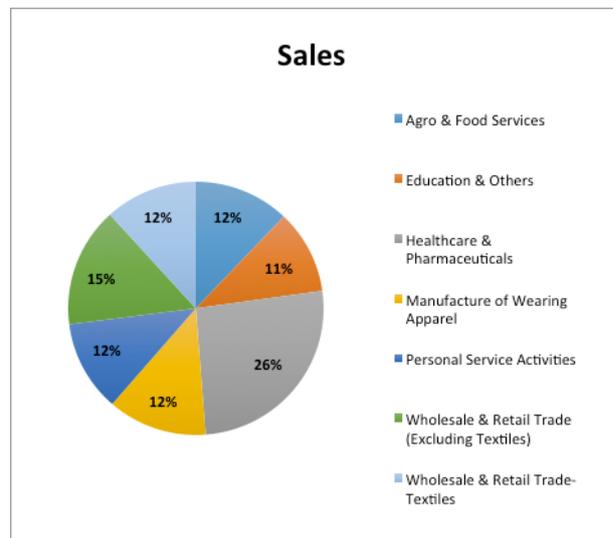
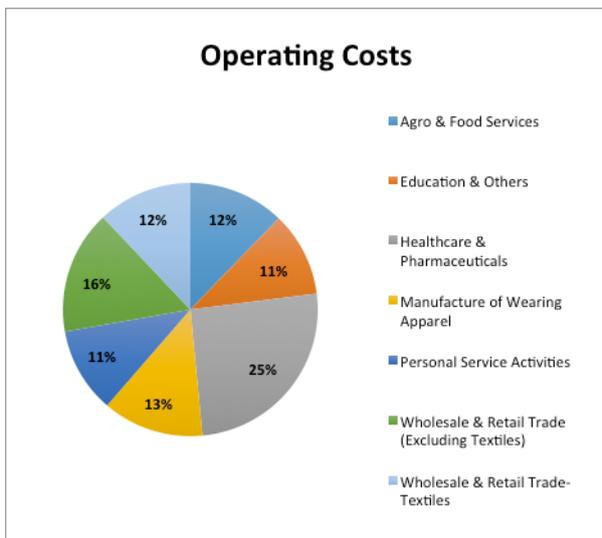
Chittagong



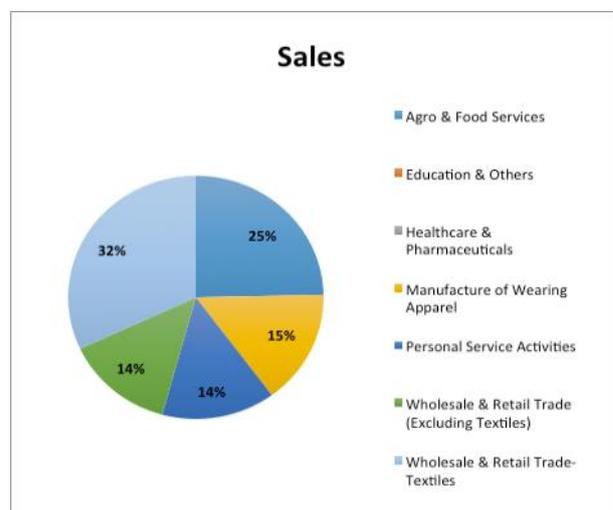
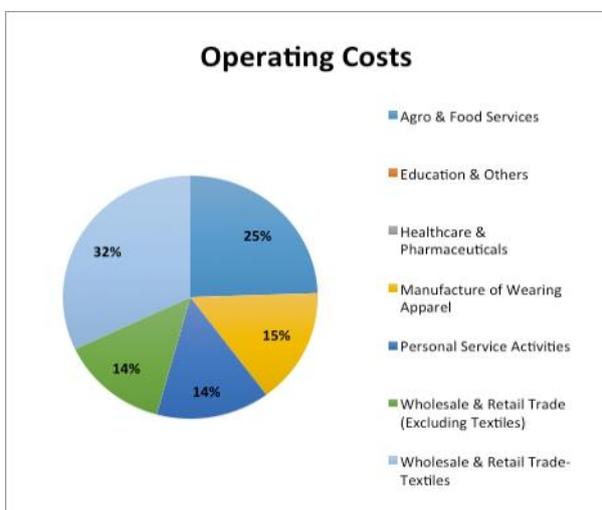
Khulna



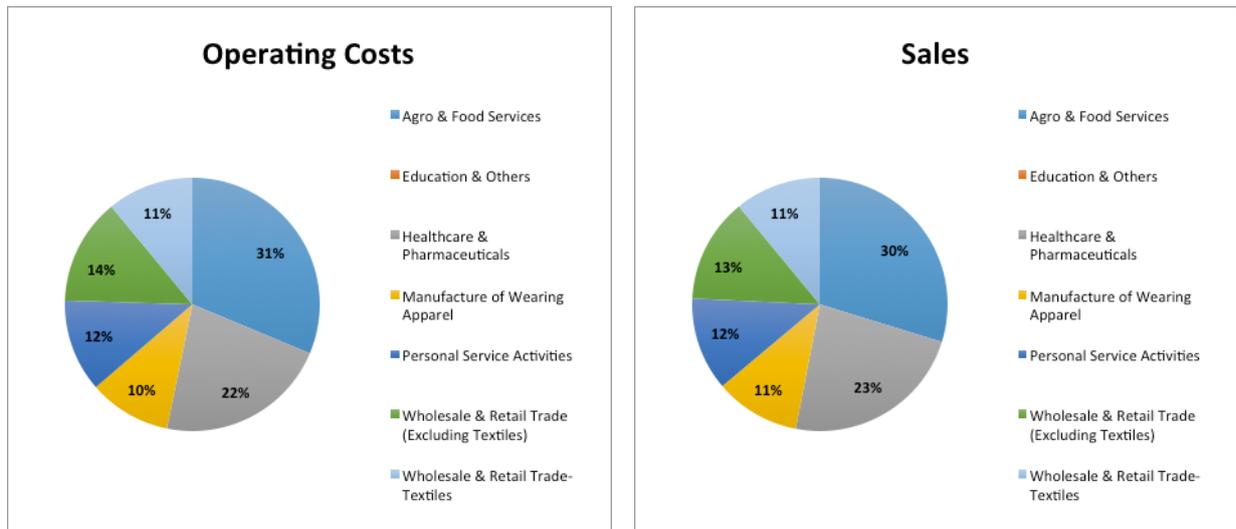
Rajshahi



Sylhet



Rangpur



Source: *The IFC-Gender Finance Study, 2016*

The percentages in the two pies will not give the operating margin for each industry. This has been covered in the previous section. The pies each show the proportion of the average operating costs and sales respectively in each of the divisions for each of the industries. The bigger the pie, the bigger the cash flow of the industry. This can be used to get an understanding of which industry to prioritize for developing and offering banking services.

It needs to be kept in mind throughout the report that these are mostly small enterprises and their needs will be on low cost solutions that they can use regularly. The financial institutions therefore need to look at areas where they can generate larger volumes of transactions to generate the revenues necessary to sustain the services.

B. Approach and Methodology

I. Preparatory Phase

The project begins with a review of existing literature and support schemes to understand the existing debt financing ecosystem, for women in the country, focusing on the SME sector. This included publication by the SME Foundation, the Bangladesh Bank, the Bangladesh Bureau of Statistics and other agencies. This was complemented by the compilation of a database, depicting bank loan/schemes to SMEs. It further draws upon the provisions made for women SME entrepreneurs, by segregating and evaluating the institution's schemes as below:

- (i) **Women Specific Schemes:** Proportion of the institution's SME schemes exclusively for women SME entrepreneurs.
- (ii) **Women Friendly Schemes:** Proportion of the institution's SME schemes, which provide special concessions to women SME entrepreneurs.
- (iii) **Gender Agnostic MSME schemes:** Proportion of the institution's schemes, which are targeted at MSMEs' in a gender agnostic manner.

II. Sample Design and Sampling Strategy

The primary survey blueprint was developed in the second phase. This included the sampling strategy, development of survey guides, questionnaire and roll out of the primary research survey.

WOMEN SME ENTREPRENEURS SURVEY:

To identify a representative sample of 500 women SME entrepreneurs, a systematic random sampling technique was adopted. This was based on the location of an enterprise, sampling across all seven administrative divisions (Bibhag). Within the administrative divisions, the districts and their corresponding proportion of women SME entrepreneurs sampled was based on the concentration of women SME entrepreneurs in the selected districts.⁸ These districts were then further sampled based on the presence of 'SME Service Centers' in the districts.⁹ SME Service Centers represent the dependent demand for SME finance in a district. Thus, greater the SME Service Centers in a district, the better it represents the targeted women SME entrepreneurs in the study. This strategy was then used to sample 12 districts, as tabulated below:

Admin. Selection	Sampled Districts	Avg. Women SME entrepreneurs Sampled Per District	Districts Sampled per Admin.	Total Women SME entrepreneurs Sampled Per Admin. Selection
Dhaka	Dhaka	56	3	168
	Tangail			
	Gazipur			
Rajshahi	Rajshahi	38	2	75
	Bogra			
Rangpur	Rangpur	36	1	36
Chittagong	Chittagong	45	2	90

⁸ MIDAS and SMEF (2009)

⁹ SME & Special Programmes Department, Bangladesh Bank, 'Small and Medium Enterprise (SME) Credit Policies & Programmes'

	Comilla			
Khulna	Khulna	37	2	73
	Jessore			
Barisal	Barisal	32	1	32
Sylhet	Sylhet	34	1	34
Total Women SME entrepreneurs Sampled			12	508

Figure 70 Sampling Plan

KEY INFORMANT INTERVIEW:

To evaluate the supply-side constraints in lending to women SME entrepreneurs, detailed interviews were conducted with banking/ financial institutions and other key stakeholders (such as the Bangladesh Bank and the SME Foundation). The secondary research from Phase-I was used to map and sample stakeholders across various categories including: Investors, Government, Business Associations and other national and international agencies engaged in the space of women SME entrepreneurship development.

The banks and financial institutions were selected post expert consultation, based on the following parameters:

Source: The IFC-Gender Finance Study, 2016

- Type of bank, i.e. whether it is a State Owned Commercial Bank, Specialised Banks, Private Commercial Banks or NBFIs
- Banks/financial institutions offering women specific and women friendly schemes
- Large banks/financial institutions that have received recognition for their efforts towards SME financing
- Banks that do not have any focus on women MSMEs (control group)
- Access factors

The outreach was undertaken at two levels: 1) Head-office for policy inputs and 2) Branch Level for implementation challenges.

III. Preparation of Research Instruments and Data Collection

The information assimilated during Phase-I on the financial ecosystem and the database of existing support schemes aided the preparation of the research instruments.

The provider assessment was conducted through in-depth qualitative interviews with bankers and scheme administrators at various levels, to capture a holistic picture of the targeted loan products/schemes. For instance, while interactions at the Branch Manager level better captured the loan processing intricacies, interactions at the General Manager level were essential in understanding the formulation, functioning and impact of schemes. The interviews adopted a lifecycle approach to ensure identification of the various incentives and challenges, at all stages of the loan programme/ scheme.

Women SME entrepreneurs were surveyed through structured close ended questionnaire. It used a three-fold approach to capture information on: (i) Enterprise Profile, (ii) Perception of Existing Products and (iii) Access to finance.

Further, in depth qualitative interviews were conducted with other stakeholders including donor agencies, implementing partners and women business associations to understand some of the services and interventions provided by them towards improving the entrepreneurial ecosystem for women.

IV. Analysis and Estimation

A data entry programme was developed to triangulate data, ensuring its reliability and validity of quantitative data. A Content analysis template was developed to capture the qualitative insights from the provider assessment and stakeholder interviews.

The analysis was carried out by using a combination of the tools and techniques presented below:

Prioritisation Framework: To determine the criticality of the identified issue, a prioritisation framework was developed that calculates the relative importance of issue by weighting the importance of an issue in relation to the importance of the sector that is determined by the concentration of women SME entrepreneurs. This was used in the formulation of the DESI.

Regression Analysis: Regression models were employed to understand the importance (relative and absolute) of factors that influence a women SME entrepreneur's access to credit. The results of this analysis also offered recommendations on the existing design of the intervention – i.e. modifications to the existing plans, if need be.

Defining and measuring the dependent variable

The loan status of women SME entrepreneurs "LS", the dependent variable or the outcome variable was designed to feed into a **logistic regression model**. It categorized women SME entrepreneurs based on whether they sought a loan from financial institutions.

Defining and measuring the independent variables

To understand what factors influence the women SME entrepreneurs' loan seeking behaviour, the following variables were used:

- *Behavioral Factors (X_1)*
These variables pertain to the behavioural characteristics of the women SME entrepreneur that may influence their decision to seek finance, such as their confidence levels, risk appetite, etc.
- *Economic Factors (X_2)*
These variables measure skills to mobilise financial resources, financial literacy, control over earnings, financial history, perception and awareness of financial support systems, etc.
- *Individual Characteristics (X_3)*
These variables measure the age, marital status, familial background and other characteristics of the respondent.
- *Business Characteristics (X_4)*
These variables pertain to characteristics specific to the business such as its sector, industry, age, location, etc.

Hence the final regression that captured the factors affecting the loan status of women SME entrepreneur took the following functional form

$$LS = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \epsilon$$

Given that the dependent variable, i.e. Loan status – LS – is categorical in nature, a Logit model was employed.

Conditional Probability: Bayes' theorem was used in determining key relationships. It expresses how a subjective degree of belief should rationally change to account for evidence. For instance, to evaluate if the involvement of a female bank official in the decision-making process led to an increase in the probability of the loan getting approved. It is estimated in the manner below:

$$P(A_1/B) = \frac{P(A_1) \times P(B/A_1)}{\sum_i P(A_i) \times P(B/A_i)}$$

- Where A_i and B are events, such that $\sum A_i = 1$
- $P(A_i)$ and $P(B)$ are the probabilities of A and B without regard to each other.
- $P(A_1/B)$, a conditional probability, is the probability of observing event A_1 given that B is true.
- $P(B/A_1)$, is the probability of observing event B given that A_1 is true.

Estimating the Financing Gap

A comprehensive assessment of women owned MSME's financing needs and supply by formal financial service providers was used to estimate the financing gap. The demand and supply estimation process for this assessment is provided below:

- **Demand Process Estimation:** Financial information was collected from the representative sample of the surveyed women SME entrepreneurs. This was extrapolated to estimate the nation's demand based on the Bangladesh Bureau of Statistics' Economic Census 2013. The total financing requirement was a summation of the fixed and working capital requirement. The working capital needs was calculated based on the average gross output per enterprise, its average operating costs and its payable period. The fixed capital requirement was calculated based on the average plant and machinery/ total assets per enterprise, the asset cycle.
- **Supply Estimation:** Supply data was sourced from Bangladesh Bank

C. Bank Wise Gender Sensitive Product Description

Table 9 Bank Wise Gender Sensitive Product Description

S. No.	Institution	Women Specific Schemes	Women Friendly Schemes	Gender Agnostic SME Schemes
A	State Owned Commercial Banks			
1	Sonali Bank Limited	Low	High	Low
2	Janata Bank Limited	Low	Low	High
3	Agrani Bank Limited	Low	Low	High
B	Private Commercial Banks			
4	AB Bank Limited	Low	Low	High
5	Bangladesh Commerce Bank Limited	Low	Low	High
6	Bank Asia Limited	Low	Low	High
7	BRAC Bank Limited	Low	Low	High
8	Dhaka Bank Limited	Low	Medium	Medium
9	Dutch-Bangla Bank Limited	Low	Low	High
10	Eastern Bank Limited	Low	Low	High
11	IFIC Bank Limited	Low	Low	High
12	Jamuna Bank Ltd	Low	Low	High
13	Mercantile Bank Limited	Low	Low	High
14	Mutual Trust Bank Limited	Low	Low	High
15	National Bank Limited	Low	Low	High
16	National Credit & Commerce Bank Ltd	Low	Low	High
17	One Bank Limited	Low	Low	High
18	Premier Bank Limited	Low	Low	High
19	Prime Bank Ltd	Low	Low	High

S. No.	Institution	Women Specific Schemes	Women Friendly Schemes	Gender Agnostic SME Schemes
20	Pubali Bank Limited	Low	Low	High
21	Southeast Bank Limited	Low	Low	High
22	Standard Bank Limited	Low	High	Low
23	The City Bank Ltd.	Low	Low	High
24	Trust Bank Limited	Low	Low	High
25	United Commercial Bank Limited	Medium	Low	High
26	Uttara Bank Limited	Low	Low	High
C	Foreign banks			
27	Bank Al-Falah Limited	Medium	Low	Medium
28	Habib Bank Ltd.	Low	Low	High
29	National Bank of Pakistan	Information Unavailable		
30	Standard Chartered Bank	Low	Low	High
31	State Bank of India	Low	Low	High
32	Woori Bank	Low	Low	High
D	Islami banks			
33	Al-Arafah Islami Bank Limited	Low	Low	High
34	EXIM Bank Limited	Low	Low	High
35	First Security Islami Bank Limited	Low	Low	High
36	ICB Islamic Bank Ltd.	Low	Low	High
37	Islami Bank Bangladesh Ltd	Low	Low	High
38	Shahjalal Islami Bank Limited	Low	Low	High
39	Social Islami Bank Ltd.	Low	Low	High

S. No.	Institution	Women Specific Schemes	Women Friendly Schemes	Gender Agnostic SME Schemes
E	Special banks			
40	Bangladesh Development Bank Limited	Low	Low	High
41	Bangladesh Krishi Bank	Medium	Low	High
42	BASIC Bank Limited	Medium	Low	High
F	New banks			
43	Meghna Bank Limited	Medium	Low	Medium
44	Midland Bank Limited	Low	Low	High
45	Modhumoti Bank Ltd.	Medium	Low	Medium
46	NRB Bank Limited	Low	Low	High
47	NRB Commercial Bank Limited	Low	Low	High
48	NRB Global Bank Limited	Low	Low	High
49	South Bangla Agriculture & Commerce Bank Limited	Low	Low	High

Source: The IFC-Gender Finance Study, 2016

D. Institutional Support for Bangladeshi Women Entrepreneurs

Table 10 Institutional Support for Women Entrepreneurs in Bangladesh

S.No.	Institution/Agency	Support Services
Public/Government Institutions		
1	Bangladesh Small and Cottage Industries Corporation (BSCIC)	Infrastructural facilities; pre-investment counselling; supply of techno economic information; credit arrangement; management and skill development training; arranging for raw materials; diagnostic studies; market studies; subcontracting arrangements; inter-organizational coordination; and product development to small and tiny entrepreneurs.
2	Women Entrepreneurship Development Program (WEDP) (Initiated by BSCIC & USAID)	Scouting for potential female entrepreneurs; providing project appraisals on their behalf; pre-investment counselling; loan arrangements for fixed and working capital; post-investment counselling and regular supervision; supply of modern designs and prototypes; special management and skill improvement training; and, where necessary, marketing and technical assistance
3	Bangladesh Rural Development Board (BRDB)	Support services to landless and asset less rural women and men; Runs the Mahila Bittaheen Samabaya Samity (MBSS)- a self-employment program for poor women
4	Bangladesh Management Development Centre (BMDC)	Support services for developing and improving skills and techniques at various levels of management
5	Bureau of Manpower, Employment and Training (BMET)	Responsible for identifying beneficiaries, forming groups, offering motivational training, and creating group savings
Private Institutions and Agencies		
6	Micro-Industries Development Assistance and Services (MIDAS)	Collection and dissemination of information on small and micro enterprises; Promoting women entrepreneurship; providing technical, and managerial assistance in the form of counselling, and training to existing and potential entrepreneurs
7	Gana Sastha Kendra	Conduct women emancipation programs
8	Grameen Bank	Finance activities such as milk cows, paddy husking, cattle fattening, seasonal crop trading, and grocery shops; Provide individualized bank services to their borrowers
9	National Association of Small and Cottage Industries of Bangladesh (NASCIB)	Offers credit; infrastructural support; SCI sector policy formulation; technological support; marketing assistance; training; database activity; and information dissemination

10	Jatiyo Mohila Sangstha	Skill development training and micro-credit operations, supporting women entrepreneurship development
11	Women Entrepreneurs' Association Bangladesh	Linkages with support service organizations; promoting female entrepreneur products; sharing successful experiences of entrepreneurs at home and abroad; training and consultancy services and dissemination of information concerning available support services (training, credit, marketing channels, technology, etc.); liaison with similar organizations in other countries; and research on related issues.

Source: Mohammed, Kulsum, & Akther, 2011

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