

EXPANDING WOMEN'S FINANCIAL INCLUSION IN BANGLADESH THROUGH MSME FINANCE POLICIES

Case Study No. 5
February 2017



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BRIDGING THE GAP

Financial inclusion for gender and women

This publication is part of AFI's commitment to financial inclusion for gender and women.

AFI wishes to express its appreciation to Mr. Md. Ashrafal Alam, and Mr. Syed Nazrul Islam from Bangladesh Bank for their invaluable contributions to this publication.

BACKGROUND

The participation of women in business is increasingly being recognized as fundamental to economic growth. With women representing half the labor force aged 15-49 in Bangladesh, accelerating entrepreneurship and access to finance will be pivotal to socio-economic development in the country. According to the Bangladesh Labor Force Survey of 2013, the participation rate of females (32.9%) is substantially lower than their male (81.7%) counterparts.

Of the 7.8 million businesses in Bangladesh, 99.93% are cottage, micro, and small and medium enterprises (CMSMEs).¹ However, the percentage that are women-owned (7.21%) is insignificant compared to those owned by men, and women account for only 17% of individuals are employed by CMSMEs.² This low participation rate is the result of several economic and cultural barriers, but the greatest challenge facing women entrepreneurs in Bangladesh is access to finance (Jahed, Kulsum & Akhter, 2011).

In recognition of the importance of women's participation in business for economic development, and in keeping with a constitutional commitment to economic opportunity and inclusion, the Government of Bangladesh has crafted national policies aimed at improving financial inclusion for women.

¹ Bangladesh Economic Census, 2013

² According to Bangladesh Economic Census 2013, 24.5 million people were engaged in CMSMEs.

MSME FINANCE POLICIES

NATIONAL POLICIES FOR WOMEN'S FINANCIAL INCLUSION: A FOCUS ON MSMEs IN BANGLADESH

Recent national policies addressing women's access to finance have been based on the Constitution of the People's Republic of Bangladesh, enacted in November 1972. While Article 16 of the Constitution emphasizes the development of cottage and other industries and revolutionizing agriculture as a way to gradually close the gap in urban and rural living standards, Article 28 includes equal economic rights and opportunities, including a special provision to promote entrepreneurship among women.

The Constitution provides the necessary direction for women empowerment, but the government's vision, mission and goals to make Bangladesh a middle-income country was first articulated in the Perspective Plan of Bangladesh (2010-2021): Making Vision 2021 A Reality".³ The Perspective Plan aims to increase women's labor force participation rate from 29% in 2010 to 40% by 2021 and to improve the effectiveness of financial intermediation by driving private entrepreneurship and actively encouraging business start-ups. In fact, providing special encouragement to women entrepreneurs is considered the hallmark of MSME development programs in Bangladesh: the Perspective Plan includes a commitment to build women's entrepreneurial capacity, which includes greater access to microfinance as part of a broader poverty reduction strategy. In line with the Plan, the National Women Development Policy 2011 emphasizes empowering women economically through MSMEs.

The Perspective Plan provides a roadmap for accelerated economic growth and lays down broad approaches to eradicating poverty and inequality, but the specific strategies and tasks are articulated in the Sixth Five Year Plan (2011-2015) and the Seventh Five Year Plan (2016-2020). The Industrial Policy 2010 and the recent 2016 update also lay out strategic actions for enhancing women's access to finance for MSME endeavors.



+11%

The Perspective Plan aims to increase women's labor force participation rate from 29% in 2010 to 40% by 2021

The Sixth Five Year Plan (SFYP) ensures equal rights for women in all spheres of development, including access to information, skills, resources and opportunities. The SFYP also emphasizes promoting economic self-reliance for women, and developing economic policies that have a positive impact on women's employment and income in both formal and informal sectors of the economy.

The Seventh Five Year Plan (7th FYP) of 2016-2020 extends the SFYP with a framework for women's empowerment and gender equality that includes four strategic objectives. One of the most important is increasing economic benefits for women through better access to financial services. The SFYP included a target to increase women's employment in the non-agricultural sector, primarily in MSMEs, from 25% to 50% by 2015. However, the 7th FYP did not set a new target for 2020 as the 2015 target was still far from being met (32%).

To achieve these objectives, the SFYP encourages women entrepreneurs through preferential access to credit and training programs. The government has established a foundation to develop the SME sector in Bangladesh and launched programs for women to develop their business skills. In association with Bangladesh Bank (BB), the SME Foundation has been working to bring women entrepreneurs into the mainstream through capacity building initiatives in women's chambers of commerce and trade bodies, encouraging bankers to finance women entrepreneurs, organizing women entrepreneurship conferences, SME product fairs for women entrepreneurs, and other skill-building initiatives. The 7th FYP makes this women entrepreneurship program a priority and emphasize on conducting a national census through the Bangladesh Bureau of Statistics (BBS) to create a comprehensive information repository for the SME sector. The census will have a special focus on counting women entrepreneurs in manufacturing SMEs.

Both the Bangladesh Industrial Policy 2010 and the new Industrial Policy 2016 have several specific policies for the development of women-led MSMEs, including:

- a Training on businesses plan preparation and implementation will be provided to women entrepreneurs through BSCIC, BITAC, the SME Foundation and other government training institutions.
- b Bangladesh Bank will consider providing financial incentives to women entrepreneurs in the MSME sector so they can establish themselves as successful business owners.
- c A system of women-friendly banking services will be developed under the leadership of Bangladesh Bank.
- d At least 10% of all credit to MSMEs will be allocated for women-led MSMEs.
- e Initiatives like the Credit Guarantee Scheme will provide collateral-free credit to women-led MSMEs.

³ The Perspective Plan of Bangladesh 2010-2021, Planning Commission, Government of the People's Republic of Bangladesh, April 2012.

EXPANDING WOMEN'S FINANCIAL INCLUSION THROUGH MSME FINANCE POLICIES: THE ROLE OF THE REGULATOR

The traditional role of the financial regulator is to ensure the stability of the financial system. However, the United Nations Capital Development Fund (UNCDF)⁴ and capitalize as 'Committee on Building an Inclusive Financial Sector' recently urged the central bank (Bangladesh Bank) to add financial inclusion to its traditional goals of prudential regulation and financial stability.⁴ Recognizing that lack of access to financial services is a major reason for income inequality and slower economic growth, Bangladesh Bank has made a policy paradigm shift in favor of the country's financially excluded and unbanked, especially MSMEs and women entrepreneurs.

In 2009, Bangladesh Bank made MSMEs a top priority for rapid industrialization, opening a new department called SME & Special Programs Department (SME&SPD). One of the main objectives of the department is to empower women through MSME finance and initiatives. As a regulator of microfinance institutions, the Microcredit Regulatory Authority (MRA) is also supervising the activities of MFIs in financing women-led microenterprises.

EXPANDING WOMEN'S FINANCIAL INCLUSION THROUGH MSME FINANCE POLICIES: THE ROLE OF THE CENTRAL BANK

Bangladesh Bank (BB) is the apex of the country's banking and financial system, regulating 57 scheduled banks and 32 financial institutions. All banks and financial institutions in Bangladesh are now engaged in MSME financing as the Bank has created indirect incentives and set requirements for financing MSMEs—a sector it sees as important to economic growth. The BB sets a 5% weight on the CAMELS rating⁵ for MSME financing and allows banks to allot less provisions to regular MSME credit. When it rates banks on MSME financing, the BB considers their performance on financing women-led MSMEs.

Bangladesh Bank has also introduced several policy initiatives to enhance access to finance for women entrepreneurs and ultimately bring more women into the mainstream economy.



15%

Fifteen percent of all BB refinance funds for the MSME sector has been allocated for women entrepreneurs

Some of these initiatives are as follows:

- Fifteen percent of all BB refinance funds for the MSME sector has been allocated for women entrepreneurs.
- Extension of credit facilities to women entrepreneurs at a favourable interest rate of bank rate plus 5% (currently 10%).
- All banks and financial institutions have been instructed to consider authorizing loans for women entrepreneurs up to BDT 2.5 million without collateral, but against a personal guarantee under the refinance facilities provided by Bangladesh Bank.
- To include large numbers of women microentrepreneurs in SME credit facilities, BB has initiated a policy of group-based lending of BDT 50,000 or above.
- To accelerate women's entrepreneurship in Bangladesh, BB has opened a Women Entrepreneurs Development Unit in its head office and branch offices. All banks and financial institutions have also been advised to open similar units.
- Banks and financial institutions have been instructed to provide credit to new women entrepreneurs in the cottage, micro and small and medium enterprise sectors. Every branch has been advised to identify at least three prospective women entrepreneurs who have not yet taken out any formal loans. Banks and financial institutions will provide the necessary training for the selected entrepreneurs and financial services should be extended to at least one each year.

EXPANDING WOMEN'S FINANCIAL INCLUSION THROUGH MSME FINANCE POLICIES: THE ROLE OF THE MFI REGULATOR

Under the Microcredit Regulatory Authority Act of 2006,⁶ the MRA established the Microcredit Regulatory Authority Rules 2010, which require every microcredit organization to be managed by a Council of Directors. The Council has a tenure of three years and must be comprised of a minimum of five and a maximum of ten members, including at least two women.⁷ The rules also state that microenterprise loans will not be greater than half the MFI's total loan portfolio at any given time.

The MRA also issued a circular on microenterprise finance by MFIs which stipulated:

- 1 To apportion its cumulative surplus on training for women and health improvements.
- 2 Both men and women are equal guarantors for any client.
- 3 A man convicted of torture against women should be denied loans.

4 UNCDF, 2006, "Building Inclusive Financial Sectors for Development", http://www.uncdf.org/sites/default/files/Documents/bluebook_1.pdf.

5 The CAMELS rating system is an internationally recognized system that banking supervisory authorities use to rate financial institutions.

6 Law 32, Clause 51

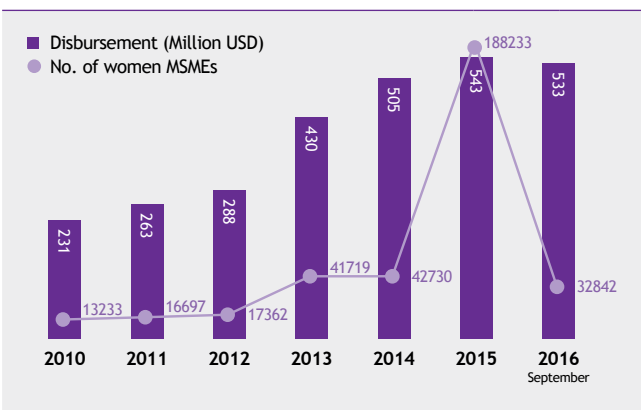
7 Rule no. 8.2 (1)

GENDER AND MSME ACCESS TO FINANCE: FACTS AND FIGURES

With the intervention of BB, the amount of financing for women entrepreneurs and the number of borrowers increased rapidly. In 2010, banks and financial institutions in Bangladesh together financed USD 231 million for 13,233 women-led MSMEs. In 2015, this amount rose to USD 543 million and the number of women-led cottage, micro, small and medium enterprises jumped to 188,233.

This indicates that the policy initiatives of BB have had a substantial impact on women's financial inclusion through MSME finance. In 2015, the number of MFI clients in Bangladesh stood at 26.21 million, 23.78 million of whom were women. That same year, 22.36 million people in Bangladesh took out loans from MFIs, and 20.3 million were women. In short, more than 90% of MFI clients and borrowers are female and half are MSME clients.

FIGURE 1: GROWTH IN WOMEN-LED MSMEs FINANCED BY BANKS AND FINANCIAL INSTITUTIONS



Source: Bangladesh Bank, 2016

FIGURE 2: MFI CLIENTS AND BORROWERS, MILLIONS OF INDIVIDUALS (DECEMBER 2015)



Source: Bangladesh Bank, 2016



> 90%

More than 90% of MFI clients and borrowers are female and half are MSME clients

LESSONS LEARNED AND CONCLUSION

LESSONS LEARNED AND FUTURE INITIATIVES FOR FINANCING WOMEN-LED MSMEs

It is evident from the facts and figures that access to finance for women-led MSMEs is increasing steadily over time, and more and more of these MSMEs are coming under the purview of formal financial institutions. This indicates that regulatory initiatives on MSME finance have had a positive impact on expanding women's access to finance. The policies have not only brought financing to more women, but also had an impact on the quality of life of women entrepreneurs and their families (see Box 1 below).

A field survey conducted by Bangladesh Bank in 2012 revealed that access to finance has helped women to both expand their business and increase productivity.

Although there have been tremendous improvements in MSME credit policies and regulations, there are still challenges in expanding access to finance for women-owned MSMEs. One of the main constraints is lack of collateral. Even though inheritance laws are in place, women traditionally do not inherit property from either their husband's family or their father's side of the family. In response, Bangladesh Bank is working intensively to launch a Credit Guarantee Scheme (CGS) for women entrepreneurs. A pilot credit guarantee fund has also been established with financing from the United Nations Capital Development Fund (UNCDF). Consultations are underway with the Swiss International Development Agency (SIDA) to launch a Credit Guarantee Scheme (CGS) aimed at improving access to finance for women entrepreneurs. In addition, Bangladesh Bank is raising awareness of financial education, especially among women in rural areas, and is implementing an ADB-funded project, "Skills for Employment Investment Program (SEIP)" in which 40% of the targeted population (10,200) are women. The objective of the program is to provide market-based job training to youth. It is expected that women trained under this program will run MSME using bank financing.

CONCLUSION

The financial regulators of Bangladesh—Bangladesh Bank and the MRA—are working closely to implement national policies that expand women's financial inclusion through MSME finance. Financing women-led MSMEs has led to quantitative and qualitative changes for women and their families, as well as the creation of an MSME-friendly ecosystem in Bangladesh's banking sector, bringing together banks, other financial institutions and local and international development agencies.

In developing countries, where access to finance for women-owned MSMEs is relatively low, financial regulators have a major role to play in creating an inclusive financial system and a sustainable MSME sector.

BOX 1: VOICES OF SUCCESSFUL WOMEN ENTREPRENEURS IN BANGLADESH

In the 1990s, Ms. Shahana Kader was a housewife living in Mymensingh Town, about 100 kilometers from the capital, Dhaka. Her hobby was making dresses for her three daughters, who received compliments on them whenever they went out. Sometimes other women in the neighborhood would ask Ms. Shahana to make dresses for their daughters, too.

In 1997, Ms. Shahana started her own dressmaking business at home. However, she closed her business the following year when her husband became seriously ill and moved to Dhaka from Mymensingh in 2000. She started another dressmaking business at home, again selling mainly to women in her neighborhood. Her business began to gain momentum in 2003 when she rented a shop in a shopping centre in Dhaka.

Three years later, Ms. Shahana expanded her business, buying a second shop in another shopping centre. Recognizing that she had a growing business, Eastern Bank Ltd. (EBL) extended BDT 300,000 in credit, later expanding it to BDT 1,400,000, allowing her to open a third shop and build a factory in Dhaka. By 2010, she had bought another shop in a shopping centre in Dhaka and in 2013 the bank increased her credit again, to BDT 5,000,000. Today, Ms. Shahana has 40 permanent employees and more than 100 temporary ones.



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