



POLICY BRIEF



SUPPORTING THE RECOVERY OF WOMEN ENTREPRENEURS AND WOMEN'S MICRO, SMALL, MEDIUM ENTERPRISES FROM THE IMPACT OF COVID-19 IN BANGLADESH

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Photo: UN Women/Fahad Kaizer

Context

Presently more than 13 million Micro, Small and Medium Enterprises (MSMEs) are registered in Bangladesh. These MSMEs account for 25 per cent of the country's overall production¹ and provide jobs to 20.3 million people.² Although only 7.2 per cent of these registered MSMEs are led by women and mostly in the micro and cottage enterprise category, there are thousands more unregistered women owned enterprises. Together, these women led MSMEs play a significant role in the Bangladesh economy, supplying goods and services and generating employment, importantly often for other women.

The COVID-19 pandemic has adversely affected MSMEs, which have limited capacity to absorb the shocks of the COVID-19 outbreak due to less inventory, smaller client bases, fewer cash reserves and more limited credit options than larger companies. A survey of 230 MSMEs in Bangladesh conducted in April 2020 found that 52 per cent of the enterprises surveyed had to shut down their operations during the lockdown, and 28 per cent showed a significant decrease in business activities.³ These challenges have been even more pronounced for women's businesses in Bangladesh as elaborated below.

Key Issues:⁴

WOMEN FACE GREATER BARRIERS TO FINANCIAL SERVICES

Only 32 per cent of women in Bangladesh have an account at a formal financial institution, and more than 60 per cent of women do not have access to finance due to institutional, cultural, social and economic barriers.⁵ The lack of banking history and inadequate responses to actual needs from existing financial institutions translate into women having less access to credit and a diminished ability to repay any debts accrued during the crisis. With limited or no experience in transactions and/or credit services through financial institutions, most women entrepreneurs are also exposed to greater exploitation by both formal and informal financial markets. Furthermore, the cost of securing a loan is approximately BDT 2,200 but the real cost often gets higher for women entrepreneurs compared to men as women have to rely on middlemen to access the loans.⁶ To address these realities, special efforts are needed to ensure women entrepreneurs are aware of special financial support mechanisms in the aftermath of the pandemic, and how to access them. Furthermore, special arrangements should be made for MSMEs in the informal economy that typically may not be eligible for government-led COVID-19 initiatives such as low-interest loans and tax exemptions.

1. Country's overall production is generally measured by Gross Domestic Production (GDP)
2. Economic Census 2013
3. <https://www.lightcastlebd.com/insights/2020/04/25/covid-19-impact-on-bangladeshs-sme-landscape>

4. This section is adapted from UN Women Asia Pacific Regional Office Action Brief "Guidance for Action: Supporting SMEs to Ensure The Economic COVID-19 Recovery is Gender-Responsive and Inclusive"
5. https://globalfindex.worldbank.org/#about_focus
6. <https://thefinancialexpress.com.bd/views/collateral-free-loan-for-women-entrepreneurs-making-the-process-smooth-1567347858>

WOMEN HAVE LESS ACCESS TO INFORMATION AND COMMUNICATION TECHNOLOGY

Emerging sectors of technology, e-commerce and fintech hold significant potential for MSMEs. Embedding financial transaction systems into e-commerce platforms and digitizing supply chain management can combine the online and offline elements of business and lead to improved savings, revenue and flexibility. These solutions should be increasingly accessible for smaller businesses. However, marginalized small businesses are often ill prepared to benefit from the latest fintech and digitalization developments, particularly in remote and rural areas where internet infrastructure and digital literacy are lacking. More significantly, according to the Mobile Gender Gap Report 2020, when it comes to accessing digital services, Bangladeshi women lag behind men with just 16 per cent having access to the internet compared with 33 per cent of men.⁷ As a result, women run MSMEs have comparatively less exposure and access to the technological tools that could modernize and boost their business models. This in turn negatively impacts their ability to find alternatives, for example, when supply chains are disrupted as seen now due to the COVID-19 pandemic, or to reach new markets with reliable payment mechanisms.

WOMEN ENTREPRENEURS HAVE FEWER NETWORK RESOURCES

Networks of women entrepreneurs are generally smaller and less diverse than those of their male counterparts – which reduces opportunities to benefit from the sharing of information and resources. Evidence also suggests that women entrepreneurs have lower quality networks. This can hinder the growth and development of their businesses since network relationships are the most frequently used and trusted source of advice and support for small business owners.⁸ In addition, there are fewer mentoring opportunities for women, fewer female role models or success stories, and women business owners have less interaction with business associations and networks which leave them disadvantaged and under-equipped to deal with business challenges.

WOMEN SHOULDER A DISPROPORTIONATE SHARE OF UNPAID CARE AND DOMESTIC WORK

Even before COVID-19, the average number of hours spent on unpaid domestic and care work in a week in Bangladesh was 24 hours for women and 7 hours for men.⁹ Lockdown and social distancing resulted in sharp increases in domestic and care work needs within the household. School closures further exacerbate the burden



Photo: UN Women/Fahad Kaizer

of unpaid care work on women who absorb most of the additional work of caring for children. A survey conducted by UN Women suggests little re-distribution of domestic work as a result of the confinement. The increased burden presents women entrepreneurs with a difficult choice between caring for their loved ones at home and keeping their business alive.

The Government Response

Prior to COVID-19, the Government of Bangladesh has had a number of measures in place such as special financing, business support services, and dissemination of information to support MSMEs from adverse shocks. Bangladesh Bank's SME Policy also has special provisions for women entrepreneurs.¹⁰ In response to the COVID-19 crisis, the Government announced a special working capital facility of BDT 20,000 crores for Cottage, Micro, Small and Medium Enterprises (CMSMEs) as part of the economic rescue and stimulus measures. Under this scheme, a minimum of 70 per cent of the total annual loan is to be provided through commercial banks to the Cottage, Micro and Small (CMS) enterprises and 5 per cent to women entrepreneurs. For informal CMS enterprises, an additional BDT 3,000 crore is also allocated to be disbursed through NGOs and Micro Finance Institutions, and again a

7. <https://www.thedailystar.net/business/news/bangladesh-trails-behind-14-low-middle-income-countries-internet-usage-gender-gap-1938953>

8. <https://www.oecd.org/cfe/smes/Policy-Brief-on-Women-s-Entrepreneurship.pdf>

9. https://reliefweb.int/sites/reliefweb.int/files/resources/RGA%20Bangladesh.Final_May2020.pdf

10. Bangladesh Bank: Small and Medium Enterprise (SME) Credit Policies and Programmes, <https://www.bb.org.bd/sme/smepolicye.pdf>. National SME Policy 2019 will give attention to create equal opportunities for all and to ensure economic empowerment through increased involvement of women in the SME sector.



Photo: UN Women/Fahad Kaizer

minimum 5 per cent would be for women entrepreneurs. A 9 per cent interest rate is applied to these special loans – 4 per cent of which will be the responsibility of the borrowers and the rest by the Government of Bangladesh. In order to address the reluctance of commercial banks to disburse these special loans to informal and women led MSMEs with higher lending risk, Bangladesh Bank has recently introduced a ‘Credit Guarantee Scheme’¹¹ for loans to CMS enterprises and allocated BDT 2,000 crore. Women led MSMEs, particularly those that are informal and unregistered, need immediate and urgent access to this stimulus package. As per Bangladesh Bank’s directives, at least BDT 1,150 crores¹² should be disbursed to women CMS enterprises.

The preferential measures outlined above for women MSMEs provide a good foundation for women entrepreneurs to access financial support to overcome the crisis, but the following challenges have also been identified.¹³

11. Under this scheme, Bangladesh Bank will guarantee 80 per cent of the credit given by the commercial banks to CMS enterprises including individual entrepreneurs in case the borrower default.

12. 5 per cent of BDT 20,000 crore plus addition BDT 3,000 crore.

13. Webinar Report on Women Owned MSMEs and COVID-19 Challenges: Way Forward for Bangladesh (UN Women, 15 June 2020)

- Women entrepreneurs are not well informed about the stimulus measures and how to access them.
- Women lack experience with business plans required for credit applications.
- Mechanisms are not in place to target and reach women entrepreneurs most in need and monitor whether the 5 per cent target is progressively being met.
- The interest rate is still high for women entrepreneurs given the volatility of market due to COVID-19. In addition, the bank charges and fixed cost to obtain a loan along with hidden costs increase the overall cost of doing business for women MSMEs.

Policy Recommendations

Following are immediate and medium to long-term measures required to address the issues above for economic recovery and resilience for women led/owned MSMEs:

- **Ensure the fiscal stimulus package reaches the 5 per cent target set for loans to women entrepreneurs.** Widely disseminate information to women entrepreneurs on the special loans that are available to them and offer trainings to build their capacity to access bank loans. Increase the stimulus package allocation for lending through MFI and NGOs which are more accessible to women MSMEs.
- **Implement an awareness raising campaign of the recently introduced ‘Credit Guarantee Scheme’ (CGS)** to inform both the supply side and the demand side of the CGS and ensure that credit under the stimulus packages are disbursed to women CMSEs on time.
- **Provide incentives to commercial banks to implement the Bangladesh Bank policy on special services for women entrepreneurs.** This includes establishing special desks to assist women entrepreneurs, organizing training/orientation for women entrepreneurs on how to apply for the loans and use digital banking tools, and widely advertising about the support available for women entrepreneurs.
- **Promote the businesses of women entrepreneurs.** Make access to government procurement opportunities more transparent and simpler for women-owned businesses. Increase the use of tax exemptions / tax incentives for goods and services produced by women MSMEs to enhance their market competitiveness.



Photo: UN Women/Fahad Kaizer

- **Promote e-commerce and access of women entrepreneurs to digital technology.** Action plans should be developed by both Bangladesh Bank and SME foundation for women MSMEs to link up digital banking with mobile financial service, digital financial service as well as digital supply chain systems. Governments, the banks, NGOs, MFIs and business associations should contribute to building the capacities and skills of women to use digital technology and address the digital gender gap.
- **Reduce the pressure of unpaid care and domestic work on women entrepreneurs.** Investment is required for the expansion of affordable quality care services for children, older persons and persons with disabilities and shifting the responsibility from individual women in the households to more collective forms of provision.
- **Monitor the services** provided by governments and financial institutions to ensure women entrepreneurs are treated equally. Ensure the collection of disaggregated data by sex, age and disability including related to MSMEs in order to identify and eliminate gender-based constraints on women entrepreneurs. Document the experiences of women entrepreneurs including their ability and barriers to avail of existing services targeted MSMEs.
- To effectively implement these measures, the **Government must adopt a multi-stakeholder approach** and work with Women's Chamber of Commerce, business associations, large businesses, multilateral organizations and civil society organizations at national and local levels to work with women MSMEs to identify gender-specific needs.

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