



## Women's entrepreneurship and access to microcredit: Evidence from Bangladesh

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In 2012, with support of the UK Department for international Development (DfID or UK Aid) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities in "Policy Analyses on Growth and Employment" (PAGE) in developing countries.

This brief summarizes the main features and outcomes of one of the projects supported under the 2<sup>nd</sup> round of the PAGE initiative (2014-2015).

*In Bangladesh, only 35% of women are part of the workforce. Microcredit programs aim to not only change this fact but also encourage entrepreneurship amongst women. A team of local researchers investigates the impact that microcredit currently has on female entrepreneurship in Bangladesh. They also compare the entrepreneurial status of women to that of men to find out how much gender influences entrepreneurship. The team uses an instrumental variables technique to analyse data from a 2010 national household survey. The researchers find that access to microcredit has a significant and positive impact on both male and female entrepreneurship, with men benefitting more, even when women are the recipients of the loans.*

### Microfinance programs combat credit access constraints for Bangladeshi women

In the male-dominated society of Bangladesh, women's participation in economic activities is not seen positively. In fact, only about 35% of women (aged 15 and over) participate in the workforce compared to 82% of men (Labour Force Survey 2013). The low rate of female participation is principally attributed to the socio-cultural setting in Bangladesh, including the religious observance of purdah norms, the fact that women are more responsible for producing household goods than market goods, and the requirement of full-time commitment for wage employment. The same reasons explain why women are also reluctant to start microenterprises that require full-time commitment.

Access to capital has been recognized as an important factor for improved household welfare. However, collateral requirements, credit rationing and lengthy bureaucratic procedures prevent most poor households from obtaining loans. To combat the limitations of the traditional financial sector, microcredit programs through microfinance institutions (MFIs) were encouraged.

In Bangladesh, MFIs prefer to provide loans to women (although men are also eligible). There are currently about 20 million borrowers in Bangladesh. Of the eight million members of the



Palli Karma Shahayah Foundation (PKSF) - the largest wholesale MFI in Bangladesh - 91% are women (PKSF 2014).

The aim of microcredit programs is that the loans be used to start microenterprises. In the case of Bangladeshi women this could be the ideal opportunity to create flexible self-employment that fits in well within the household. However, the process for a woman to start a microenterprise in Bangladesh is far from straight forward.

Depending on the household, socioeconomic, cultural, and religious issues, the female beneficiary of microcredit may well be expected to hand over her loan to male relative (Goetz and Gupta, 1996).

Of the women who do start microenterprises, they are likely to own smaller firms, which in turn are concentrated in less profitable industries than the microenterprises of their male counterparts (International Finance Corporation, 2011).

To date, there is little evidence as to whether access to microcredit is conducive to female ownership of microenterprises in Bangladesh.

It is for this reason that a team of local researchers set out to assess the impact of microcredit on

female entrepreneurship in Bangladesh. The team also chose to compare the entrepreneurial status of women to that of men in order to assess the impact that gender has on access to microcredit, and the impact that this access has on entrepreneurship.

In this study, entrepreneurship is defined as owning and managing microenterprises and taking any associated risks necessary for profit making.

## Data and methodology

This study uses data from the Household Income and Expenditure Survey 2010 (HIES 2010) from the Bangladesh Bureau of Statistics. The HIES 2010 covers 12,240 households from all districts of the country and provides extensive information on business ownership, demographics, income, consumption, loans (and their sources), assets, liabilities, and other socio-economic aspects of the households. The team uses the information on business ownership to define the entrepreneurial status of an individual (see Table 2).

The analysis is restricted to people aged 18 and over, which gives a working sample of 33,265 individuals (17,227 women and 15,973 men). As participation in the microcredit program is endogenous, the team uses an instrumental variables method to assess the impact of microcredit program participation on the entrepreneurial status of women and of men. The team uses the Conditional Mixed Process estimator in Stata to estimate multivariate models and adjusts the multivariate analysis results for endogeneity.

Finally, the team compares the entrepreneurial status of women to that of men in order to examine the impact on entrepreneurship of gender-differentiated access to microcredit.

**Table 2: Entrepreneurs by gender**

Gender	Entrepreneur		Total
	Yes	No	
Male	3,437 (21.21%)	12,765 (78.79%)	16,202
Female	293 (1.65%)	17,458 (98.35%)	17,751

**Source:** Authors calculations using HIES (2010)

## Key findings

The results indicate that access to microcredit has a significant and positive impact on both male and female entrepreneurship:

- 3.5% of women who have access to microcredit are entrepreneurs, whereas only 1.3% of women who do not have access to microcredit are entrepreneurs
- 39% of men who have access to microcredit are entrepreneurs, whereas 20% of men who do not have access to microcredit are entrepreneurs

These results indicate that men with access to microcredit are significantly more entrepreneurial than women with access to microcredit.

The findings also show that likelihood of women becoming entrepreneurs increases (by four percentage points) when the women are members of MFI microcredit programs.

In contrast, microcredit program membership amongst men increases their probability of becoming entrepreneurs by 28 percentage points.

The total amount of microcredit received from MFIs is also a significant and positive factor for female entrepreneurship in Bangladesh. In fact, a one percent increase in the total amount of microcredit received by a woman increases the probability of her being an entrepreneur by around three percentage points. The same increase in

microcredit for a male borrower increases the probability he becomes an entrepreneur by 14 percentage points.

Furthermore, the participation in microcredit programs by female members of the household significantly increases the probability that the men in the household will be entrepreneurs. The research team believes that this is because female beneficiaries allow the male members of their households to use their microcredit loans. The reason for this is that the cost of allocating time to

running a business instead of taking care of household responsibilities is too great for most women and that allowing male members of the household to use the loans helps to maximize the household income.

Household dynamics are likely to be more important for women than for men in terms of becoming entrepreneurs. Married women are less likely to become entrepreneurs than unmarried women, however, the opposite is true for men.

## Conclusions and implications for policy

These findings, in particular the cross-gender analysis, show that men's access to microcredit is not significantly beneficial for female entrepreneurship, whereas women's access to microcredit significantly increases the probability of a male household member becoming an entrepreneur.

The research team states that these findings raise policy concerns as, to be a tool in the reduction of poverty, microcredit should be used to start microenterprises. With the results indicating that MFIs are not achieving their objectives because the programs are not used as intended, it is important for policymakers to redesign the current microfinance programs so that female beneficiaries use the microcredit to start microenterprises that they will own and manage.

Finally, the researchers recommend further in-depth research into why exactly the current system is not supporting female entrepreneurship as much as it should, and how to re-design the programs to promote women's entrepreneurship.



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To find out more about the research methods and findings, read the [working paper 2016-13](#)